

Report of the Directors

The directors of the Company herein present their report and audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002.

REORGANISATION

The Company was incorporated as a joint stock limited company in the PRC on 20 November 2002 for the purpose of reorganising its businesses and assets in preparation for the listing of H shares of the Company on the main board of the Stock Exchange of Hong Kong. Details of the reorganisation and the basis for preparing the financial statements are set out in Notes 1 and 2 to the financial statements.

PRINCIPAL ACTIVITIES AND GEOGRAPHIC ANALYSIS OF OPERATIONS

The principal activities of the Company are freight forwarding, express services, shipping agency services, storage and terminal services, marine transportation and trucking services.

Details of an analysis of the Group’s turnover from operating activities by principal activity and geographic area of operations for the year are set out in Note 4 to the financial statements.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

The activities of the Company’s subsidiaries, jointly controlled entities and associated

companies are set out in Notes 16, 17 and 18 to the financial statements.

RESULTS

The Group’s results for the year ended 31 December 2002 are set out in the financial statements on page 45.

DIVIDENDS

Pursuant to the Reorganisation Agreement, the Company paid a special dividend of RMB478 million to Sinotrans Group Company on 27 March 2003, which was equivalent to the estimated net profit during the period commencing from 1 January 2002 to 30 November 2002 (the last day of the calendar month of its incorporation) calculated in accordance with the PRC accounting standards. Since the actual net profit during the period from 1 January 2002 to 30 November 2002 was below RMB478 million, pursuant to the Reorganisation Agreement, Sinotrans Group Company is required to repay the difference of RMB29,400 to the Company before 30 June 2003.

Apart from the said special dividend, the Board of Directors does not propose to pay any dividend for the year 2002.

BANK LOANS

Details of the bank loans of the Company and the Group are set out in Note 28 to the financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

In 2002, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate turnover and purchases respectively.

For the year ended 31 December 2002, none of the directors, supervisors, their respective associates and shareholder (who to the knowledge of the Board is interested in more than 5% of the shares of the Company) had any interest in the five largest customers and the five largest suppliers of the Group.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group for the year ended 31 December 2002 are set out in Note 37 to the financial statements. Directors of the Company have unanimously confirmed that the transactions, all of which took place prior to our listing in February 2003, were carried out on normal commercial terms in the ordinary course of business of the Group, save as the transactions disclosed in the prospectus of the Company.

FIXED ASSETS

Details of the movement in the fixed assets of the Group in the year are set out in Note 13 to the financial statements.

TAXATION

Details of the taxation of the Company and the Group as at 31 December 2002 are set out in Note 9 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company in the year are set out in the financial statements on page 51 and page 123 respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2002 were approximately RMB22.945 million.

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SHARE CAPITAL

Share capital of the Company for the year ended 31 December 2002 is as follows:

Name	Nature of Shares	Number of Shares	% of Issued
			Share Capital
China National Foreign Trade Transportation (Group) Corporation	Domestic shares	2,624,087,200	100%

Details of the change in the share capital of the Company upon completion of the listing on 13 February 2003 and the exercise of Over-allotment Option on 17 February 2003 are set out in Note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2002, to the best knowledge of the directors, no substantial shareholder was recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, as the Company was not then listed.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of any of the H Shares by any member of the Group during the year ended 31 December 2002, as the Company's H Shares were only issued and listed in February 2003.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the period were as follows:

Executive Directors:

Zhang Bin

Zhang Jianwei

Tao Suyun

Pan Deyuan

Liu Guilin

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Independent Non-executive Directors:

Koo Kou Hwa

Sun Shuyi

Supervisors:

Li Jianzhang

Wang Xiaozheng

Independent Supervisor:

Zhang Junkuo

The above members of the Board and the Supervisory Committee were all elected or appointed in our founding meeting held on 19 November 2002.

In accordance to the Articles of Association of the Company, all directors and supervisors are appointed for a term of three years and are eligible for re-election upon the expiry of the term.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the period ended 31 December 2002, there were no changes in the directors and senior management of the Company.

Mr. Pan Deyuan, executive director of the Company, resigned on 14 January 2003 due to a change in posting.

Mr. Yang Yuntao, non-executive director of the Company, was appointed on 14 January 2003.

Mr. Liu Guilin, executive director of the Company, passed away on 12 February 2003.

Mr. Liu Minsheng, chief information officer of the Company, was appointed on 15 April 2003.

BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of the directors, supervisors and senior management are set out on pages 24 to 29.

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES

As at 31 December 2002, none of the directors, supervisors or persons associated with them had any interest in the shares of the Company or its associated corporations (within the meaning of the Securities and Futures

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Ordinance) that is required to be declared to the Company and the Stock Exchange of Hong Kong under Section 341 of the Securities and Futures Ordinance (including those interest accounted or deemed to be held as defined in Section 344 and 345 of the Securities and Futures Ordinance), or as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance, or as required by the Model Code for directors of listed companies in dealing in securities.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All of the executive directors and supervisors (excluding Mr. Zhang Junkuo, who is an independent supervisor) of the Company had entered into service contracts, with a term of three years respectively, with the Company on 20 January 2003.

The Company has not entered into any service contract not determinable by the Company within 1 year without compensation (other than statutory compensation) with any director or supervisor.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

For the year ended 31 December 2002, no director or supervisor had a material interest in any contract of the Company to which the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2002 was the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries a party to any arrangement to enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 December 2002 are set out in Note 29 to the financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC.

CODE OF BEST PRACTICE

To the best knowledge of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), throughout the period commencing 20 November 2002 (the date of the Company's incorporation) to 31 December 2002.

AUDIT COMMITTEE

The Company has set up an audit committee and has established written terms of reference for the committee in accordance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The principal activities of the audit committee include the appointment of external auditor, review and supervision of the Group's financial reporting process and internal controls as well as to offer advice and recommendations to the Board of Directors. The audit committee comprises one executive director and two independent non-

executive directors. The current committee members are Ms. Tao Suyun, Mr. Koo Kuo Hwa and Mr. Sun Shuyi.

PROPOSED APPOINTMENT OF DIRECTORS

The Company is pleased to report that Mr. Li Jianzhang has been nominated for election as an executive director, and that Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok and Mr. Lee Chong Kwee have been nominated for election as non-executive directors⁽¹⁾. Their biographies are as follows:

Li Jianzhang, age 47, has worked in several Government departments. Mr. Li joined Sinotrans Group Company in May 2001. In July 2001, he became the executive director of Sinotrans Group Company and he was appointed as a supervisor of the Company in November 2002.

Liu Jinghua, age 40, joined Sinotrans Group Company in 1989 and worked in the Financial Department and Liner Department before she was seconded to DHL-Sinotrans Beijing to be its financial manager in 1992. Soon afterwards, she was promoted to be DHL-Sinotrans' National Financial Controller and in 1999

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became National HR Manager. Ms. Liu was appointed General Manager of the Financial Department of Sinotrans Group Company in October 2002. Ms. Liu graduated from the Central University of Finance and Economics in 1987 and obtained her EMBA in the School of Management of State University of New York at Buffalo in December 2000.

Jerry Hsu, age 52, is the Regional Director of DHL International⁽²⁾ managing China, Hong Kong, Taiwan, Korea Peninsula and Mongolia. Prior to joining DHL in 2001, Mr. Hsu held various senior management positions in Daimler Chrysler Corporation in the US headquarters starting in the late 70s and also managed its key Asian markets in Japan, China and Taiwan between 1988 and 2002 with overall operational and P&L responsibilities. Mr. Hsu obtained a master's degree in International Economics and Politics from the University of Detroit in 1975. In line with other senior executives of the DPWN Group, Mr. Jerry Hsu has been granted stock options in the securities of Deutsche Post World Net. Mr. Hsu also holds directorships in various companies within the DPWN Group.

Ken Torok, age 50, is President of UPS⁽³⁾ Asia Pacific and is responsible for UPS operations in more than 40 countries and territories, including UPS owned operations, joint ventures and agent relationships throughout the Asia Pacific region. Mr. Torok began his UPS career in the USA in 1975 in operations in the company's East Carolina district. He continued to take on positions of increasing responsibility, becoming a hub manager in Wisconsin and Managing Director of UPS Utah. Prior to becoming President of UPS Asia Pacific in 2003, Mr. Torok was Managing Director of UPS South Florida. A native of Long Island, New York, Mr. Torok graduated with a degree in business and economics from North Carolina State University. As with other senior employees of UPS, Mr. Torok has minor equity interests in UPS.

Lee Chong Kwee, age 47, is the CEO of Exel⁽⁴⁾ Asia-Pacific. Mr. Lee began his career with Exel (formerly MSAS Global Logistics) in 1997 and became Regional Chief Executive for South & East Asia in 1999. Mr. Lee was appointed CEO Asia-Pacific in July 2000. Mr. Lee has extensive experience in the transportation industry, having spent 17 years with Singapore Airlines

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in senior management positions in Hong Kong, USA, Japan, UK and Singapore, before joining Exel. Mr. Lee studied Mathematics at the University of Malaya, and also holds a diploma in accounting and finance. In 2002, Mr. Lee was appointed by the Singapore Government to serve on the board of directors of JTC Corporation, Singapore's leading provider of industrial space solutions. Mr. Lee also sits on the board of PSB Certification Limited, Singapore's ISO-certification body. As Mr. Lee holds a senior position in the Exel Group, he has minor equity interests in several companies within the Exel Group. Mr. Lee also holds directorships in various companies within the Exel Group.

The appointment of Mr. Li Jianzhang, Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok and Mr. Lee Chong Kwee as the Company's directors is subject to shareholders' approval at the Annual General Meeting to be held on 18 June 2003.

- (1) Pursuant to the strategic placing agreements made between our Company and DHL, UPS and Exel respectively, each of the strategic investors has nominated a person to the board of our Company. In this connection, DHL, UPS and Exel have respectively nominated Jerry Hsu, Ken Torok and Lee Chong Kwee as directors. While, for the purposes of the Listing Rules, each of the nominee directors has interests (by way of

minority equity interests or stock options or directorships) in competing businesses (i.e. those of the strategic investors, each being a major international company in the transportation and logistics industry), our Company has been and continues to carry on its business independently of and at arms length from, those businesses and through its joint ventures and cooperation arrangements with those strategic investors.

- (2) DHL Worldwide Express BV ("DHL") is a member of the Deutsche Post World Net Group ("DPWN Group") whose business operations are global mail, express delivery, logistics and financial services serving both in Europe and around the world. The DPWN Group's express delivery business operations in China are held through DHL, which formed a 50/50 joint venture with Sinoair in 1986. This joint venture has helped to establish a business relationship between our Group and the DPWN Group.
- (3) UPS Inc. ("UPS") is a package delivery company and a provider of specialised transportation and logistics services worldwide. Our Group has worked closely with UPS since 1988 when we signed an agency agreement providing for our Company to handle pick up and delivery for UPS in China. In December 1998, we signed a memorandum of understanding with UPS providing for a five year strategic partnership.
- (4) Exel plc. ("Exel") is a UK listed, FTSE 100 company, which provides supply chain management solutions to its customers around the world. Exel's range of logistics solutions encompasses the whole supply chain from design and consulting through freight forwarding, warehousing and distribution services to

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integrated information management and e-commerce support. A joint venture company, Exel-Sinotrans Freight Forwarding Co. Ltd. ("Exel-Sinotrans"), was formed between Sinoair and Exel in 1996, which specialises in providing integrated logistics solutions to its customers in China.

MAJOR POST-BALANCE SHEET DATE

EVENTS

Details of major post-balance sheet date events are set out in Note 38 to the financial statements.

AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Company Limited were the Company's international auditors and PRC auditors respectively for the year ended 31 December 2002. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Company Limited as the PRC auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Zhang Bin

Chairman

15 April 2003, Beijing, PRC