

# Notes to the Financial Statements

## 1. GROUP REORGANISATION AND PRINCIPAL ACTIVITIES

The Company was established in the People's Republic of China ("PRC") on 20 November 2002 as a joint stock company with limited liability as a result of a group reorganisation of China National Foreign Trade Transportation (Group) Corporation ("Sinotrans Group Company") in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"). The initial registered capital of the Company is RMB2,624,087,200, consisting of 2,624,087,200 shares of par value of RMB1.00 per share. The Company and its subsidiaries are hereinafter referred to as the "Group".

Sinotrans Group Company was established in 1950 as a ministerial-level state-owned enterprise under the Ministry of Foreign Trade and Economic Co-operation of the PRC. It acted as the sole freight forwarding agent of the PRC Government. Through a series of business development initiatives and expansion plans, Sinotrans Group Company has expanded its business scope from providing only freight forwarding services to a wide range of transportation and logistics services. Sinotrans Group Company is currently 100% owned by the PRC Government.

Pursuant to the Reorganisation, the Company issued 2,624,087,200 ordinary shares of RMB1.00 per share ("Domestic Shares") in exchange for (i) various assets and liabilities related to the freight forwarding, express services and shipping agency businesses at certain core strategic locations in the provinces or municipalities of Guangdong, Fujian, Zhejiang, Shanghai, Hubei, Jiangsu, Shandong, Tianjin and Liaoning of the PRC, (ii) various assets and liabilities related to selected support operations including storage and terminal services, trucking and marine transportation at these core strategic locations and (iii) in addition to those described above, equity interests in certain subsidiaries, jointly controlled entities and associates engaged in freight forwarding, express services, shipping agency and international multi-modal transportation services in the PRC (collectively the "Transferred Businesses"). Sinotrans Group Company retained (i) the businesses of freight forwarding, shipping agency, storage and terminal services, trucking and marine transportation, and express service agents located outside the core strategic locations, (ii) certain businesses and support operations at these strategic locations to be wound down or which are surplus to the requirements of the Group, (iii) ship chartering and fleet management operations and container leasing operations, (iv) equity interests in certain jointly controlled entities and associates which could not be transferred to the Company due to the absence of consents of the joint venture partners in these entities, (v) certain non-core businesses and (vi) the ownership of certain assets and liabilities including staff quarters, certain office buildings, bank balances, investments in securities, borrowings, claims, contingent and tax liabilities (collectively the "Excluded Businesses").

# Notes to the Financial Statements

## 2. BASIS OF PREPARATION

As Sinotrans Group Company controlled the Transferred Businesses before the Reorganisation and continues to control the Company after the Reorganisation, the consolidated financial statements of the Group for the years ended 31 December 2002 and 2001 have been prepared as a reorganisation of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to the Company have been stated at historical amounts.

The consolidated financial statements of the Group for the years ended 31 December 2002 and 2001 present the results of the Group as if it had been in existence throughout the period and as if the Transferred Businesses were transferred to the Company by Sinotrans Group Company at 1 January 2001 or when such businesses were acquired by Sinotrans Group Company, whichever is later. The Company's directors are of the opinion that the financial statements prepared on this basis present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows of the Group as a whole. Therefore, the net profit for the year ended 31 December 2002 includes the consolidated results of operations before the Reorganisation.

The consolidated financial statements include the historical cost of operations related to the Transferred Businesses. Expenses that could be specifically identified include the following:

- purchased transportation and related services;
- staff costs (excluding those attributable directly to administration staff);
- depreciation (excluding those attributable directly to property, plant and equipment used for general and administrative function);
- repairs and maintenance;
- fuel;
- selling and distribution expenses;
- taxes other than income taxes; and
- finance costs.

# Notes to the Financial Statements

## 2. BASIS OF PREPARATION *(continued)*

Costs for which a specific identification method was not practical include only general and administrative expenses, which are allocated to the Group by Sinotrans Group Company based on the average of the percentages of the respective historical employee numbers, assets and turnover of the Transferred Businesses to the total respective historical employee numbers, assets and turnover of Sinotrans Group Company during the years ended at 31 December 2002 and 2001.

As the Reorganisation was conducted during the year ended 31 December 2002, the financial statements of the Company have been prepared from the date of its incorporation and, accordingly, there are no comparative figures in the Company's balance sheet as at 31 December 2001.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention as modified by the revaluation of trading investments at fair value as disclosed in the accounting policies in Note 3 below.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of consolidation

The results of operations of subsidiaries and the share attributable to minority interests are accounted for in the consolidated profit and loss account. The results of operations of jointly controlled entities are accounted for by proportionate consolidation as described in Note 3(c).

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(b) Subsidiaries**

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are included from the date on which control is transferred to the Group and are excluded from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

Investments in subsidiaries are accounted for using the equity method in the Company's financial statements. Equity accounting involves recognising in the profit and loss account the Company's share of the subsidiaries' profit or loss for the year. The Company's interests in the subsidiaries are carried in the balance sheet at amounts that reflect its share of the net assets of the subsidiaries and include goodwill on acquisition.

### **(c) Jointly controlled entities**

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Group includes its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows in the relevant components of the financial statements.

The Group recognises the portion of gains or losses on the sale of assets or provision of services to jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from jointly controlled entities that result from the purchase of assets or services by the Group from jointly controlled entities until the Group resells the assets or services to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(d) Associates**

Investments in associates are accounted for by the equity method of accounting. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's investment in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Gains and losses on disposals of investments in associates are determined by comparing proceeds with carrying amount and are included in operating profit.

### **(e) Revenue recognition**

Turnover comprises the value of charges for the sale of services to third parties net of disbursements made on behalf of customers. Turnover/revenues are recognised on the following bases:

#### **(i) *Freight forwarding***

Revenue is recognised when the freight forwarding services are rendered, which generally coincides with the date of departure for outward freight and the date of arrival for inward freight, where the Group effectively acts as a principal in arranging transportation of goods for customers, revenue recognised generally includes the carrier's charges to the Group. Where the Group effectively acts as an agent for the customers, revenue recognised comprises fees for services provided by the Group.

#### **(ii) *Shipping agency***

Revenue from shipping agency services is recognised upon completion of services, which generally coincides with the date of departure of the relevant vessel from port.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (e) Revenue recognition *(continued)*

#### (iii) *Express services*

Revenue from express services is recognised upon delivery of the relevant document or package.

#### (iv) *Marine transportation*

Revenue from liner shipping and feeder services is recognised when the services are rendered. For uncompleted voyage at the end of a reporting period, revenue is allocated between reporting periods based on relative transit time in each reporting period.

#### (v) *Storage and terminal services*

Revenue from the provision of storage and terminal services is recognised when the services are rendered.

#### (vi) *Trucking*

Revenue from the provision of trucking services is recognised when the services are rendered.

#### (vii) *Rental income*

Rental income under operating leases of warehouse and depots is recognised on an accrual basis.

#### (viii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

#### (ix) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

Advance payments and deposits received from customers prior to the provision of services and recognition of the related revenues are presented as current liabilities.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (f) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, container storage areas and buildings are situated for periods varying from 10 to 50 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

### (g) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the cost of assets to their residual values over their estimated useful lives as follows:

Buildings	20 – 50 years
Leasehold improvements	Over the shorter of the remaining term of the leases or the estimated useful lives
Port and rail facilities	20 – 40 years
Containers	8 – 15 years
Plant and machinery	5 – 10 years
Motor vehicles and vessels	5 – 10 years
Furniture and office equipment	3 – 6 years

Assets under construction represent buildings under construction and plant and equipment pending installation, and are stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction or installation and testing. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use.

Property, plant and equipment are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(g) Property, plant and equipment** *(continued)*

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use or net selling price.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

### **(h) Intangible assets**

#### *(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the profit and loss account immediately.



# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(h) Intangible assets** *(continued)*

#### *(ii) Computer software development costs*

Generally, costs associated with developing or maintaining computer software programmes are expensed as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

#### *(iii) Impairment of intangible assets*

Intangible assets are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use or net selling price.

### **(i) Trading investments**

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading investments are subsequently carried at fair value at each reporting date. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the profit and loss account in the period in which they arise.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(j) Operating leases**

#### *(i) A group company is the lessee*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### *(ii) A group company is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

### **(k) Inventories**

Supplies, consumables and spare parts are stated at cost determined by the first-in, first-out (FIFO) method, less any provision for obsolescence.

### **(l) Trade receivables**

Trade receivables are carried at original invoice amounts less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### **(m) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(n) Borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

### **(o) Borrowing costs**

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. No borrowing costs were capitalised during the years as the amounts were immaterial. All other borrowing costs are expensed as incurred.

### **(p) Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from gain on deemed disposal of investment in a subsidiary, depreciation on property, plant and equipment, amortisation of intangible asset, provision for impairment of receivables, write-off of pre-operating and other deferred expenses, provision for litigation claims and tax value of losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(q) Employee benefits**

#### *(i) Pension obligations*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

In addition, the Group provided supplementary pension subsidies to employees who retired prior to the Reorganisation. The cost of providing these pension subsidies is charged to the profit and loss account using the projected unit credit method so as to spread the service cost over the average service lives of the retirees. The pension obligation is measured as the present value of the estimated future cash flows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised in the year in which they were incurred. Employees who retire after the date of Reorganisation are not entitled to such supplementary pension subsidies.

#### *(ii) Termination and early retirement benefits*

Employee termination and early retirement benefits are recognised in the period in which the Group entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms.

#### *(iii) Housing benefits*

The Group sold staff quarters to its employees, subject to a number of eligibility requirements, at preferential prices. When staff quarters are identified as being subject to sale under these arrangements, the carrying value of the staff quarters is written down to the net recoverable amount. Upon sale, any difference between sales proceeds and the carrying amount of the staff quarters is charged to the profit and loss account.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(q) Employee benefits** *(continued)*

#### *(iii) Housing benefits (continued)*

The above discounted quarters allocation plans have been phased out in accordance with the policies of the PRC Government. In 1998, the State Council of the PRC issued a circular which stipulated that the sale of quarters to employees at preferential prices should be withdrawn. In 2000, the State Council further issued a circular stating that cash subsidies should be made to the employees following the withdrawal of allocation of staff quarters. However, the specific timetable and procedures of implementation of these policies are to be determined by individual provincial or municipal government based on the particular situation of the province or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who have not been allocated with quarters at all or who have not been allocated with quarters up to the prescribed standards before the discounted quarters sale plans were terminated, the Group is required to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. These cash housing subsidies are charged to the profit and loss account in the year in which it was determined that the payment of such subsidies is probable and the amounts can be reasonably estimated. In respect of certain entities which have not adopted any cash housing subsidiary plans, based on the available information and its best estimate, the Group estimated the required provision for these cash housing subsidies when the State Council circular in respect of cash subsidies was issued.

Pursuant to the Reorganisation, the ultimate holding company has agreed to bear any further one-off cash housing subsidies in excess of the amount provided for in the consolidated financial statements of the Group of RMB74,560,000 at the time of the Reorganisation. Employees joining the Group after the incorporation of the Company are not entitled to any one-off cash housing subsidies.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(q) Employee benefits** *(continued)*

#### *(iii) Housing benefits (continued)*

In addition, all full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

### **(r) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### **(s) Financial instruments**

#### *(i) Financial risk factors*

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates.

#### — Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar. The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign exchange risk.

#### — Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. As at 31 December 2001 and 2002, substantially all of its borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (s) Financial instruments *(continued)*

#### (i) Financial risk factors *(continued)*

##### — Credit risk

The extent of the Group's 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 risk exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately RMB3,206,829,000 (2001: RMB2,625,382,000) as at 31 December 2002. In addition, the Group made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB234,993,000 (2001: RMB224,964,000) as at 31 December 2002.

#### (ii) Loan guarantees

The Group had acted as the guarantor for various external borrowings by certain fellow subsidiaries under the ultimate holding company and certain third party entities. As at 31 December 2002, it acted as the guarantor for certain other related parties and third party entities. These loan guarantees were provided to assist those entities in obtaining the necessary funding for their business development and working capital requirements. Pursuant to the Reorganisation, all guarantees given by the Group for the benefit of the ultimate holding company and fellow subsidiaries have been released or withdrawn prior to the listing of the Company's shares.

In the case of default by these entities on the repayment of the related borrowings, the Group may be required to pay the guaranteed amounts as disclosed. If the Group is required to make payments under those guarantees in the case of default by the borrowers, it will generally be entitled to claim against the borrowers to recover the amounts paid.

The Group periodically reviews its exposure under these guarantees and has laid down policies specifying the required approvals prior to the provision of further guarantees.

The Group accounts for these guarantees and potential recovery from the borrowers as contingent liabilities and contingent assets and the applicable accounting policy is set out in Note 3(u).

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(s) Financial instruments** *(continued)*

#### *(iii) Fair value estimation*

The fair value of publicly traded trading securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term borrowings. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

### **(t) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. The individual items in the financial statements of foreign operations that are integral to the operations of the Group are translated as if all its transactions had been entered into by the Group itself.

### **(u) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.



# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(u) Contingent liabilities and contingent assets** *(continued)*

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### **(v) Profit distributions and dividends**

Profit distributions and dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet date event and are not recognised as a liability at the balance sheet date.

### **(w) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, operating receivables and cash, and mainly exclude deferred tax assets and investments in associates. Segment liabilities mainly comprise operating liabilities and exclude items such as current and deferred tax liabilities. Capital expenditures mainly comprise additions to property, plant and equipment and intangible assets.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment are included as unallocated costs.

# Notes to the Financial Statements

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **(w) Segment reporting** *(continued)*

In respect of geographical segment, turnover is based on the geographical locations in which the business operations are located. Total assets and capital expenditures are where the assets are located.

### **(x) Related parties**

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Group is a large group of companies under the ultimate holding company and has significant transactions and relationships with members of the ultimate holding company. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The ultimate holding company itself is owned by the PRC government. There are also other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). A portion of the Group's business activities are conducted with state-owned enterprises. Furthermore, the PRC government itself represents a major customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION

### (a) Primary reporting format — business segments

The Group is organised in 5 main business segments:

#### (i) *Freight forwarding*

The Group's freight forwarding services primarily involve, at the instruction of its customers, arranging transportation of goods to designated consignees at other locations within specified time limits. Other ancillary services include arranging for customs declaration and clearance, preparation of the documentation, consolidation and distribution, drayage and warehousing.

#### (ii) *Shipping agency*

The Group provides shipping agency services to shipping companies which include:

- attending to the formalities for a vessel's entry into or departure from ports;
- arranging piloting, berthing, loading and discharging of vessels;
- arranging cargo space booking and shipping documentation on behalf of carriers;
- signing bills of lading;
- arranging shipments and transshipment of cargoes and containers;
- managing container control; and
- collecting freight and settling payment on behalf of carriers.

#### (iii) *Express services*

The Group's express services comprise express delivery of documents, packages and heavy weight freight, as well as small parcel shipments with guaranteed delivery times.

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### (a) Primary reporting format — business segments *(continued)*

#### (iv) *Marine transportation*

The Group's marine transportation services primarily comprise liner services to and from the West Coast of North America, within Asia, as well as coastal and river feeder services in the Yangtze River Area and Pearl River Delta in the PRC.

#### (v) *Storage and terminal services*

The Group's storage and terminal services comprise the following operations:

- warehousing — providing cargo handling and storage services;
- container yards — providing container handling and space management services;
- container freight stations — providing services in connection with storage and vanning/devanning of containers; and
- terminals — providing berthing, loading/unloading and warehousing services.

Other operations of the Group mainly comprise trucking and other related support services. None of them are of a sufficient size to be reported separately.

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### (a) Primary reporting format — business segments *(continued)*

	As at and for the year ended 31 December 2002							Group RMB'000
	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Inter-segment elimination RMB'000	
Turnover — External	9,703,902	371,094	1,123,035	1,787,281	434,931	130,168	—	13,550,411
Turnover — Inter-segment	621,038	9,613	27,810	163,207	11,470	20,789	(853,927)	—
	10,324,940	380,707	1,150,845	1,950,488	446,401	150,957	(853,927)	13,550,411
Segment results	316,647	215,084	292,542	34,579	76,278	(7,749)	—	927,381
Unallocated costs								(34,004)
Operating profit								893,377
Finance income, net								28,053
								921,430
Share of results of associates before taxation								10,117
Profit before taxation								931,547
Taxation								(244,243)
Profit after taxation								687,304
Minority interests								(115,082)
Profit for the year								572,222
Assets								
Segment assets	3,941,818	863,577	1,666,716	973,051	516,435	109,239	(850,085)	7,220,751
Investments in associates								24,367
Unallocated assets								141,617
Total assets								7,386,735
Liabilities								
Segment liabilities	2,811,676	684,114	306,449	943,392	139,030	51,772	(730,324)	4,206,109
Unallocated liabilities								627,612
Total liabilities								4,833,721
Other information								
Capital expenditures	216,644	6,150	108,782	8,891	80,362	7,531	—	428,360
Depreciation	94,612	4,808	28,570	11,093	30,058	5,936	—	175,077
Amortisation	5,871	452	1,795	1,034	1,987	51	—	11,190
Impairment loss on fixed assets	272	—	—	—	—	—	—	272
Other non-cash expenses/(income)	(8,093)	520	763	(2,055)	511	414	—	(7,940)

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### (a) Primary reporting format — business segments *(continued)*

	As at and for the year ended 31 December 2001							Group RMB'000
	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Inter-segment elimination RMB'000	
Turnover — External	7,828,789	338,812	851,110	1,522,334	357,544	151,216	—	11,049,805
Turnover — Inter-segment	564,639	14,555	2,274	94,006	19,126	15,479	(710,079)	—
	8,393,428	353,367	853,384	1,616,340	376,670	166,695	(710,079)	11,049,805
Segment results	255,485	199,004	237,541	9,703	56,020	(2,102)	—	755,651
Unallocated costs								(32,594)
Operating profit								723,057
Finance income, net								31,039
								754,096
Share of results of associates before taxation								11,021
Profit before taxation								765,117
Taxation								(207,291)
Profit after taxation								557,826
Minority interests								(105,523)
Profit for the year								452,303
Assets								
Segment assets	3,452,348	789,972	1,546,319	435,665	375,672	89,044	(662,907)	6,026,113
Investments in associates								50,007
Unallocated assets								82,517
Total assets								6,158,637
Liabilities								
Segment liabilities	2,561,822	551,745	351,879	635,308	112,332	85,890	(655,084)	3,643,892
Unallocated liabilities								162,088
Total liabilities								3,805,980
Other information								
Capital expenditures	178,173	10,321	127,722	15,219	34,866	7,664	—	373,965
Depreciation	81,823	4,579	19,097	10,481	24,862	5,255	—	146,097
Amortisation	2,595	389	1,749	791	1,030	105	—	6,659
Other non-cash expenses	37,853	18,952	7,753	506	8,736	47	—	73,847

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### **(b) Secondary reporting format — geographical segments**

The Group's businesses operate in four main geographical areas within the PRC:

- (i) Northern China — Including core strategic locations in Liaoning, Tianjin as well as the operations of Sinotrans Air Transportation Development Co., Ltd. ("Sinoair"), a subsidiary of the Company, in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Henan.
- (ii) Eastern China — Including core strategic locations in Jiangsu, Shanghai, Zhejiang, Fujian and Shandong, as well as the operations of Sinoair in Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong.
- (iii) Southern China — Including core strategic locations in Guangdong, Shenzhen and Hubei, as well as the operations of Sinoair in Hubei, Hunan, Guangdong, Guangxi, Hainan, Guizhou and Yunnan.
- (iv) Other locations — Including primarily the air freight forwarding and express services operated by Sinoair and certain of the jointly controlled entities of the Group in locations other than the above.

# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### (b) Secondary reporting format — geographical segments *(continued)*

	As at and for the year ended 31 December 2002					
	Turnover —	Turnover —	Total	Segment	Total	Capital
	External	Inter-segment	turnover	results	assets	expenditures
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Northern China	1,304,563	6,026	1,310,589	54,640	1,842,333	65,489
Eastern China	10,050,602	129,386	10,179,988	720,874	4,264,229	204,411
Southern China	1,910,306	36,175	1,946,481	124,456	1,018,732	145,576
Other locations	284,940	5,435	290,375	27,411	151,427	12,884
Inter-segment elimination	—	(177,022)	(177,022)	—	(55,970)	—
	13,550,411	—	13,550,411	927,381	7,220,751	428,360
Unallocated costs				(34,004)		
Operating profit				893,377		
Investments in associates					24,367	
Unallocated assets					141,617	
Total assets					7,386,735	



# Notes to the Financial Statements

## 4. TURNOVER AND SEGMENT INFORMATION *(continued)*

### (b) Secondary reporting format — geographical segments *(continued)*

	As at and for the year ended 31 December 2001					
	Turnover —	Turnover —	Total	Segment	Total	Capital
	External	Inter-segment	turnover	results	assets	expenditures
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Northern China	903,715	1,236	904,951	47,481	1,718,742	79,408
Eastern China	8,471,824	40,290	8,512,114	600,686	3,453,044	215,420
Southern China	1,539,567	5,696	1,545,263	103,246	757,348	68,264
Other locations	134,699	2,456	137,155	4,238	133,204	10,873
Inter-segment elimination	—	(49,678)	(49,678)	—	(36,225)	—
	11,049,805	—	11,049,805	755,651	6,026,113	373,965
Unallocated costs				(32,594)		
Operating profit				723,057		
Investments in associates					50,007	
Unallocated assets					82,517	
Total assets					6,158,637	

# Notes to the Financial Statements

## 5 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

During the year, there were no emoluments paid and payable by the Company to the directors of the Company. The aggregate amounts of the emoluments paid and payable to the directors of the Company by the Group in respect of their services rendered for managing the businesses of the Group during the year are as follows:

	2002 RMB'000	2001 RMB'000
Fees	—	—
Other emoluments for executive directors		
— Basic salaries, housing allowances, other allowances and benefits in kind	772	759
— Discretionary bonuses	1,230	539
	2,002	1,298

These represent historical amounts incurred by the Group during the year. Remuneration of directors and supervisors of the Company may change after the listing of the Company.

No directors of the Company waived any remuneration during the year (2001: Nil).

The emoluments of the directors were within the following band:

	Number of directors	
	2002	2001
Nil – RMB1,000,000	5	5

# Notes to the Financial Statements

## 5. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are as follows:

	2002	2001
Directors	3	4
Senior management	2	1

The five individuals whose emoluments were the highest in the Group during the year include three (2001: four) directors whose emoluments are reflected in the analysis presented in Note (a). Details of remuneration of senior management amongst the five highest paid individuals are as follows:

	2002 RMB'000	2001 RMB'000
Basic salaries, housing allowances and other allowances and benefits in kind	317	241
Discretionary bonuses	596	135
	913	376

The emoluments of these senior management fell within the following band:

	Number of individuals	
	2002	2001
Nil – RMB1,000,000	2	1

During the years, no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Financial Statements

## 6. STAFF COSTS

Staff costs during the year which included remuneration to directors and supervisors of the Company and senior management are as follows:

	Note	2002 RMB'000	2001 RMB'000
Wages and salaries		701,999	557,690
Housing benefits	(a)	32,749	20,790
Contributions to the pension plans	(b)	73,387	59,412
Cost of supplementary pension subsidies to retirees	(c)		
— current service cost		1,047	5,689
— interest cost		738	3,433
— actuarial gains and losses		(29,923)	(3,045)
Termination benefits and early retirement benefits	(d)	17,978	35,705
Welfare and other expenses		214,873	176,570
		<b>1,012,848</b>	856,244

- (a) These include the Group's loss on disposal of staff quarters, contributions to government sponsored housing funds (at rates ranging from 5% to 22% of the employees' basic salary) and cash housing subsidies paid and payable to certain employees during the year.
- (b) The employees of the Group participate in various pension plans organised by the relevant municipal and provincial government under which the Group was required to make monthly defined contributions to these plans at rates ranging from 5% to 29%, dependent upon the applicable local regulations, of the employees' basic salary for the year.
- (c) The Group provided supplementary pension subsidies to employees who retired prior to the Reorganisation. The cost of providing these pension subsidies is charged to the profit and loss account so as to spread the service cost over the average service lives of the retirees. Employees who retire after the date of Reorganisation are not entitled to such pension subsidies.

# Notes to the Financial Statements

## 6. STAFF COSTS (continued)

- (d) Certain employees of the Group were directed to retire early or their employment services were terminated during the year. Employee termination and early retirement benefits are recognised in the profit and loss account in the year in which the Group entered into an agreement specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. These specific terms vary among the terminated or early retired employees depending on various factors including position, length of service and district of the employee concerned.

The Group has no other obligations for the payment of pension and other post-retirement benefits of employees or retirees other than the payments discussed above.

As at 31 December 2002, the Group had approximately 13,462 employees (2001: 15,926).

## 7. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:

	2002 RMB'000	2001 RMB'000
<b>Crediting</b>		
Rental income	9,565	11,142
Interest income	33,325	36,722
Gain on disposal of property, plant and equipment	2,265	4,689
Fair value gains on trading investments	2,356	2,503
Reversal of provision for impairment of receivables	7,940	—
<b>Charging</b>		
Depreciation		
— owned property, plant and equipment	173,400	144,508
— owned property, plant and equipment leased out under operating leases	1,677	1,589
Loss on disposal of property, plant and equipment	4,744	4,426
Auditors' remuneration	7,863	—
Provision for impairment of property, plant and equipment	272	—
Operating leases		
— land and buildings	112,783	79,314
— plant and equipment	465,546	446,366
Provision for impairment of receivables and bad debts written off	—	39,207
Amortisation of land use rights and intangible assets	11,190	6,659

# Notes to the Financial Statements

## 8. FINANCE INCOME, NET

	2002 RMB'000	2001 RMB'000
Interest income on bank balances	33,325	36,722
Interest expense on bank loans and overdrafts	(6,923)	(5,902)
Interest expense on other loans which are wholly repayable within five years	(100)	(61)
Exchange gains, net	6,649	5,635
Bank charges	(4,898)	(5,355)
	<b>28,053</b>	31,039

No borrowing costs were capitalised during the year (2001: Nil).

## 9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2002 RMB'000	2001 RMB'000
Provision for PRC income tax		
— current	232,656	214,762
— deferred taxation charge/(credit)	9,260	(9,824)
	<b>241,916</b>	204,938
Share of taxation attributable to associates	2,327	2,353
	<b>244,243</b>	207,291

The provision for PRC current income tax is based on the statutory rate of 33% (2001: 33%) of the assessable income of each of the companies and enterprises now comprising the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2002 and 2001, except for certain subsidiaries or jointly controlled entities which are taxed at preferential rates ranging from 0% to 30% (2001: 0% to 30%) based on the relevant PRC tax laws and regulations.

# Notes to the Financial Statements

## 9. TAXATION (continued)

- (a) The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of 33% in the PRC is as follows:

	2002 RMB'000	2001 RMB'000
Profit before taxation	931,547	765,117
Tax calculated at the statutory tax rate of 33%	307,411	252,489
Utilisation of prior year unrecognised tax losses	(2,198)	(3,008)
Deferred tax benefits arising from tax losses in certain entities not recognised	3,454	5,155
Non-taxable income	(25,593)	(13,961)
Expenses not deductible for tax purposes	15,092	29,057
Preferential tax rate on the income of certain subsidiaries/jointly controlled entities	(55,268)	(63,453)
Others	1,345	1,012
Tax charge	244,243	207,291

# Notes to the Financial Statements

## 9. TAXATION (continued)

- (b) Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The movement in the deferred taxation accounts is as follows:

Deferred tax assets:

	The Group		The Company
	2002 RMB'000	2001 RMB'000	2002 RMB'000
As at 1 January	62,499	52,554	—
(Decrease)/increase during the year	(9,599)	9,945	3,006
As at 31 December	52,900	62,499	3,006
Provided for in respect of:			
Provision for impairment of receivables	27,957	33,185	—
Provision for one-off cash housing subsidies	17,215	18,239	—
Provisions for pensions and other post retirement benefits	—	1,889	—
Provision for claims	2,948	7,027	—
Write-off of other current assets	—	1,341	—
Other temporary differences	4,780	818	3,006
	52,900	62,499	3,006
Temporary differences for which deferred tax assets were not recognised:			
Provision for impairment of receivables	3,612	2,285	—
Depreciation on property, plant and equipment	635	912	635
Losses carried forward	8,607	—	—
Write-off of other current assets	—	1,406	—
Others	2,492	—	2,492
	15,346	4,603	3,127



# Notes to the Financial Statements

## 9. TAXATION (continued)

Deferred tax liabilities:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
As at 1 January	<b>1,957</b>	1,836
(Decrease)/increase during the year	<b>(339)</b>	121
As at 31 December	<b>1,618</b>	1,957
Provided for in respect of:		
Depreciation on property, plant and equipment	<b>1,594</b>	1,426
Other temporary differences	<b>24</b>	531
Total deferred tax liabilities	<b>1,618</b>	1,957

The temporary differences associated with the Group's underlying investments in subsidiaries, associates and jointly controlled entities amounted to approximately RMB610,203,000 (2001: RMB610,203,000) as at 31 December 2002 for which deferred tax liabilities have not been recognised. Within the above amounts was a gain of RMB603,087,000 arising from deemed disposal of the Company's share of net assets of Sinoair after the issuance of shares by the latter in connection with its initial public offering on the Shanghai Stock Exchange during the year ended 31 December 2000.

# Notes to the Financial Statements

## 9. TAXATION (continued)

(c) Current tax liabilities represent:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Enterprise income tax	<b>117,311</b>	160,131
Business tax	<b>33,825</b>	24,234
Other taxes	<b>10,327</b>	4,220
	<b>161,463</b>	188,585

## 10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB94,252,000.

## 11. DIVIDEND

Pursuant to the Reorganisation, the Company agreed to distribute a special dividend to Sinotrans Group Company representing the consolidated net profit of the Group for the period from 1 January 2002 to 30 November 2002 determined in accordance with PRC accounting standards, which amounted to approximately RMB477,970,000. The Group has distributed such an amount to Sinotrans Group Company by the end of March 2003.

The board of directors does not recommend the payment of any other dividend for the year ended 31 December 2002.

## 12. EARNINGS PER SHARE

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 securities, there is no difference between basic and diluted earnings per share.

# Notes to the Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT

### The Group

			Port and			Motor	Furniture	Assets		
	Buildings	Leasehold	rail	Containers	Plant and	vehicles	and office	under	2002	2001
	RMB'000	improvements	facilities	RMB'000	machinery	and vessels	equipment	construction	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>										
At beginning of year	528,551	30,581	65,914	22,835	220,751	487,958	279,017	83,233	1,718,840	1,488,535
Additions	26,038	5,452	—	253	56,273	84,192	67,436	105,653	345,297	308,034
Acquisition of										
subsidiaries/a jointly										
controlled entity	30,399	—	4,438	124	18,575	2,286	1,722	7,086	64,630	6,182
Disposals	(13,395)	—	—	(46)	(16,842)	(30,178)	(16,655)	(2,500)	(79,616)	(83,911)
Transfer upon completion	126,845	9,166	—	—	6,689	5,416	2,092	(150,208)	—	—
At end of year	698,438	45,199	70,352	23,166	285,446	549,674	333,612	43,264	2,049,151	1,718,840
<b>Accumulated depreciation</b>										
At beginning of year	(135,421)	(10,756)	(28,197)	(14,108)	(126,614)	(248,403)	(140,360)	—	(703,859)	(616,227)
Depreciation for the year	(29,207)	(5,800)	(7,929)	(2,782)	(12,676)	(67,520)	(49,163)	—	(175,077)	(146,097)
Disposals	5,391	—	—	23	10,066	21,649	13,090	—	50,219	58,465
Impairment losses	—	—	—	—	—	(272)	—	—	(272)	—
At end of year	(159,237)	(16,556)	(36,126)	(16,867)	(129,224)	(294,546)	(176,433)	—	(828,989)	(703,859)
<b>Net book value</b>										
At end of year	539,201	28,643	34,226	6,299	156,222	255,128	157,179	43,264	1,220,162	1,014,981
At beginning of year	393,130	19,825	37,717	8,727	94,137	239,555	138,657	83,233	1,014,981	872,308

# Notes to the Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### The Company

	Furniture and office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost			
As at 1 January 2002	—	—	—
Transferred from Sinotrans Group Company upon incorporation	9,722	11,655	21,377
Additions	7,296	—	7,296
As at 31 December 2002	17,018	11,655	28,673
Accumulated depreciation			
As at 1 January 2002	—	—	—
Depreciation for the year	(456)	—	(456)
As at 31 December 2002	(456)	—	(456)
Net book value			
As at 31 December 2002	16,562	11,655	28,217

Property, plant and equipment pledged as security for bank loans were as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Net book value of property, plant and equipment pledged	28,916	16,326
Corresponding borrowings	(18,882)	(12,230)

# Notes to the Financial Statements

## 14. LAND USE RIGHTS

	The Group	
	2002	2001
	RMB'000	RMB'000
Cost	189,685	160,273
Accumulated amortisation	(21,960)	(20,189)
Net book value	167,725	140,084

## 15. INTANGIBLE ASSETS

	The Group			
	Software	Goodwill	2002 Total	2001 Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning of year	16,345	(193)	16,152	6,823
Additions	12,851	8,207	21,058	8,984
Acquisition of a jointly controlled entity	—	—	—	345
Disposals	(343)	—	(343)	—
At end of year	28,853	8,014	36,867	16,152
Accumulated amortisation				
At beginning of year	(7,116)	190	(6,926)	(2,240)
Amortisation for the year	(8,855)	(564)	(9,419)	(4,686)
Disposals	188	—	188	—
At end of year	(15,783)	(374)	(16,157)	(6,926)
Net book value				
At end of year	13,070	7,640	20,710	9,226
At beginning of year	9,229	(3)	9,226	4,583

# Notes to the Financial Statements

## 15. INTANGIBLE ASSETS (continued)

	The Company Software RMB'000
Cost	
As at 1 January 2002	—
Transferred from Sinotrans Group Company upon incorporation	7,948
Additions	1,758
As at 31 December 2002	9,706
Accumulated amortisation	
As at 1 January 2002	—
Amortisation for the year	(1,014)
As at 31 December 2002	(1,014)
Net book value	
As at 31 December 2002	8,692

## 16. INVESTMENTS IN SUBSIDIARIES

	The Company 2002 RMB'000
Investments at cost:	
Unlisted equity interests	1,471,911
Shares listed in the PRC	1,278,378
	2,750,289
Share of undistributed post-acquisition profits less losses	97,475
Dividends received	(50,133)
	2,797,631

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Shares listed in the PRC represent 70.36% equity interest in Sinoair, a company listed on the Shanghai Stock Exchange. The market value of those listed shares was RMB4,205,887,736 as at 31 December 2002.

The following is a list of the principal subsidiaries at 31 December 2002:

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
China Marine Shipping Agency Company Limited	Beijing, the PRC 11 December 2002 Limited liability company	RMB12,000,000	90%	100%	Shipping agency
Sinotrans International Multimodal Transportation Company Limited	Beijing, the PRC 26 December 2002 Limited liability company	RMB9,801,195	90%	100%	Freight forwarding
Sinotrans Air Transportation Development Company Limited	Beijing, the PRC 11 October 1999 Joint stock company with limited liability	RMB365,851,200	70.36%	70.36%	Air freight forwarding and express services
Dalian JD Cargo International Co., Ltd.	Dalian, the PRC 31 March 1994 Limited liability company	RMB6,000,000	—	42.22%	Air freight forwarding
Sinotrans Ningbo International Air Freight Co., Ltd.	Ningbo, the PRC 2 May 1995 Limited liability company	RMB3,000,000	—	42.22%	Air freight forwarding
Shanghai Xin Yun Logistic Co., Ltd.	Shanghai, the PRC 9 February 2002 Limited liability company	RMB5,000,000	—	69.66%	Freight forwarding

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Sinotrans Network Technology Company Limited	Beijing, the PRC 11 December 2001 Limited liability company	RMB5,000,000	60%	88.14%	Information technology services
Shanghai Huafu Commercial Co., Ltd	Shanghai, the PRC 31 July 1998 Limited liability company	RMB1,110,000	—	63.32%	Trading and related services
Sinotrans Eastern Company Limited	Shanghai, the PRC 29 November 2002 Limited liability company	RMB823,164,416	95%	100%	Freight forwarding, shipping agency and express services
Sinotrans Jiangsu Company Limited	Nanjing, the PRC 11 December 2002 Limited liability company	RMB100,000,000	10%	100%	Freight forwarding, shipping agency and express services
Sinotrans Zhejiang Company Limited	Ningbo, the PRC 9 December 2002 Limited liability company	RMB100,000,000	10%	100%	Freight forwarding, shipping agency and express services
Sinotrans Hubei Company Limited	Wuhan, the PRC 22 December 1999 Limited liability company	RMB5,000,000	10%	100%	Freight forwarding
Sinotrans Container Lines Company Limited	Shanghai, the PRC 24 April 1998 Limited liability company	RMB9,837,907	10%	100%	Marine transportation



# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
China Marine Shipping Agency Shanghai Company Limited	Shanghai, the PRC 20 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
Sinotrans Changjiang Shipping Company Limited	Shanghai, the PRC 13 December 2000 Limited liability company	RMB10,000,000	—	100%	Marine transportation
Sinotrans Shanghai Customs Broker Company Limited	Shanghai, the PRC 29 May 1998 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Shanghai Huafa International Transportation Co., Ltd	Shanghai, the PRC 14 June 1991 Sino-foreign equity joint venture	US\$10,777,500	—	67%	Freight forwarding, warehousing and trucking
Shanghai Huafatengfei International Transportation Company Limited	Shanghai, the PRC 19 September 2001 Limited liability company	RMB5,000,000	—	60.3%	Warehousing
Shanghai Sinotrans Songjiang Logistic Company Limited	Shanghai, the PRC 7 August 2001 Limited liability company	RMB5,000,000	—	85.18%	Freight forwarding
Shanghai Jinling International Freight Transportation Co., Ltd	Shanghai, the PRC 10 December 1992 Sino-foreign equity joint venture	US\$2,050,000	—	51%	Freight forwarding

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
China Marine Shipping Agency Changshu Company Limited	Changshu, the PRC 15 January 1998 Limited liability company	RMB1,800,000	—	50%	Shipping agency
Jiangsu Fortunate International Company Limited	Nanjing, the PRC 22 April 1995 Sino-foreign equity joint venture	RMB9,296,000	20%	70%	Freight forwarding
Sinotrans Nanjing Customs Broker Company Limited	Nanjing, the PRC 27 December 2002 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Sinotrans Suzhou Customs Broker Company Limited	Suzhou, the PRC 17 August 2000 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Sinotrans Zhenjiang Customs Broker Company Limited	Zhenjiang, the PRC 30 December 2002 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Sinotrans Changzhou Customs Broker Company Limited	Changzhou, the PRC 20 April 1995 Limited liability company	RMB1,600,000	—	100%	Freight forwarding
China Marine Shipping Agency Jiangsu Company Limited	Nanjing, the PRC 31 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Zhangjiagang Company Limited	Zhangjiagang, the PRC 26 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
China Marine Shipping Agency Nantong Company Limited	Nantong, the PRC 27 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Zhenjiang Company Limited	Zhenjiang, the PRC 30 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Changzhou Company Limited	Changzhou, the PRC 22 January 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Yangzhou Company Limited	Yangzhou, the PRC 10 August 1995 Limited liability company	RMB1,550,000	—	100%	Shipping agency
China Marine Shipping Agency Zhoushan Company Limited	Zhoushan, the PRC 24 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Taizhou Company Limited	Taizhou, the PRC 20 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Wenzhou Company Limited	Wenzhou, the PRC 27 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
China Marine Shipping Agency Ningbo Co., Ltd	Ningbo, the PRC 7 August 1996 Limited liability company	RMB8,000,000	—	60%	Shipping agency

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Sinotrans Ningbo International Freight Forwarding Co., Ltd	Ningbo, the PRC 20 August 1996 Limited liability company	RMB5,000,000	—	60%	Freight forwarding
Sinotrans Ningbo Int'l Container Transportation Company Limited	Ningbo, the PRC 2 May 1995 Limited liability company	RMB5,000,000	—	60%	Freight forwarding
Ningbo Transocean Int'l Forwarding Agency Company Limited	Ningbo, the PRC 24 February 1993 Limited liability company	RMB8,300,000	—	60%	Freight forwarding
Sinotrans Ningbo Jiuling Storage & Transportation Company Limited	Ningbo, the PRC 2 March 1998 Limited liability company	RMB2,000,000	—	64%	Trucking
Sinotrans Fujian Company Limited	Xiamen, the PRC 5 December 2002 Limited liability company	RMB223,257,966	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Fujian Customs Broker Company Limited	Fuzhou, the PRC 30 December 2002 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Sinotrans Xiamen Logistics Company Limited	Xiamen, the PRC 30 August 2000 Limited liability company	RMB22,500,000	—	100%	Freight forwarding, warehousing
China Marine Shipping Agency Fujian Company Limited	Fuzhou, the PRC 31 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Minan Shipping & Enterprise Corp. Ltd	Fuzhou, the PRC 1 March 1985 Sino-foreign equity joint venture	US\$3,000,000	—	75%	Marine transportation
Sinotrans Guangdong Company Limited	Guangzhou, the PRC 11 December 2002 Limited liability company	RMB774,498,932	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Shenzhen Customs Broker Company Limited	Shenzhen, the PRC 12 November 1993 Limited liability company	RMB2,120,000	—	100%	Freight forwarding
Sinoway Shipping Limited	Hong Kong 6 October 1987 Limited liability company	HK\$1,000,000	—	100%	Marine transportation
Guangdong Transport Limited	Hong Kong 29 November 1983 Limited liability company	HK\$1,000,000	—	100%	Marine transportation
Guangdong Eternal Way International Freight Co., Ltd.	Guangzhou, the PRC 29 January 1996 Sino-foreign equity joint venture	US\$3,000,000	—	51%	Freight forwarding
Jiangmen Foreign Trade Terminal Co., Ltd.	Jiangmen, the PRC 6 November 2000 Sino-foreign co-operative joint venture	RMB6,600,000	—	60%	Warehousing, depot and cargo terminal services

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Jiangmen Foreign Transportation & Enterprises Company Limited	Jiangmen, the PRC 18 November 1987 Sino-foreign co-operative joint venture	RMB13,800,000	—	60%	Freight forwarding
Zhongshan Sinoway Transportation Corp. Ltd	Zhongshan, the PRC 28 July 1988, Sino-foreign co-operative joint venture	US\$5,140,000	—	59.45%	Warehousing, depot and cargo terminal services
Sinotrans Shandong Company Limited	Qingdao, the PRC 9 December 2002 Limited liability company	RMB162,219,942	90%	100%	Freight forwarding, shipping agency and express services
Qingdao Bonded Zone Lianfeng Customs Broker Company Limited	Qingdao, the PRC 21 March 1997 Limited liability company	RMB500,000	—	100%	Freight forwarding
Qingdao Golden Express International Transportation Service Co., Ltd.	Qingdao, the PRC 24 February 1993 Sino-foreign equity joint venture	US\$1,000,000	—	75%	Freight forwarding
Qingdao Liantong Customs Broker Co., Ltd.	Qingdao, the PRC 20 November 1992 Sino-foreign equity joint venture	US\$600,000	—	75%	Freight forwarding

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Sinotrans Shandong Hongzhi International Container Transportation Co., Ltd.	Qingdao, the PRC 5 January 1993 Sino-foreign equity joint venture	RMB14,054,000	—	75%	Freight forwarding
Shandong Hongyun Container Engineering Co., Ltd.	Qingdao, the PRC 5 October 1992 Sino-foreign equity joint venture	US\$1,000,000	—	70%	Container maintenance
Sinotrans Tianjin Company Limited	Tianjin, the PRC 3 December 2002 Limited liability company	RMB57,363,906	90%	100%	Freight forwarding, shipping agency and express services
Tianjin Tianshan International Forwarding Co., Ltd.	Tianjin, the PRC 7 October 1986 Sino-foreign equity joint venture	RMB18,000,000	20%	60%	Trucking and freight forwarding
Sinotrans Liaoning Company Limited	Dalian, the PRC 2 December 2002 Limited liability company	RMB48,966,940	90%	100%	Freight forwarding, shipping agency and express services
China Marine Shipping Agency Liaoning Company Limited	Dalian, the PRC 30 December 2002 Limited liability company	RMB3,000,000	—	100%	Shipping agency
Sinotrans Liaoning Ocean Shipping Supply Co., Ltd	Dalian, the PRC 12 May 1992 Limited liability company	RMB500,000	—	100%	Shipping agency

# Notes to the Financial Statements

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Sinotrans Landbridge Transportation Company Limited	Lianyungang, the PRC 2 December 2002 Limited liability company	RMB44,382,238	90%	100%	Freight forwarding, shipping agency and express services

The names of some of the subsidiaries referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

The following is a list of the principal jointly controlled entities at 31 December 2002, which are held by the Company indirectly through its subsidiaries.

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Percentage of interest in ownership/voting power/profit sharing held by the		Principal activities
			Company	Group	
Ningbo Southeast International Freight Company Limited	Ningbo, the PRC 25 September 1992 Sino-foreign equity joint venture	US\$1,000,000	—	55%	Freight forwarding
Ningbo Taiping International Trade Transportation Company Limited	Ningbo, the PRC 6 July 1992 Sino-foreign equity joint venture	US\$3,750,000	—	50%	Freight forwarding, warehousing and trucking



# Notes to the Financial Statements

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Percentage of interest in ownership/voting power/profit sharing held by the		Principal activities
			Company	Group	
Shanghai Huasing International Container Freight Transportation Co., Ltd.	Shanghai, the PRC 2 July 1993 Sino-foreign equity joint venture	US\$10,000,000	—	60%	Freight forwarding, warehousing and trucking
Shanghai Express International Co, Ltd.	Shanghai, the PRC 13 June 1994 Sino-foreign equity joint venture	US\$4,000,000	20%	51%	Freight forwarding, warehousing and trucking
Shanghai Hua You International Forwarding Co., Ltd.	Shanghai, the PRC 22 August 1997 Sino-foreign equity joint venture	US\$2,000,000	—	51%	Freight forwarding, warehousing
Nittsu Sinotrans Logistic Dalian Co., Ltd	Dalian, the PRC 23 July 1992 Sino-foreign equity joint venture	US\$2,550,000	—	50%	Freight forwarding
DHL-Sinotrans International Air Courier Ltd.	Beijing, the PRC 25 June 1986 Sino-foreign equity joint venture	US\$13,000,000	—	35.18%	Express services

# Notes to the Financial Statements

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Percentage of interest in ownership/voting power/profit sharing held by the		Principal activities
			Company	Group	
Sinotrans-OCS International Express Co., Ltd.	Beijing, the PRC 13 December 1995 Sino-foreign equity joint venture	US\$2,240,000	—	35.18%	Express services
Rex International Forwarding Co., Ltd.	Beijing, the PRC 13 July 1994 Sino-foreign equity joint venture	US\$1,840,000	—	35.18%	Air freight forwarding
Exel-Sinotrans Freight Forwarding Co., Ltd.	Beijing, the PRC 15 May 1996 Sino-foreign equity joint venture	US\$1,360,000	—	35.18%	Air freight forwarding
Beijing Sinotrans International Travel Service Co., Ltd.	Beijing, the PRC 18 September 2000 Limited liability company	RMB2,000,000	—	35.18%	Tourism information services

The names of some of the jointly controlled entities referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

# Notes to the Financial Statements

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The aggregate amounts of assets, liabilities, revenues and expenses attributable to the Group's interests in the jointly controlled entities are summarised as follows:

	2002 RMB'000	2001 RMB'000
Current assets	589,048	584,871
Non-current assets	215,400	187,919
Current liabilities	426,391	455,813
Non-current liabilities	2,900	2,177
Revenue	2,166,155	1,325,577
Expenses	(1,907,895)	(1,138,167)

The capital commitments related to the Group's interests in the jointly controlled entities are summarised as follows:

	2002 RMB'000	2001 RMB'000
Authorised and contracted for but not recorded	698	1,567
Authorised but not contracted for	84,094	40,567
	84,792	42,134

An analysis of the above capital commitments by nature is as follows:

	2002 RMB'000	2001 RMB'000
Acquisition of property, plant and equipment	84,792	42,134

# Notes to the Financial Statements

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following is a summary of the significant contingent liabilities related to the Group's interests in the jointly controlled entities:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Outstanding loan guarantees	<b>2,143</b>	900
Pending lawsuits	<b>4,469</b>	4,469
Others	<b>3,250</b>	—
	<b>9,862</b>	5,369

## 18. INVESTMENTS IN ASSOCIATES

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Unlisted investments, at cost	<b>18,909</b>	44,210
Share of undistributed post-acquisition profits less losses	<b>8,698</b>	14,991
Dividends received	<b>(3,240)</b>	(9,194)
	<b>24,367</b>	50,007

# Notes to the Financial Statements

## 18. INVESTMENTS IN ASSOCIATES *(continued)*

The following is a list of the principal associates at 31 December 2002:

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Jiangmen Gaosha Agency Company Limited	Jiangmen, the PRC 10 May 1996 Limited liability company	RMB500,000	—	30%	Freight forwarding
Ningbo Beilun Donghua Container Transportation Service Co. Ltd.	Ningbo, the PRC 29 July 1997 Limited liability company	RMB4,000,000	—	18%	Warehousing
Shanghai Industrial Sinotrans International Transportation Company Limited	Shanghai, the PRC 20 March 2002 Sino-foreign equity joint venture	RMB1,000,000	—	40%	Freight forwarding
Suzhou Transtar Logistic Co., Ltd	Suzhou, the PRC 18 January 1999 Sino-foreign co-operative joint venture	RMB5,000,000	—	23.45%	Warehousing
Shanghai Shen Chi Storage & Transportation Company Limited	Shanghai, the PRC 18 July 2002 Limited liability company	RMB3,000,000	—	30%	Freight forwarding
AMS Global Transportation Co., Ltd.	Beijing, the PRC 29 June 1991 Sino-foreign equity joint venture	US\$1,860,000	—	14.07%	Air freight forwarding
Sinotrans Air Logistic Co., Ltd	Beijing, the PRC 5 March 1999 Limited liability company	RMB10,000,000	—	30.96%	Storage and terminal services

# Notes to the Financial Statements

## 18. INVESTMENTS IN ASSOCIATES *(continued)*

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		Principal activities
			Company	Group	
Hangzhou Economic & Technology Foreign- Trading Co., Ltd.	Hangzhou, the PRC 18 February 1997 Limited liability company	RMB500,000	—	28.14%	Freight forwarding, storage and terminal services
Shanghai Hu Wan Logistic Co., Ltd	Shanghai, the PRC 21 May 1997 Limited liability company	RMB800,000	—	25.51%	Trading
China International Exhibition Transportation Company Limited	Beijing, the PRC 20 July 1988 Limited liability company	RMB2,000,000	—	50%	Freight forwarding

The names of some of the associates referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

## 19. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	The Group		The Company
	2002 RMB'000	2001 RMB'000	2002 RMB'000
Prepayments on behalf of customers	184,134	190,456	—
Prepaid expenses	46,967	29,770	—
Others	3,892	4,738	281
	234,993	224,964	281

# Notes to the Financial Statements

## 20. INVENTORIES

Inventories mainly comprise supplies, consumables and spare parts. As at 31 December 2002, inventories stated at net realisable value amounted to approximately RMB4,265,000 (2001: RMB3,184,000).

## 21. TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2002	2001	2002
	RMB'000	RMB'000	RMB'000
Trade receivables	2,082,033	1,438,145	—
Bills receivable	6,617	11,347	—
Other receivables	111,748	102,757	4
Due from related parties	476,367	332,660	153,528
	2,676,765	1,884,909	153,532

### (a) Trade receivables

	The Group	
	2002	2001
	RMB'000	RMB'000
Trade receivables	2,160,336	1,549,385
Less: Provision for impairment of receivables	(78,303)	(111,240)
	2,082,033	1,438,145

# Notes to the Financial Statements

## 21. TRADE AND OTHER RECEIVABLES *(continued)*

### (a) Trade receivables *(continued)*

Aging analyses of trade receivables at the respective balance sheet dates are as follows:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Within 6 months	<b>2,045,551</b>	1,353,651
Between 6 and 12 months	<b>44,421</b>	62,943
Between 1 and 2 years	<b>21,660</b>	48,977
Between 2 and 3 years	<b>12,626</b>	19,726
Over 3 years	<b>36,078</b>	64,088
	<b>2,160,336</b>	1,549,385

The credit period of the Group's trade receivables generally ranges from 3 to 6 months.

(b) Bills receivable are bills of exchange with maturity dates of within 6 months.

### (c) Other receivables

	<b>The Group</b>		<b>The Company</b>
	<b>2002</b>	2001	<b>2002</b>
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>
Deposits receivable	<b>94,638</b>	91,607	—
Advances to other entities	<b>1,171</b>	2,445	—
Dividend and investment income receivables	<b>3,349</b>	4,352	—
Others	<b>27,630</b>	25,181	<b>4</b>
	<b>126,788</b>	123,585	<b>4</b>
Less: Provision for impairment of receivables	<b>(15,040)</b>	(20,828)	—
	<b>111,748</b>	102,757	<b>4</b>



# Notes to the Financial Statements

## 21. TRADE AND OTHER RECEIVABLES *(continued)*

### (d) Due from related parties

The amounts due from related parties can be analysed as follows:

	The Group		The Company
	2002 RMB'000	2001 RMB'000	2002 RMB'000
Trade receivables:			
Ultimate holding company and fellow subsidiaries	112,954	98,565	—
Jointly controlled entities	5,627	16,644	—
Associates	15	4,879	—
Other related parties	149,977	145,896	—
	268,573	265,984	—
Less: Provision for impairment of receivables	(12,387)	(5,354)	—
	256,186	260,630	—
Other receivables:			
Ultimate holding company and fellow subsidiaries	211,708	74,147	146,932
Jointly controlled entities	8,654	448	6,596
Associates	2,368	11,864	—
Other related parties	6,858	5,992	—
	229,588	92,451	153,528
Less: Provision for impairment of receivables	(9,407)	(20,421)	—
	220,181	72,030	153,528
Total:			
Ultimate holding company and fellow subsidiaries	324,662	172,712	146,932
Jointly controlled entities	14,281	17,092	6,596
Associates	2,383	16,743	—
Other related parties	156,835	151,888	—
	498,161	358,435	153,528
Less: Provision for impairment of receivables	(21,794)	(25,775)	—
	476,367	332,660	153,528

# Notes to the Financial Statements

## 21. TRADE AND OTHER RECEIVABLES *(continued)*

### (d) Due from related parties *(continued)*

Other receivables from related parties are generally unsecured and non-interest bearing.

Other receivables from ultimate holding company and fellow subsidiaries have been subsequently settled following the listing of the Company's shares. Other receivables from other related parties are repayable on demand.

The Group makes provision for impairment of receivables based on both specific review and general provision. For major balances in trade and other receivables, the provision is made after considering the amount due, creditworthiness of the customers and other qualitative factors. For other balances, a general provision is made at progressive percentages when the amount due is over six months.

The aging of the amounts due from ultimate holding company, fellow subsidiaries, jointly controlled entities, associates and other related parties, which are trading in nature, is summarised as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Within 6 months	220,762	236,386
Between 6 and 12 months	26,965	12,837
Between 1 and 2 years	11,860	10,093
Between 2 and 3 years	3,127	2,168
Over 3 years	5,859	4,500
	268,573	265,984

# Notes to the Financial Statements

## 22. TRADING INVESTMENTS

	The Group	
	2002	2001
	RMB'000	RMB'000
Listed securities outside Hong Kong	10,818	1,284

Trading investments comprising principally marketable equity securities are stated at fair value at the close of business at year end. Fair value is estimated by reference to the quoted bid prices.

## 23. PLEDGED DEPOSITS

	The Group	
	2002	2001
	RMB'000	RMB'000
Term deposits with initial term of over three months	28,666	5,260
Corresponding borrowings	12,507	1,100

The corresponding borrowings represent borrowings from banks.

## 24. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

- (a) As at 31 December 2002, approximately RMB428,131,000 (2001: RMB568,657,000) of the Group's term deposits with initial term of over three months was denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.
- (b) As at 31 December 2002, approximately RMB61,866,000 (US\$7,474,000) (2001: RMB148,053,000 (US\$17,909,000)) of the Group's term deposits with initial term over three months was denominated in the United States Dollar. Other term deposits with initial term over three months are denominated in various foreign currencies.

# Notes to the Financial Statements

## 24. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS *(continued)*

- (c) The weighted average effective interest rate on term deposits with initial term of over three months was 1.82% (2001: 2.01%) for the year ended 31 December 2002.

## 25. CASH AND CASH EQUIVALENTS

- (a) As at 31 December 2002, approximately RMB1,353,200,000 (2001: RMB1,032,854,000) and RMB27,760,000 (2001: RMB Nil) of the Group's and the Company's bank balances and cash was denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.
- (b) The weighted average effective interest rate on short term bank deposits as set out in Note (a) above was 1.64% (2001: 1.46%) for the year ended 31 December 2002.

## 26. TRADE PAYABLES

	The Group	
	2002	2001
	RMB'000	RMB'000
Trade payables	2,229,576	1,700,268
Due to related parties	99,086	78,941
	2,328,662	1,779,209

# Notes to the Financial Statements

## 26. TRADE PAYABLES (continued)

### (a) Trade payables

The normal credit period for trade payables generally ranges from 1 to 3 months. Aging analyses of trade payables at the respective balance sheet dates are as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Within 6 months	1,992,288	1,387,220
Between 6 and 12 months	91,837	109,923
Between 1 and 2 years	93,139	114,837
Between 2 and 3 years	24,088	25,578
Over 3 years	28,224	62,710
	<b>2,229,576</b>	<b>1,700,268</b>

### (b) Due to related parties — trade payables

The amounts due to related parties, which are trading in nature, can be analysed as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Ultimate holding company and fellow subsidiaries	65,375	60,542
Jointly controlled entities	4,930	3,104
Associates	—	2,441
Other related parties	28,781	12,854
	<b>99,086</b>	<b>78,941</b>

# Notes to the Financial Statements

## 26. TRADE PAYABLES (continued)

### (b) Due to related parties — trade payables (continued)

The aging of the amounts due to the ultimate holding company, fellow subsidiaries, jointly controlled entities, associates and other related parties is summarised as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Within 6 months	69,713	26,929
Between 6 and 12 months	9,106	28,058
Between 1 and 2 years	10,578	12,276
Between 2 and 3 years	6,413	6,552
Over 3 years	3,276	5,126
	99,086	78,941

## 27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	The Group		The Company
	2002 RMB'000	2001 RMB'000	2002 RMB'000
Other payables and accruals	197,537	200,150	10,245
Due to related parties	1,063,545	365,600	824,682
	1,261,082	565,750	834,927

# Notes to the Financial Statements

## 27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES *(continued)*

### (a) Other payables and accruals

	The Group		The Company
	2002	2001	2002
	RMB'000	RMB'000	RMB'000
Payables for property, plant and equipment	12,825	53,431	1,137
Customers' deposits	69,981	43,967	—
Accrued expenses	41,339	30,970	9,108
Dividends payable to minority shareholders of subsidiaries	27,156	28,419	—
Advances from other entities	23,613	25,973	—
Others	22,623	17,390	—
	197,537	200,150	10,245

### (b) Due to related parties

The amounts due to related parties can be analysed as follows:

		The Group		The Company
		2002	2001	2002
	Note	RMB'000	RMB'000	RMB'000
Ultimate holding company and fellow subsidiaries	(ii)	1,031,747	317,164	824,682
Jointly controlled entities		915	930	—
Associates		10,868	15,894	—
Other related parties		20,015	31,612	—
		1,063,545	365,600	824,682

# Notes to the Financial Statements

## 27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES *(continued)*

### **(b) Due to related parties** *(continued)*

- (i) Amounts due to related parties of a non-trade nature are generally unsecured and non-interest bearing. Except for the items disclosed in Note (ii) below, amount due to the ultimate holding company and fellow subsidiaries of a non-trade nature are repayable within six months from the listing of the Company's shares. Amounts due to other related parties of such nature have no fixed repayment terms.
- (ii) Included in the amount due to the ultimate holding company and fellow subsidiaries as at 31 December 2002 is the current portion of the Group's long-term payable to the ultimate holding company for the early retirement, termination and supplementary pension benefit obligations of approximately RMB165,858,000 (See Note 29 for details). In addition, a special dividend of approximately RMB477,970,000 is also included in the amount due to the ultimate holding company and fellow subsidiaries. (See Note 11 for details).



# Notes to the Financial Statements

## 28. BORROWINGS

(a) Borrowings include bank borrowings and other borrowings which are analysed as follows:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Current:		
Bank borrowings	<b>60,667</b>	41,680
Current portion of non-current borrowings	<b>947</b>	704
	<b>61,614</b>	42,384
Non-current:		
Bank borrowings	<b>710</b>	1,656
Other borrowings	—	195
	<b>710</b>	1,851
Total borrowings	<b>62,324</b>	44,235
Borrowings:		
Unsecured	<b>1,657</b>	2,555
Secured	<b>60,667</b>	41,680
	<b>62,324</b>	44,235

The carrying amounts of the borrowings at the respective balance sheet dates approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

# Notes to the Financial Statements

## 28. BORROWINGS (continued)

(b) The Group's non-current bank borrowings and other borrowings were repayable as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Bank borrowings:		
Within 1 year	697	704
Between 1 and 2 years	710	704
Between 2 and 5 years	—	704
Beyond 5 years	—	248
	1,407	2,360
Less: Current portion	(697)	(704)
	710	1,656
Other borrowings:		
Within 1 year	250	—
Between 1 and 2 years	—	195
	250	195
Less: Current portion	(250)	—
	—	195
Total:		
Within 1 year	947	704
Between 1 and 2 years	710	899
Between 2 and 5 years	—	704
Beyond 5 years	—	248
	1,657	2,555
Less: Current portion	(947)	(704)
	710	1,851

# Notes to the Financial Statements

## 28. BORROWINGS (continued)

### (c) Securities

	The Group	
	2002 RMB'000	2001 RMB'000
Term deposits with initial term of over three months pledged	28,666	5,260
Net book value of property, plant and equipment pledged	28,916	16,326
Guarantee provided by ultimate holding company and fellow subsidiaries of the Group	—	5,840
Guarantee provided by companies within the Group	28,953	23,910
Guarantee provided by third parties	325	—
Corresponding borrowings	60,667	41,680

The weighted average effective interest rate of the borrowings was 5.28% (2001: 5.73%) for the year ended 31 December 2002.

Pursuant to the Reorganisation, all guarantees provided by the ultimate holding company and fellow subsidiaries of the Group have been released or withdrawn prior to the listing of the Company's shares.

# Notes to the Financial Statements

## 29. EARLY RETIREMENT, TERMINATION AND SUPPLEMENTARY PENSION BENEFITS OBLIGATIONS

Prior to the Reorganisations, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. In addition, the Group was committed to make periodic benefits payments to certain former employees who were terminated or asked to retire early in accordance with various rationalisation programmes adopted by the Group prior to the Reorganisation. Pursuant to the Reorganisation, the Group and the ultimate holding company have agreed that the Group's obligations to make these early retirement, termination and supplementary pension benefits payments as at 30 June 2002 are assumed by the ultimate holding company and the actual payments of these obligations will be made by the ultimate holding company. Accordingly, an amount due to the ultimate holding company in the amount of RMB497,574,000 was recorded by the Group as at 31 December 2002, which is to be settled in three equal instalments on 31 December 2003, 2004 and 2005:

	Obligations of			Long-term payable to ultimate holding company	
	Early retirement benefits	Termination benefits	Supplementary pension subsidies	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2001	56,504	38,799	439,456	534,759	—
Additional provision	23,604	12,101	6,077	41,782	—
Payment for the year	(20,476)	(6,449)	(15,499)	(42,424)	—
As at 31 December 2001	59,632	44,451	430,034	534,117	—
As at 1 January 2002	59,632	44,451	430,034	534,117	—
Additional provision	10,206	7,772	—	17,978	—
Reversal of provision	—	—	(28,138)	(28,138)	—
Payment for the period	(12,417)	(5,847)	(8,119)	(26,383)	—
As at 30 June 2002	57,421	46,376	393,777	497,574	—
Transferred to long-term payable to ultimate holding company	(57,421)	(46,376)	(393,777)	(497,574)	497,574
Less: Current portion recorded in other payables, accruals and other current liabilities (Note 27(b)(ii))	—	—	—	—	(165,858)
Long-term portion	—	—	—	—	331,716

# Notes to the Financial Statements

## **29. EARLY RETIREMENT, TERMINATION AND SUPPLEMENTARY PENSION BENEFITS OBLIGATIONS**

*(continued)*

The above obligations as at 31 December 2001 and 30 June 2002 were actuarially determined by a PRC insurance company using the projected unit credit method.

The material actuarial assumptions used in valuing these obligations are as follows:

- (a) Discount rate adopted: 4.5% for the six months ended 30 June 2002 (2001: 4.1%).

The effect of the above changes in discount rates was reflected as actuarial gains and losses and charged to the profit and loss account in the year of change;

- (b) Medical cost trend rate: 5% (2001: 5%);
- (c) Mortality: Average life expectancy of residents in the PRC;
- (d) No survivorship adjustment was included in the termination calculation or in the period up to normal retirement date for the early retirees. A survival adjustment was however included in calculating the normal component for the early retirees; and
- (e) Medical costs paid to early retirees are assumed to continue until the death of the retirees.

# Notes to the Financial Statements

## 30. PROVISIONS

	One-off cash housing subsidies	Guarantees	Outstanding claims	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	Note (a)	Note 34(a)	Note 34(b)	
As at 1 January 2001	88,464	9,310	21,294	119,068
Provisions	—	4,172	—	4,172
Utilised during the year	(11,918)	—	—	(11,918)
As at 31 December 2001	76,546	13,482	21,294	111,322
As at 1 January 2002	<b>76,546</b>	<b>13,482</b>	<b>21,294</b>	<b>111,322</b>
Utilised during the year	<b>(10,086)</b>	<b>(1,450)</b>	<b>(13,905)</b>	<b>(25,441)</b>
As at 31 December 2002	<b>66,460</b>	<b>12,032</b>	<b>7,389</b>	<b>85,881</b>

- (a) This represents the Group's provision for one-off cash housing subsidies. Certain provincial governments have not yet promulgated the detailed local regulations in relation to the reformed housing subsidy policies and certain entities within the Group have not yet adopted any formal cash housing subsidy plans. In respect of certain entities which have not adopted any cash housing subsidy plans, based on the available information and its best estimate, the Group estimated a provision of RMB55,271,000 which was charged to the profit and loss account in the year ended 31 December 2000 when the State Council issued a circular regarding the cash housing subsidies in the PRC. However, because of the significant uncertainties involved in view of the absence of detailed local government regulations and formal cash housing subsidy plans for these entities, this estimate is subject to a high degree of measurement uncertainty. Actual cash housing subsidies eventually to be paid out may differ significantly from this estimate. The ultimate holding company has agreed to bear any further one-off cash housing subsidies in the excess of the amount of RMB74,560,000 provided for in the Group's consolidated financial statements at the time of the Reorganisation.

# Notes to the Financial Statements

## 31. SHARE CAPITAL

	The Company
	2002
	RMB'000
Registered, issued and fully paid 2,624,087,200 domestic shares of RMB1.00 each	2,624,087

The Company's initial registered share capital was RMB2,624,087,200, divided into 2,624,087,200 ordinary shares of par value RMB1.00 each. 2,624,087,200 of these ordinary shares were state-owned domestic shares, representing 100% of the initial registered share capital. Such shares were issued to the ultimate holding company in consideration for the assets and liabilities related to the Group's existing business as at 31 December 2001 transferred from the ultimate holding company.

The share capital presented in the consolidated balance sheet as at 31 December 2001 represents the initial registered share capital issued by the Company pursuant to the Reorganisation in exchange for the Transferred Businesses, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in Note 2. The net value of the assets and liabilities transferred from the ultimate holding company was converted into the Company's legal capital with all the then existing reserves eliminated and the resulting difference credited to capital reserve. Accordingly, a capital reserve being the difference between the amount of share capital issued and the historical net asset value of the Transferred Businesses as at 1 January 2001 was presented. Retained profits of the Transferred Businesses prior to 31 December 2001 were capitalised and incorporated in the capital reserve pursuant to the Reorganisation and accordingly they were not separately disclosed for the year ended 31 December 2001.

In February 2003 the Company completed its global initial public offering ("Global Offering"). 1,787,406,000 H shares were issued by the Company which comprise 1,624,915,000 shares offered by the Company and 162,491,000 shares offered by the ultimate holding company. As a result, the issued share capital of the Company increased to 4,249,002,200 shares, comprising 2,461,596,200 domestic shares and 1,787,406,000 H shares, representing 57.9% and 42.1% of the issued capital, respectively.

All the domestic state-owned ordinary shares and H shares rank pari passu in all material respects except that the dividends to holders of H shares are declared in RMB but paid in Hong Kong Dollar.

# Notes to the Financial Statements

## 32. RESERVES

### The Group

As part of the Reorganisation as described in Note 1, certain businesses were retained by Sinotrans Group Company. The distributions to, net of contributions from Sinotrans Group Company in the consolidated statement of changes in owner's equity during the year ended 31 December 2001 represented the net cash inflow from or outflow to the Excluded Businesses retained by Sinotrans Group Company.

### The Company

	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Retained profits</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Upon incorporation	(845,111)	—	—	477,970	(367,141)
Profit for the period	—	—	—	94,252	94,252
Special dividend	—	—	—	(477,970)	(477,970)
Transfer to reserves	—	2,699	1,350	(4,049)	—
At 31 December 2002	(845,111)	2,699	1,350	90,203	(750,859)

The Company was incorporated in November 2002 to take over the assets and liabilities related to the Group's existing business. The amount of capital reserve upon incorporation represented the difference between the amount of share capital issued and the historical net asset value of the Transferred Businesses as at 31 December 2001. The amount of retained profits upon incorporation of the Company represented the Company's share of the profit of the Transferred Businesses for the period from 1 January 2002 to 30 November 2002 under the equity method of accounting, which is attributable to Sinotrans Group Company pursuant to the Reorganisation, see Note 11.



# Notes to the Financial Statements

## 32. RESERVES *(continued)*

In accordance with the relevant PRC regulations and the Articles of Association of the Company, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with PRC accounting standards to a statutory surplus reserve until the balance reaches 50% of the registered share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered share capital.

In accordance with the relevant PRC regulations and the Articles of Association of the Company, every year the Company is required to transfer between 5% to 10% of the profit after taxation determined in accordance with PRC accounting standards to a statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital. The Company decided to transfer 5% of its net profit determined in accordance with PRC accounting standards to the statutory public welfare fund for the period ended 31 December 2002.

Subsequent to the Reorganisation, in accordance with the Articles of Association of the Company, retained profits available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with PRC accounting standards and the amount determined in accordance with IFRS. As at 31 December 2002, the amount of retained profits available for distribution was approximately RMB22,945,000, being the amount determined in accordance with PRC accounting standards.

# Notes to the Financial Statements

## 33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to cash generated from operations

	2002 RMB'000	2001 RMB'000
Profit for the year	572,222	452,303
Interest income	(33,325)	(36,722)
Interest expense	7,023	5,963
Loss/(gain) on disposal of property, plant and equipment	2,479	(263)
Fair value gains on trading investments	(2,356)	(2,503)
(Write back)/charge of provision for impairment of receivables and bad debts written off	(7,940)	39,207
Depreciation of property, plant and equipment	175,077	146,097
Impairment losses of property, plant and equipment	272	—
Amortisation of intangible assets	9,419	4,686
Amortisation of land use rights	1,771	1,973
Share of results of associates, net of taxation	(7,790)	(8,668)
Minority interests	115,082	105,523
Operating profit before working capital changes	831,934	707,596
Decrease/(increase) in deferred tax assets	9,599	(9,945)
Increase in prepayments, deposits and other current assets	(9,657)	(4,479)
Decrease/(increase) in inventories	1,453	(1,386)
(Increase)/decrease in trade and other receivables	(752,757)	233,598
(Decrease)/increase in deferred tax liabilities	(339)	121
Decrease in early retirement, termination and pension benefits obligations	(36,543)	(642)
Increase in other liabilities	1,709	1,275
Decrease in provisions	(25,441)	(7,746)
Increase/(decrease) in trade payables	531,363	(347,346)
Increase in other payables, accruals and other current liabilities	37,555	4,469
Decrease in receipts in advance from customers	(7,007)	(5,233)
Increase in income and other taxes liabilities	228,645	208,838
Increase in salary and welfare payable	17,472	21,299
Cash generated from operations	827,986	800,419

# Notes to the Financial Statements

## 33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (b) Purchase of subsidiaries

- (i) On 30 June 2002, the Group acquired an additional 12.5% equity interest in Zhongshan Sinoway Transportation Corp. Ltd., an associate, from a third party for a cash consideration of RMB9,340,000 and, as a result of which, the latter became a non-wholly owned subsidiary of the Group. The acquisition is accounted for by acquisition accounting. Details of the assets and liabilities acquired are as follows:

	RMB'000
<hr/>	
Assets/liabilities acquired (at 100% interest):	
Property, plant and equipment	42,344
Trade and other receivables	16,229
Cash and cash equivalents	4,939
Trade payables	(1,218)
Other payables, accruals and other current liabilities	(10,436)
Receipts in advance from customers	(2,336)
Current tax liabilities	(524)
Salary and welfare payable	(3,011)
	<hr/>
	45,987
	<hr/>
12.5% interest acquired by the Group	5,748
Goodwill on acquisition	3,592
	<hr/>
Cash consideration paid	9,340
	<hr/>
Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents (at 100% attributable interest)	4,939
Cash paid	(9,340)
	<hr/>
	(4,401)
	<hr/>

# Notes to the Financial Statements

## 33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### **(b) Purchase of subsidiaries** *(continued)*

- (ii) On 30 September 2002, the Group acquired an additional 11.7% equity interest in Jiangmen Foreign Transportation & Enterprises Company Limited, an associate, from a third party for a cash consideration of RMB6,787,000 and, as a result of which, the latter became a non-wholly owned subsidiary of the Group. The acquisition is accounted for by acquisition accounting. Details of the assets and liabilities acquired are as followings:

	RMB'000
<hr/>	
Assets/liabilities acquired (at 100% interest):	
Property, plant and equipment	22,286
Land use rights	2,700
Other non-current assets	621
Prepayments, deposits and other current assets	372
Inventories	904
Trade and other receivables	14,930
Cash and cash equivalents	3,162
Trade payables	(16,872)
Other payables, accruals and other current liabilities	(3,513)
Current tax liabilities	(245)
Borrowings	(3,130)
Salary and welfare payable	(2,649)
	<hr/>
	18,566
11.7% interest acquired by the Group	2,172
Goodwill on acquisition	4,615
	<hr/>
Cash consideration paid	6,787
	<hr/>
Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents (at 100% attributable interest)	3,162
Cash paid	(6,787)
	<hr/>
	(3,625)
	<hr/>

# Notes to the Financial Statements

## 34. CONTINGENT LIABILITIES

The following is a summary of the Group's significant contingent liabilities:

	<i>Note</i>	<b>The Group</b>	
		<b>2002</b>	2001
		<b>RMB'000</b>	RMB'000
Outstanding loan guarantees	(a)	<b>9,933</b>	186,729
Bills discounted with recourse		<b>9,959</b>	5,860
Pending lawsuits	(b)	<b>42,545</b>	95,577
Others		—	2,004
		<b>62,437</b>	290,170

- (a) The Group had acted as the guarantor for various external borrowings by certain fellow subsidiaries under the ultimate holding company and certain third party entities. As at 31 December 2002, it acted as the guarantor for certain other related parties and certain third party entities. Provisions as set out in Note 30 has been made for those guarantees where management believes it is probable that the Group will have to pay up those guarantees and at amounts based on its best estimate. Other outstanding guarantees are disclosed as contingent liabilities above. Pursuant to the Reorganisation, all guarantees given by the Group for the benefit of the ultimate holding company and fellow subsidiaries have been released or withdrawn prior to the listing of the Company's share.
- (b) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provisions as set out in Note 30 has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account the legal advice. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the probability of loss is remote.
- (c) The above amounts do not include those items for which provision have been made as disclosed in Note 30.

# Notes to the Financial Statements

## 35. CAPITAL COMMITMENTS

The Group has the following outstanding capital commitments not provided for in the consolidated financial statements:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Authorised and contracted for but not recorded	<b>37,823</b>	133,425
Authorised but not contracted for	<b>36,875</b>	278,895
	<b>74,698</b>	412,320
An analysis of the above capital commitments by nature is as follows:		
Acquisition of property, plant and equipment	<b>65,986</b>	314,320
Construction commitment	<b>320</b>	15,260
Purchase of software	<b>8,392</b>	45,540
Others	<b>—</b>	37,200
	<b>74,698</b>	412,320

The Company did not have any material capital commitments at 31 December 2002.

# Notes to the Financial Statements

## 36 OPERATING LEASE COMMITMENTS

### (a) The Group as leasee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	The Group	
	2002 RMB'000	2001 RMB'000
Land and buildings		
— Not later than one year	51,675	51,245
— Later than one year but not later than five years	108,930	97,266
— Later than five years	129,684	126,363
Plant and machinery		
— Not later than one year	242,130	107,599
— Later than one year but not later than five years	158,638	22,987
— Later than five years	—	560
	691,057	406,020

# Notes to the Financial Statements

## 36 OPERATING LEASE COMMITMENTS *(continued)*

### (b) The Group as lessor

The Group has contracted with customers for the following future minimum lease receivables under non-cancellable operating leases as follows:

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Land and buildings		
— Not later than one year	<b>3,436</b>	2,192
— Later than one year but not later than five years	<b>2,416</b>	3,851
— Later than five years	<b>1,340</b>	2,877
Plant and machinery		
— Not later than one year	<b>204</b>	108
— Later than one year but not later than five years	<b>340</b>	—
	<b>7,736</b>	9,028

The Company did not have any material lease commitments at 31 December 2002.

## 37. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the related party transactions undertaken in connection with the Reorganisation described in Note 1 above, during the year, the Group entered into various transactions with related parties including the ultimate holding company and fellow subsidiaries, associates, jointly controlled entities and joint venture partners of jointly controlled entities of the Group, and entities, directly or indirectly, controlled or significantly influenced by the ultimate holding company.



# Notes to the Financial Statements

## 37. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

The aggregate income and expenses arising from the related party transactions are summarised as follows:

### Profit and loss items:

	The Group	
	2002	2001
	RMB'000	RMB'000
<b>Transactions with ultimate holding company and fellow subsidiaries:</b>		
<i>Revenue:</i>		
Revenue from provision of services	384,403	393,826
Rental income from vessels leased out	495	522
Management fee income	5,450	4,319
<i>Expenses:</i>		
Service fees	(330,382)	(432,151)
Rental expenses for office buildings	(30,517)	(34,794)
Rental expenses for containers	(41,107)	(36,050)
Rental expenses for warehouse and depots	(5,240)	(4,442)
Rental expenses for ships	(38,390)	(60,914)
Rental expenses for motor vehicles	(3,884)	(4,011)
Rental expenses for machinery and equipment	(3,539)	(3,475)
Management fees	(5,842)	(6,350)
<i>Others:</i>		
Guarantees provided by the Group for the benefit of ultimate holding company and fellow subsidiaries	—	174,229
Guarantees provided by ultimate holding company	—	5,840
<b>Transactions with associates of the Group:</b>		
<i>Revenue:</i>		
Revenue from provision of services	10	7,054
<i>Expenses:</i>		
Service fees	(436)	(15,283)
Rental expenses for trucks	—	(360)

# Notes to the Financial Statements

## 37. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

	The Group	
	2002 RMB'000	2001 RMB'000
<b><i>Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities):</i></b>		
<i>Revenue:</i>		
Revenue from provision of services	64,198	87,450
<i>Expenses:</i>		
Service fees	(21,480)	(14,962)
<i>Others:</i>		
Guarantees provided by the Group for the benefit of jointly controlled entities	5,393	900
<b><i>Transactions with joint venture partners in jointly controlled entities (attributable to the Group's interests in those jointly controlled entities):</i></b>		
<i>Revenue:</i>		
Pick-up and delivery revenue	250,352	212,668
Revenue from provision of services	2,868	4,554
<i>Expenses:</i>		
Transportation and related charges	(276,749)	(200,418)
Service fees	(10,073)	(3,451)
Management fees	(5,823)	(4,818)
<b><i>Transactions with other related parties:</i></b>		
<i>Revenue:</i>		
Revenue from provision of pick-up and delivery services	186,424	121,248
Incentive bonus receivable	57,560	68,695
Revenue from provision of services	17,621	16,094
<i>Expenses:</i>		
Service fees	(19,187)	(5,692)
Rental expenses for ships	(6,665)	(6,387)
<i>Others:</i>		
Guarantees provided by the Group for the benefit of joint venture partners in jointly controlled entities	9,933	12,500

# Notes to the Financial Statements

## 37. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

These transactions are entered into at terms agreed with these related parties in the ordinary course of business. The guarantees given by the Group for the benefit of the ultimate holding company and fellow subsidiaries and vice versa have been released prior to the listing of the Company's shares.

In addition to the above, the ultimate holding company has assumed the Group's obligations to make benefits payments to certain of the Group's former employees and retirees (see Note 29) and agreed to bear any further one-off cash housing subsidies in excess of the amount of approximately RMB74,560,000 provided for in the financial statements of the Group at the time of the Reorganisation (see Note 30).

### Balance sheet items:

	The Group	
	2002 RMB'000	2001 RMB'000
<b><i>Balances with the ultimate holding company and fellow subsidiaries:</i></b>		
Trade and other receivables	324,662	172,712
Trade payables	(65,375)	(60,542)
Other payables, accruals and other liabilities	(1,031,747)	(317,164)
Long-term payable	(331,716)	—
<b><i>Balances with jointly controlled entities:</i></b>		
Trade and other receivables	14,281	17,092
Trade payables	(4,930)	(3,104)
Other payables, accruals and other liabilities	(915)	(930)
<b><i>Balances with associates of the Group:</i></b>		
Trade and other receivables	2,383	16,743
Trade payables	—	(2,441)
Other payables, accruals and other liabilities	(10,868)	(15,894)
<b><i>Balances with other related parties:</i></b>		
Trade and other receivables	156,835	151,888
Trade payables	(28,781)	(12,854)
Other payables, accruals and other liabilities	(20,015)	(31,612)

For the balance sheet items, other related parties primarily represent the joint venture partners in jointly controlled entities. Other receivables from related parties and amounts due to related parties have repayment terms as disclosed in Note 21 and Note 27 respectively.

# Notes to the Financial Statements

## 38. SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2002 and up to the date of this report:

- (a) Subsequent to 31 December 2002, the Group entered into certain significant agreements with the ultimate holding company:

On 14 January 2003, the Group entered into a business service agreement with the ultimate holding company which regulates the provision of transportation and logistics services and ancillary services by members of the Group to the ultimate holding company (including its subsidiaries and associates) and vice versa. The business service agreement contemplates that the relevant members of the Group and the ultimate holding company (including its subsidiaries and associates) will enter into contracts for specific services and for the leasing of certain assets as and when necessary, in compliance with the terms of the business service agreement.

The business service agreement also provides for the following:

- Leasing of certain vessels by the Group for aggregate charter hire of approximately RMB29,000,000.
- Leasing of certain containers by the Group with an estimated annual rental of approximately RMB56,000,000.
- Leasing of certain motor vehicles by the Group.

The Group has also entered into a master lease agreement providing for the leasing of certain office premises, warehouses, container yards/freight stations and other properties for a term of 20 years at an annual rental of approximately RMB69,000,000.

- (b) In February 2003 the Company completed the Global Offering resulting in total shares outstanding of 4,249,002,200 of which 2,461,596,200 shares are owned by the ultimate holding company and 1,787,406,000 shares are owned by the public (See Note 31).

# Notes to the Financial Statements

## **38. SUBSEQUENT EVENTS** *(continued)*

- (c) On 31 March 2003, the Company obtained an approval from the Ministry of Finance and the State Administration of Taxation of the PRC that the additional depreciation and amortisation on the asset revaluation surplus of approximately RMB839,800,000, arising from the Reorganisation and recorded by various entities comprising the Group in their financial statements prepared under PRC accounting standards, is deductible for enterprise income tax purposes. Since the Group did not recognise the above asset revaluation surplus in its financial statements prepared in accordance with IFRS, a deferred tax asset of approximately RMB226,700,000 arose as a result of the approval, which will be recognised and credited into capital reserve during the year ending 31 December 2003.
- (d) On 10 April 2003, the Board of Directors of Sinoair proposed a cash dividend of RMB0.25 per share totaling approximately RMB91,462,000, of which approximately RMB27,109,000 is attributable to the minority shareholders. The proposed dividend is subject to the shareholder's approval at their next general meeting.

## **39. ULTIMATE HOLDING COMPANY**

The Company's directors regard Sinotrans Group Company, a company established in the PRC, as the ultimate holding company of the Company.

## **40. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 15 April 2003.