

REVIEW OF OPERATING RESULTS

Global economic recovery slowed down during the period under review amid a string of uncertainties, including the Iraqi War, the substantial depreciation of the US Dollar and the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). China was able to sustain its strong economic growth despite the looming SARS, with its GDP grown 8.2% more when compared with the same period in 2002. Foreign trade surged 39%, while actual application of foreign investment increased 34%. Continued economic growth in China provided the driving force for vigorous development of the country's market for transportation and logistics.

As a leading provider of logistics services in China, the Company completed its successful listing on the Stock Exchange of Hong Kong on 13 February 2003. Capitalising on this opportunity, the Group has been devoting diligent efforts towards business integration and development, and implementing reforms and innovations in its management system:

- Enhanced integration of the Group's internal resources to facilitate standardisation of business processes. During the period under review, the Group re-aligned its logistics development strategy to build an integrated logistics system. With the official adoption of the Company's bill of lading in a standardised

format, protection against business risks was further enhanced. The Group also achieved satisfactory progress in the construction of an integrated freight-forwarding platform, the launch of a centralised space booking system and the development and management of logistics projects.

- Further improved the Group's services network upon the trial operation of the network formed by the first batch of the Group's re-elected overseas agents.
- The strategy of unified marketing started to show its effect as successful bids were made for the logistics and transportation projects of Tianwan Nuclear Power Station, etc.
- A more pragmatic mechanism for performance evaluation and staff incentives was put in place with the establishment of a standardised job appraisal and remuneration system.
- Financial management of the Company was strengthened with full implementation of the ORACLE financial management system at group level following the conclusion of a trial run.

Despite intensified competition in the China market driven by an increasing number of market players in the wake of further

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liberalisation, the Group was able to report continued growth in all of its principal businesses with sound financial results and enhanced competitiveness, thanks to dedicated efforts in business integration and development as well as reforms and innovations in its management system. For the six months ended 30 June 2003, the Group achieved

turnover of RMB7,692.1 million, representing a 29.2% increase compared with the same period in 2002. Profit for the period amounted to RMB345.6 million, representing a growth of 17.8% compared with the same period in 2002. Earnings per share was RMB0.09 (corresponding period in 2002: RMB0.11)

OPERATING STATISTICS

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

	For the six months ended 30 June	
	2003	2002
Freight forwarding		
Sea freight forwarding		
Bulk cargo (in millions of tonnes)	1.6	2.7
Container cargo (in millions of TEUs)	1.32	1.14
Air freight forwarding (in tonnes)	77,200	71,400
Rail freight forwarding (in millions of tonnes)		
Bulk Cargo	1.4	1.9
Container cargo	0.2	0.2
Road freight forwarding (in millions of tonnes)		
Bulk cargo	0.2	0.1
Container cargo	0.5	0.5
Express services		
Packages (in millions of units)	5.6	4.3
Shipping agency		
Net registered tonnes (in millions of tonnes)	96.2	71.7
Vessel calls (number of times)	24,791	20,618
Containers (in millions of TEUs)	2.74	2.10
Storage and terminal services		
Warehouses (in millions of tonnes)	11.2	8.2
Terminals (in millions of tonnes)	3.7	2.3
Marine transportation		
TEUs (number of units)	481,385	389,998
Other services		
Trucking (in millions of tonnes)	1.8	2.1

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FINANCIAL STATISTICS

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

	For the six months ended 30 June	
	Unaudited	Audited
	2003	2002
	(RMB in millions, except for per share and number of shares data)	
Turnover	7,692.1	5,953.5
Other revenues	26.5	19.7
Total revenues	7,718.6	5,973.2
Transportation and related charges	(5,565.6)	(4,403.1)
Depreciation and amortisation	(103.1)	(81.9)
Operating costs (Excluding depreciation and amortisation):		
— Staff costs	(549.4)	(436.8)
— Repairs and maintenance	(40.4)	(31.2)
— Fuel	(217.1)	(62.4)
— Travel and promotional expenses	(77.0)	(66.9)
— Office and communications expenses	(78.0)	(51.7)
— Rental expenses	(398.6)	(266.4)
— Other operating expenses	(144.2)	(120.0)
Operating profit	545.2	452.8
Finance income, net	31.0	11.6
	576.2	464.4
Share of results of associates before taxation	3.7	5.0
Profit before taxation	579.9	469.4
Taxation	(157.7)	(120.8)
Profit after taxation	422.2	348.6
Minority interests	(76.6)	(55.2)
Profit for the period	345.6	293.4
Dividends proposed	(110.5)	—
Earnings per share, basic and diluted ⁽¹⁾	RMB0.09	RMB0.11
Weighted average number of shares for the period (in millions) ⁽¹⁾	3,852.6	2,624.1
Number of shares at the end of the period (in millions)	4,249.0	2,624.1

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- (1) Basic and diluted earnings per share for the six months ended 30 June 2003 and 2002 were arrived at by dividing the profit for the respective period by the weighted average number of the ordinary shares in issue for the six months ended 30 June 2003 totalling 3,852,585,711 shares and the number of outstanding shares in issue as at 20 November 2002, the date of legal formation of the Company, totalling 2,624,087,200 shares, as if the outstanding shares in issue as at the date of legal formation of the Company had been in issue before 20 November 2002. There is no difference between basic and diluted earnings per share as no potential dilutive shares existed.

The table below sets forth the Group's unaudited turnover by key business segments and their respective percentage of total turnover before inter-segment elimination for the periods indicated (RMB in millions):

	For the six months ended 30 June			
	Unaudited		Audited	
	2003		2002	
Freight forwarding	5,502.8	69.1%	4,590.7	73.0%
Express services	732.9	9.2%	524.7	8.3%
Shipping agency	222.6	2.8%	169.5	2.7%
Marine transportation	1,175.5	14.8%	738.9	11.7%
Storage and terminal services	258.8	3.3%	189.5	3.0%
Other services	66.9	0.8%	78.5	1.3%

The table below sets forth the Group's segment results (RMB in millions), as compared with the same period in 2002. Segment results are defined as the turnover for that segment less direct operating expenses but before deducting unallocated costs.

	For the six months ended 30 June	
	Unaudited	Audited
	2003	2002
Freight forwarding	179.3	147.0
Express services	209.6	174.5
Shipping agency	124.3	105.9
Marine transportation	39.9	1.1
Storage and terminal services	50.8	29.1
Other services	(2.3)	5.0

COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Turnover

For the six months ended 30 June 2003, the Group's turnover amounted to RMB7,692.1 million, up 29.2% from RMB5,953.5 million for the same period in 2002. The increase was primarily attributed to the turnover growth from its core business activities, that is freight forwarding and express services; and also the sustained relatively high turnover growth from the Group's supporting business segments, namely marine transportation, storage and terminal services. Continued restructuring of business operations also enabled the Group to derive greater benefits from integrated and standardised operations, and optimised allocation of resources. Greater economies of scale benefits and an effective employee incentive plan were the main growth drivers for the Group during the period under review.

Freight forwarding

For the six months ended 30 June 2003, turnover from our freight forwarding services grew 19.9% to RMB5,502.8 million, from RMB4,590.7 million for the same period in 2002.

Income from containers sea freight forwarding services and air freight forwarding services accounted for the majority of the turnover from

freight forwarding. The number of containers handled in sea freight forwarding services increased 15.8% to 1.32 million TEUs in the first half of 2003 from 1.14 million TEUs for the corresponding period in 2002; while the amount of cargo handled in air freight forwarding services rose 8.1% to 77,200 tonnes in the first half of 2003 from 71,400 tonnes in the first half of 2002.

Revenue growth in freight forwarding for the period under review was driven by the Group's ability to maintain a relatively fast business development pace. Rise in freight rates was also a contributory factor. According to the China Export Container Freight Rate Index published by Shanghai Shipping Exchange, there was an approximately 8.2% growth in the average freight rate index of international containers sea freight transportation for the first half of 2003 over the same period in 2002.

Express services

For the six months ended 30 June 2003, the Group's express services achieved a turnover of RMB732.9 million, representing an increase of 39.7% from RMB524.7 million for the same period in 2002.

The number of documents and packages handled was 5.6 million pieces, an increase of 30.2% compared with 4.3 million pieces for the same period in 2002.

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Enhanced marketing efforts helped business growth and an expansion in the market share of the Group. In addition, the first half of 2003 saw an increase in the average weight per document and package handled compared with the same period in 2002. This was reflected in the higher turnover growth in the number of documents and packages handled.

Shipping agency

For the six months ended 30 June 2003, turnover from our shipping agency services reached RMB222.6 million, representing an increase of 31.3% from RMB169.5 million for the same period in 2002.

For the first half of 2003, the number of containers handled was 2.74 million TEUs, an increase of 30.5% from 2.10 million TEUs in 2002. Net registered tonnage of vessels handled by the Group's shipping agency services reached 96.2 million tonnes, a 34.2% increase from 71.7 million tonnes for the same period in 2002. The number of vessel calls managed also grew 20.2% to 24,791 compared with 20,618 for the same period in 2002.

Turnover and volume growth in shipping agency services were primarily attributable to enhanced customer service and marketing efforts and the ability to derive relatively fast business development amid the economic growth of the PRC.

Storage and terminal services

For the six months ended 30 June 2003, the aggregate turnover from storage and terminal services amounted to RMB258.8 million, representing a 36.6% growth from RMB189.5 million for the same period in 2002.

For the first half of 2003, the Group's warehouses handled 11.2 million tonnes of cargo, representing a 36.6% increase from 8.20 million tonnes for the same period in 2002; cargo tonnage handled in terminals grew to 3.70 million tonnes from 2.30 million tonnes for the same period in 2002, an increase of 60.9%.

Business volume growth of the Group's terminal services segment was largely driven by the enhancements in the integrated cargo-handling capability of the Group's terminals. Following the addition of terminal loading/ unloading facilities in recent years and the acquisition of two terminal-operating companies on 30 June and 30 September 2002 respectively, the Group's production capacity was further expanded, enabling continuous growth in the volume of cargo handled.

However, there was an increase in domestic trading goods as a percentage of the total volume of cargo handled in the Group's storage and terminal services handling segment, from 22.9% for the first half of 2002 to 36.7% for the first half of 2003. As the handling of domestic trading goods commanded lower fees

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than that of handling import and export trading goods, this led to a relatively small increment in turnover than that in business volume.

Marine transportation

For the six months ended 30 June 2003, turnover from the Group's marine transportation services grew 59.1% to RMB1,175.5 million from RMB738.9 million for the same period in 2002.

The number of containers shipped by the Group rose to 481,385 TEUs during the period, up 23.4% from 389,998 TEUs for the same period in 2002.

Such growth was primarily attributed to the Group's efforts to enhance its capacity in the second half of 2002, allowing the Group to maintain a more rapid pace of business growth. Increased marine transportation rates also contributed to the growth. According to the China Export Container Freight Rate Index published by Shanghai Shipping Exchange, the average freight rate index of international containers sea freight transportation for the first half of 2003 rose approximately 8.2% when compared to the same period in 2002.

Other services

For the six months ended 30 June 2003, turnover from other services, mainly trucking services, fell 14.8% to RMB66.9 million from RMB78.5 million for the same period in 2002.

The Group shipped 1.8 million tonnes of cargo in the first half of 2003, a drop of 14.3% from 2.1 million tonnes of cargo for the same period in 2002.

The decline was primarily attributable to the Group's downward adjustment of its transportation capacity due to market conditions.

TRANSPORTATION AND RELATED CHARGES

Higher business volume fuelled a 26.4% growth in transportation and related charges for the six months ended 30 June 2003 to RMB5,565.6 million, compared with RMB4,403.1 million for the same period in 2002.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation expenses for the six months ended 30 June 2003 amounted to RMB103.1 million, representing an increase of 25.9% from RMB81.9 million for the same period in 2002, primarily as a result of an increase in the Group's fixed assets and intangible assets.

OPERATING COSTS, EXCLUDING DEPRECIATION AND AMORTISATION

For the six months ended 30 June 2003, the Group's operating costs, excluding depreciation and amortisation, were RMB1,504.7 million, a 45.3% increase from RMB1,035.4 million in 2002. The increase in operating costs, excluding depreciation and amortisation, was primarily due to increased expenditure on fuel costs, lease

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payments and staff costs. The increase in fuel costs was driven by the increase in marine transportation capacity and the rise of international petroleum price, leading to a 247.8% increase in fuel costs for the six months ended 30 June 2003 compared with the same period in 2002. Along with the Group's business development was a rise in lease payments, office and communications expenses etc. for the six months ended 30 June 2003. In addition, the increase in staff costs was primarily due to the Group's wage adjustment in accordance with its remuneration system and incentive schemes.

OPERATING PROFIT

For the six months ended 30 June 2003, the Group's operating profit was RMB545.2 million, representing an increase of 20.4% from RMB452.8 million in the same period in 2002 and a result of business volume growth. Operating profit as a percentage of total revenue decreased to 7.06% for the six months ended 30 June 2003 from 7.58% for the six months ended 30 June 2002 primarily as a result of the greater growth in the Group's various operating expenses relative to the growth in total revenue of the Group.

TAXATION

Taxation of the Group for the six months ended 30 June 2003 amounted to RMB157.7 million, up 30.5% from RMB120.8 million for the same period in 2002, primarily as a result of the increase in taxable income. Taxation as a

percentage of profit before tax increased to 27.2% for the six months ended 30 June 2003 from 25.7% for the six months ended 30 June 2002, primarily due to the decrease in non-assessable income for the six months ended 30 June 2003.

MINORITY INTERESTS

Minority interests for the six months ended 30 June 2003 amounted to RMB76.6 million, up 38.8% from RMB55.2 million for the same period in 2002 and, primarily as a result of an increased profit contribution by the Group's subsidiary, Sinotrans Air Transportation Development Co., Ltd..

PROFIT FOR THE PERIOD

Profit of the Group for the six months ended 30 June 2003 amounted to RMB345.6 million, representing an increase of 17.8% from RMB293.4 million for the same period in 2002.

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LIQUIDITY AND CAPITAL RESOURCES

The following table summarises our cash flows for the periods indicated:

	For the six months ended 30 June	
	Unaudited	Audited
	2003	2002
	(RMB in millions)	
Net cash inflow from operating activities	344.3	344.6
Net cash used in investing activities	(1,518.2)	(76.2)
Net cash inflow from (used in) financing activities	3,023.7	(2.8)
Cash and cash equivalents at the end of the period	4,191.8	2,249.2

OPERATING ACTIVITIES

Net cash from operating activities for the six months ended 30 June 2003 amounted to RMB344.3 million, compared with RMB344.6 million for the corresponding period in 2002. There was a RMB139.2 million increase in trade payables for the six months ended 30 June 2003, compared with an increase of RMB429.9 million for the corresponding period in 2002, and a decrease of RMB161.9 million in other accounts payable, accruals and other current liabilities (corresponding period in 2002: decrease of RMB71 million), which was partially offset by a RMB227.6 million increase in trade and other receivables for the six months ended 30 June 2003 (corresponding period in 2002: increase of RMB449.7 million) and an increase

of RMB48.80 million in advanced receipt from customers (corresponding period in 2002: decrease of RMB200,000).

The increase in trade receivables for the six months ended 30 June 2003 was primarily due to the growth in both business scale and revenue. The average turnover days of trade receivables for the six months ended 30 June 2003 and 2002 were 69 days and 71 days respectively. The increase in trade payables for the six months ended 30 June 2003 was also primarily due to the growth in both business scale and revenue.

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INVESTING ACTIVITIES

For the six months ended 30 June 2003, net cash used in investing activities primarily comprised RMB173.7 million for the acquisition of fixed assets, RMB20.40 million for the acquisition of intangible assets, RMB19.40 million for the investment in and establishment of a new company and an increase of RMB1,376.6 million in term deposits with an initial term of maturity of over three months. During the six months ended 30 June 2002, net cash used in investing activities primarily comprised RMB146.1 million used for the acquisition of fixed assets and plant and equipment, RMB23.80 million for the acquisition of trading investments and RMB14.60 million for the acquisition of land use rights, which were partially offset by the decrease of RMB100.7 million in term deposits with an initial term of maturity of over three months.

FINANCING ACTIVITIES

Net cash from the Group's financing activities amounted to RMB3,023.7 million for the six months ended 30 June 2003, compared with net cash used in financing activities of RMB2.8 million for the corresponding period in 2002. Net cash from financing activities was mainly attributable to the RMB3,533.4 million proceeds raised from the listing of the Company's shares on the Stock Exchange of Hong Kong on 13 February 2003 and new bank borrowings of RMB40.10 million, which was partially offset by

the repayment of bank borrowings amounting to RMB56.40 million and the payment of a special dividend of RMB478 million to Sinotrans Group Company. Net cash used in financing activities in 2002 mainly comprised repayment of bank borrowings amounting to RMB34.30 million and the increase in pledged deposits by RMB23.60 million, which were partially offset by new bank borrowings of RMB56.80 million.

CAPITAL EXPENDITURE

For the six months ended 30 June 2003, the Group's capital expenditure amounted to RMB194.1 million, consisting of RMB173.7 million for the acquisition of fixed assets and RMB20.40 million for the acquisition of intangible assets, among which RMB45 million was used for the renovation and construction of docks, warehouses, logistics centres and piling areas, RMB55.80 million for the purchase of vehicles and equipment and RMB61.50 million for IT investment and refurbishment and purchase of office equipment.

CONTINGENCIES AND GUARANTEES

As at 30 June 2003, the contingent liabilities of the Group amounted to approximately RMB15.80 million, arising primarily from pending litigation of RMB10.30 million and discounted bills with recourse amounting to approximately RMB5.50 million.

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GEARING RATIO

As at 30 June 2003, the gearing ratio of the Group was 46.1% (As at 31 December 2002: 74.6%), which was arrived at by dividing the sum of liabilities and minority interests by total assets at 30 June 2003.

FOREIGN EXCHANGE RATE RISKS

A substantial portion of the Group's turnover and transportation and related charges are denominated in US dollars, which provides a natural currency hedge for the Group. The Renminbi, however, is the Group's functional and reporting currency since it is the legal currency of the PRC, the primary economic environment in which the Group operates. The Group is required under PRC regulations to convert the US dollars received, net of expenses, into Renminbi within a prescribed period of time. The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign currency risk. The foreign currency can be converted into Renminbi within one year.

The Renminbi is not a freely convertible currency. Actions taken by the Chinese government could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of the Group's net assets, earnings and any dividends. The Group cannot give any assurance

that any future movements in the exchange rate of the Renminbi against the US dollars and other foreign currencies will not adversely affect our results of operations and financial position (including the ability to pay dividends). The Group believes that significant appreciation in the Renminbi against major foreign currencies may have a material adverse impact on our results of operations.

CREDIT RISK

The extent of our credit exposure is represented by an aggregated balance of trade receivables and other receivables, trading investments, pledged deposits and term deposits with an initial term of maturity of over three months. The maximum credit exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately RMB4,806.3 million and RMB3,206.8 million as at 30 June 2003 and 31 December 2002, respectively. In addition, we provided certain prepayments, prepaid expenses and deposits on behalf of customers, the aggregate of which was RMB236.3 million and RMB235.0 million as at 30 June 2003 and 31 December 2002, respectively.

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EMPLOYEES

The Group had 13,483 employees as at 30 June 2003. The Group adopts stringent implementation of the Performance-assessment System in which staff remunerations are tied to their performances to enhance their working quality and initiatives. In addition, the Group has also adopted Share Appreciation Rights Scheme and Long-term Performance Unit Scheme for managerial staff.

The Group believes people is the cornerstone of its success and has been devoting resources to enhance job respect, diligence, professionalism, experience and team spirit among its staff. The Company will continue to strengthen its workforce with high-calibre people from a broad spectrum of sources. The Group will seek mutual development for its staff and itself, raising staff motivation and providing sound opportunities for career development.

OUTLOOK AND PROSPECTS

China's economy had been hit by the outbreak of SARS during the period under review, the lagging effect of which should become evident in the second half of the year and might have some impact on the Group's business. However, any detrimental effect that SARS would have on import and export trade should be a relatively mild one, given that SARS is now effectively under control throughout the PRC and that foreign business activities are recovering swiftly. In any case, the period of SARS duration was shorter than the turnover period cycle for export

orders. As China's domestic economy is unlikely to take a reverse turn because of SARS, the Company believes that the country's import and export trade will be able to maintain a relatively high growth rate in the second half of the year, from which the logistics and transportation businesses that the Company operates will also benefit.

We will continue to strive for excellence in corporate governance on the back of a decision-making mechanism that is efficient, transparent and standardised. We will participate actively in the integration of resources in China's logistics and transportation market while enhancing the integration of our own internal resources. Measures to standardise business processes will be further advanced and improvements will be made to the Group's service networks and functions, with a view to taking the Group's market competitiveness to new heights and maintaining its leading position in China's logistics and transportation market.

APPRECIATION

I would like to take this opportunity to extend my warm welcome to Mr Li Jianzhang, Miss Liu Jinghua, Mr Jerry Hsu, Mr Ken Torok and Mr Lee Chong Kwee as new members of our Board. Their proven experience in the logistics and transportation sector will be invaluable assets for the Company.

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Tribute is also due to our dedicated staff, without whose hard work the results achieved by the Company would not have been possible.

Last but not least, I would like to express genuine appreciation to our shareholders for their unfailing trust and support for the Company. With relentless efforts, we look forward to sharing with them the fruits of China's soaring economic development.

Zhang Bin

Chairman

Shenzhen, 25 August 2003