



**ZHANG JIANWEI**  
*Executive Director and President*

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

## BUSINESS OVERVIEW

We are a leading provider of logistics services in China. Our core services include freight forwarding, express services and shipping agency, while our supporting services comprise storage and terminal services, marine transportation and other services, of which trucking is the primary service.

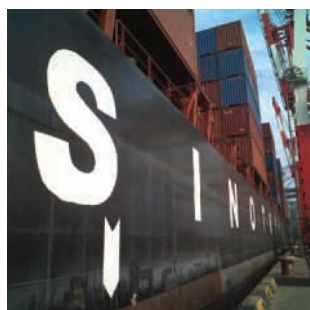
The sphere of operation of our business covers fast developing coastal areas and other strategic areas in China, such as Guangdong, Fujian, Shanghai, Zhejiang, Jiangsu, Hubei, Lianyungang, Shandong, Tianjin and Liaoning, with a comprehensive and full nationwide service network and overseas agency network.

Our well-established service networks as well as unified and integrated service strategy and competence enable us to provide integrated logistics services to our customers and to capture a leading position among market competition.

## REVIEW OF OPERATIONS

On 13 February 2003, the Company completed its successful listing on The Stock Exchange of Hong Kong Limited. Capitalising on such opportunity, the Group has been devoting diligent efforts towards conversion of its corporate form and innovation of its management and actively empowering its resource integration and business expansion:

- Implemented the development of standardised business processes and the restructuring of business resources, promoted the centralised space booking system, and activated the freight forwarding and shipping agency services based information system project diligently;
- The strategy of unified marketing commenced to show initial effects as we secured the shipping agency contracts for international shipping lines, such as the “Great Alliance”, the large equipment transportation project of the Tianwan Nuclear Power Station and the logistics projects of Hisense and Shell lubrication oil in succession;
- Achieved important progress in the development of overseas network which made our network coverage more well-established and triggered the development of NVOCC business;
- Promoted actively the construction of projects, such as Dalian Dayaowan Logistics Park, Shenyang Logistics Centre, Qingdao Logistics Centre and Zhongshan Logistics Centre in Guangdong to solidify our competitiveness;



- Participated actively in the integration of logistics and transportation markets in China and achieved positive results;
- Our scientific and transparent decision-making were fully supported by the completion of the full implementation of the ORACLE financial system that strengthened centralised financial management and established a uniform financial process and operation mode.

Despite effects brought about by factors like SARS, the Iraqi war and the ferocious competition upon further liberation of the logistics and transportation markets in China, the Group managed to secure better results with faster growth in all of its core services through the implementation of the above measures and the dedicated efforts of all our staff.

### OPERATING STATISTICS

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

	For the year ended 31 December	
	2003	2002
Freight forwarding		
Sea freight forwarding (in millions of tonnes)		
Bulk cargo	2.7	4.8
Container cargo	28.3	24.3
Air freight forwarding (in millions of kilograms)	183.7	159.1
Rail freight forwarding (in millions of tonnes)		
Bulk cargo	2.6	3.3
Container cargo	0.3	0.4
Road freight forwarding (in millions of tonnes)		
Bulk cargo	0.5	0.3
Container cargo	1.0	0.9
Express services		
Packages & documents (in millions of units)	12.2	9.5
Shipping agency		
Net registered tonnes (in millions of tonnes)	195.6	155.4
Vessel calls	52,442	42,920
Storage and terminal services		
Warehouses (in millions of tonnes)	18.5	17.2
Terminals (in millions of tonnes)	7.8	5.3
Marine transportation		
TEUs	1,016,229	769,175
Other services		
Trucking (in millions of tonnes)	2.8	3.0

## RESULTS OF OPERATIONS

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

	For the year ended 31 December	
	2003	2002
	(RMB in millions, except for data of per share and number of shares)	
Turnover	17,373.9	13,550.4
Other revenues	54.0	41.9
Total revenues	17,427.9	13,592.3
Transportation and related charges	(12,673.3)	(10,074.3)
Depreciation and amortisation	(218.4)	(186.3)
Operating costs, excluding transportation and related charges, depreciation and amortisation:		
— Staff costs	(1,262.6)	(1,012.9)
— Repairs and maintenance	(94.6)	(79.9)
— Fuel	(404.9)	(214.7)
— Travel and promotional expenses	(213.1)	(179.2)
— Office and communication expenses	(175.4)	(118.8)
— Rental expenses	(923.3)	(578.3)
— Other operating expenses	(343.6)	(254.5)
Operating profit	1,118.7	893.4
Finance income, net	72.5	28.0
	1,191.2	921.4



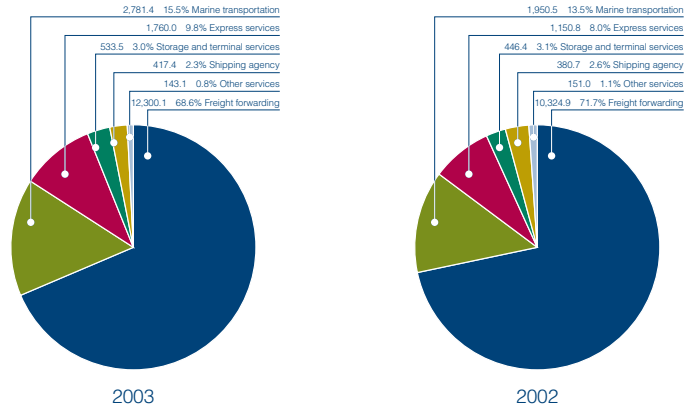
	For the year ended 31 December	
	2003	2002
	(RMB in millions, except for data of per share and number of shares)	
Share of results of associates		
before taxation	9.6	10.1
Profit before taxation	1,200.8	931.5
Taxation	(339.6)	(244.2)
Profit after taxation	861.2	687.3
Minority interests	(156.2)	(115.1)
Profit for the year	705.0	572.2
Profit distribution	237.9	478.0
Earnings per share, basic and diluted <sup>(1)</sup>	RMB0.17	RMB0.22
Weighted average number of shares (in million) <sup>(1)</sup>	4,049.1	2,624.1
Number of shares at end of year (in millions) <sup>(1)</sup>	4,249.0	2,624.1

Note:

- (1) Basic and diluted earnings per share for the years ended 31 December 2003 and 2002 are computed by dividing the profit for the year by 4,049,057,340 shares, being the weighted average of number of ordinary shares in issue for the year ended 31 December 2003 and 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 the whole year ended 31 December 2002. As there are no potentially dilutive securities, there is no difference between basic and diluted earnings per share.

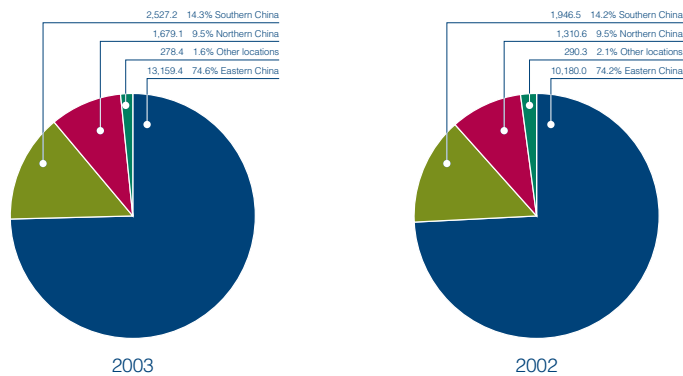
The table below sets forth the Group's turnover by service segments and their respective percentages of total turnover prior to inter-segment eliminations for the years indicated:

Turnover by business segments (RMB in millions)



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

Turnover by geographical segments (RMB in millions)



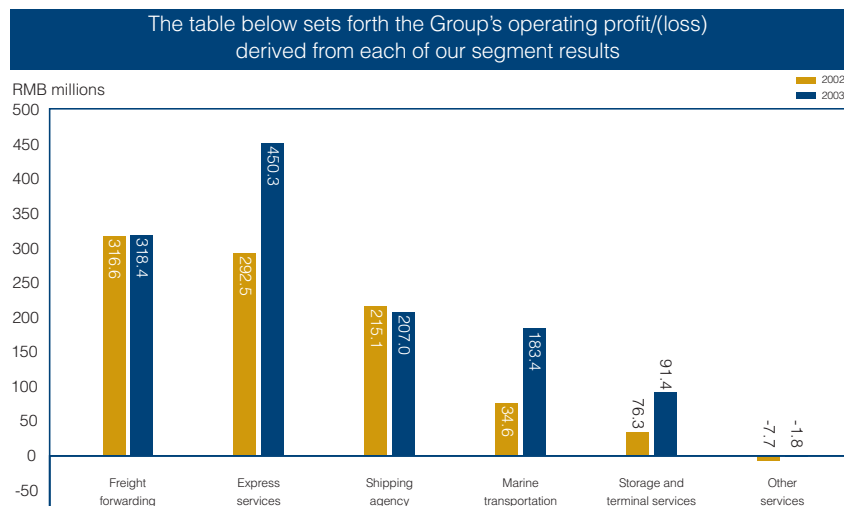
Notes:

- (1) Eastern China includes core strategic locations in Jiangsu, Shanghai, Zhejiang, Fujian and Shandong and the operations of Sinoair (Sinotrans Air Transportation Development Co., Ltd. ("Sinoair"), a listed company on the Shanghai Stock Exchange. Stock name: Sinoair; stock code: 600270) in Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong.
- (2) Southern China includes core strategic locations in Guangdong and Hubei and the operations of Sinoair in Hubei, Hunan, Guangdong, Guangxi, Hainan, Guizhou and Yunnan.
- (3) Northern China includes core strategic locations in Liaoning, Tianjin and the operations of Sinoair in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Henan.
- (4) Other locations primarily includes air freight forwarding and express services operated by Sinoair and certain of our jointly controlled entities in locations other than the above.



Eastern China accounted for 74.6% of total turnover prior to inter-segment eliminations for the year ended 31 December 2003 primarily due to the fact that Eastern China comprises the more economically developed regions of China.

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



## COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2003

### Turnover

The Group's turnover increased by 28.2% from RMB13,550.4 million in 2002 to RMB17,373.9 million in 2003.

By integrating market resources, enhancing network coverage, strengthening development of standardised business processes, promoting unified sales and marketing, enhancing and perfecting business products, the Group's core services of freight forwarding, express services, shipping agency and other supporting service of marine transportation sustained healthy and robust growth which has driven up the growth of the Group's turnover.

### Freight forwarding

Turnover of the Group's freight forwarding services grew by 19.1% to RMB12,300.1 million in 2003, from RMB10,324.9 million in 2002.

Number of containers handled by sea freight forwarding services increased by 16.3% from 2.58 million TEUs in 2002 to 3.00 million TEUs in 2003, while the amount of cargo handled by air freight forwarding services increased by 15.5% from 159,100 tonnes in 2002 to 183,700 tonnes in 2003.



Growth of freight forwarding revenue in 2003 was primarily attributed to enhanced sales and marketing efforts, with a faster pace of growth in size. In addition, continual upswings in international sea freight rates have also driven the growth in turnover.

#### Express services

Turnover of our express services rose by 52.9% to RMB1,760.0 million in 2003, from RMB1,150.8 million in 2002.

Number of documents and packages handled by the Group increased by 28.3% to 12.24 million pieces in 2003 from 9.54 million pieces in 2002.

In 2003, we enhanced our airfreight network coverage that triggered speedy growth in both volumes and turnover. Growth in turnover of this service exceeded that of volume due to an increase in the average weight per document and package.

#### Shipping agency

Turnover of the Group's shipping agency services went up by 9.6% to RMB417.4 million in 2003 from RMB380.7 million in 2002.

Number of containers handled in 2003 was 6.05 million TEUs, an increase of 30.1% from 4.65 million TEUs in 2002. Net registered tonnage of vessels handled by our shipping agency services reached 195.6 million tonnes, a 25.9% increase from 155.4 million tonnes in 2002. Number of vessel calls managed grew by 22.2% to 52,442 compared with 42,920 for 2002.

Growth in both turnover and volume of the shipping agency services were mainly attributed to our enhanced customer services and marketing efforts. Due to the ferocious competition in the shipping agency market, our agency fees went down in line with market prices that offset part of the volume growth brought about by turnover growth.

#### Storage and terminal services

Turnover from storage and terminal services aggregated RMB533.5 million, representing a 19.5% growth over RMB446.4 million in 2002.

Our warehouses handled 18.51 million tonnes of cargo, representing a 7.5% increase over 17.22 million tonnes in 2002; cargo tonnage handled in terminals grew to 7.82 million tonnes from 5.32 million tonnes in 2002, an increase of 47.0%.





Volume growth of the Group's terminal services was achieved with the enhancements in the integrated cargo-handling capability of our terminals, such as terminal loading/unloading facilities in recent years. Moreover, while solidifying its import and export business, the Group proactively developed its domestic trade business. As fees for handling domestic trading goods were lower than those for import and export trading goods, increment in turnover was lower than that of volume.

#### Marine transportation

Turnover of the Group's marine transportation services increased by 42.6% from RMB1,950.5 million in 2002 to RMB2,781.4 million in 2003.

Number of containers shipped by the Group rose to 1.016 million TEUs in 2003, up 32.1% from 0.769 million TEUs in 2002.

Such growth was primarily attributed to the Group's efforts in expanding capacity of its commanding shipping lines and adjusting the number of sailings upwards according to special features of respective lines. Significant increases in volume and upswings in international sea freight rates, in particular, significant growth in rates of the US lines, propelled the swift growth in turnover.

#### Other services

Turnover from other services, primarily from trucking services, declined by 5.2% from RMB151.0 million in 2002 to RMB143.1 million in 2003.

Our trucking services shipped 2.81 million tonnes of cargo in 2003, a drop of 6.3% from 3.00 million tonnes in 2002.

Such services were affected by limitations in domestic road development and market competition, coupled with continual reduction in trucking prices and reduction of our capacity which all led to declines in turnover and volume.

#### TRANSPORTATION AND RELATED CHARGES

Higher business volume fuelled a 25.8% growth in transportation and related charges for 2003 to RMB12,673.3 million, compared with RMB10,074.3 million in 2002.

## DEPRECIATION AND AMORTISATION

Depreciation and amortisation for 2003 amounted to RMB218.4 million, representing an increase of 17.2% from RMB186.3 million in 2002, primarily as a result of increases in the Group's fixed assets and intangible assets.

## OPERATING COSTS (EXCLUDING TRANSPORTATION AND RELATED CHARGES, DEPRECIATION AND AMORTISATION)

In 2003, the Group's operating costs (excluding transportation and related charges, depreciation and amortisation) went up by 40.2% from RMB2,438.3 million in 2002 to RMB3,417.5 million in 2003. Increases in operating costs (excluding transportation and related charges, depreciation and amortisation) were primarily due to increased expenses in leasing, staff, fuel, travelling and promotion, office and communication. Increases in leasing and fuel expenses were driven by increases in marine transportation capacity. Rises in staff costs were primarily due to salary adjustments in accordance with the Group's new remuneration system and incentive schemes. In addition, expenses like travelling and promotion, office and communications also went up correspondingly in 2003.

## OPERATING PROFIT

Operating profit for 2003 was RMB1,118.7 million, representing an increase of 25.2% from RMB893.4 million in 2002 primarily due to volume growth. Operating profit as a percentage of total revenue decreased to 6.44% in 2003 from 6.59% in 2002 primarily as a result of the increases in all operating expenses relative to the growth in total turnover of the Group.

## TAXATION

Taxation amounted to RMB339.6 million in 2003, up 39.1% over RMB244.2 million in 2002, primarily as a result of increase in taxable profit. Taxation as a percentage of profit before taxation increased to 28.3% for 2003 from 26.2% in 2002, primarily due to decrease in non-taxable income and increase in non-deductible expenses.

## MINORITY INTERESTS

Minority interests in 2003 amounted to RMB156.2 million, up 35.7% from RMB115.1 million in 2002, primarily as a result of an increase in contributions from the Group's subsidiary, Sinotrans Air Transportation Development Co., Ltd.



## PROFIT FOR THE YEAR

Profit of the Group amounted to RMB705.0 million in 2003, up 23.2% over RMB572.2 million in 2002.

## LIQUIDITY AND CAPITAL RESOURCES

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

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

The following table summarises our cash flows for each of the two years ended 31 December 2003 and 2002:

	Year ended 31 December	
	2003	2002
	(RMB in millions)	
Net cash inflow from operating activities	719.3	564.4
Net cash used in investing activities	(1,074.6)	(162.4)
Net cash provided from/ (used in) financing activities	2,896.1	(43.5)
Cash and cash equivalents at end of year	4,882.8	2,342.0

## OPERATING ACTIVITIES

Net cash from operating activities increased from RMB564.4 million for the year ended 31 December 2002 to RMB719.3 million for the year ended 31 December 2003 by 27.4%, primarily as a result of the profit for the year of RMB705.0 million (year ended 31 December 2002: RMB572.2 million) as well as an increase of RMB602.8 million in trade payables for the year ended 31 December 2003 (year ended 31 December 2002: increase of RMB531.4 million), an increase of RMB328.8 million in tax payables for the year ended 31 December 2003 (year ended 31 December 2002: increase of RMB228.6 million), an increase of RMB126.7 million in receipts in advance from customers for the year ended 31 December 2003 (year ended 31 December 2002: decrease of RMB7.0 million) and an increase of RMB111.4 million in salary and welfare payable (year ended 31 December 2002: increase of RMB17.5 million), which was partially offset by an increase of RMB794.3 million in trade receivables and other receivables (year ended 31 December 2002: increase of RMB752.8 million) and RMB313.5 million of taxes paid for the year ended 31 December 2003 (year ended 31 December 2002: RMB256.5 million). Increase in trade receivables for the year ended 31 December 2003 was primarily due to growth in business scale and revenue. Average ageing of trade receivables for the years ended 31 December 2003 and 2002 were 64 days and 61 days respectively. Increase in trade payables for the year ended 31 December 2003 was also primarily due to growth in both business scale and revenue.

## INVESTMENT ACTIVITIES

Net cash used in investment activities for the year ended 31 December 2003 primarily comprised RMB414.4 million for purchase of property, plant and machinery, RMB66.4 million for purchase of intangible assets and land use rights, RMB42.5 million for purchase of held-to-maturity investments and increase of RMB649.5 million in term deposits with initial term of over three months. Net cash used in investment activities for the year ended 31 December 2002 primarily comprised RMB345.3 million for purchase of property, plant and machinery and RMB83.1 million for purchase of intangible assets and land use rights, which was partially offset by the decrease of RMB243.3 million in term deposits with initial term of over three months.

## FINANCING ACTIVITIES

Net cash provided from financing activities for the year ended 31 December 2003 amounted to RMB2,896.1 million, compared with net cash used in financing activities of RMB43.5 million for the corresponding period in 2002, was primarily attributable to the net proceeds of RMB3,543.6 million, after deducting related expenses, raised from the IPO in 2003. Net cash used in financing activities mainly comprised dividends paid of RMB588.4 million, dividends for minority shareholders of RMB63.8 million and repayment of bank borrowings of RMB116.5 million.



## CAPITAL EXPENDITURES

The Group's capital expenditure for the year ended 31 December 2003 was RMB480.8 million, consisting mainly of RMB414.4 million for purchase and construction of property, plant and equipment, RMB45.7 million for purchase of intangible assets, RMB20.7 million for purchase of land use rights, among which RMB190.5 million was for construction of terminals, warehouses, logistics centre and depot areas, RMB154.9 million for purchase of vehicles and equipment and RMB97.7 million for IT investment and refurbishment and purchase of office equipment.

## CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2003, the Group's contingent liabilities amounted to approximately RMB20.7 million, arising primarily from outstanding loan guarantees of RMB6.0 million for the obligations of jointly controlled entities of the Group, pending lawsuits of RMB10.7 million and bills discounted with recourse of approximately RMB4.0 million. Save as referred to above and apart from intragroup liabilities, as at the close of business on 31 December 2003, the Group did not have any outstanding loan capital (issued or agreed to be issued), bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

## GEARING RATIO

As at 31 December 2003, the Group's gearing ratio was 47.7% (2002: 74.6%), which was arrived at by dividing the sum of liabilities and minority interests by total assets as at 31 December 2003.

## FOREIGN EXCHANGE RATE RISK

A substantial portion of our turnover and transportation and related charges are denominated in US dollars and therefore the Group is exposed to foreign exchange risk primarily with respect to US dollars. However, a RMB exchange rate vis-a-vis US dollars has been relatively stable in the recent years.

There is no assurance that any future movements in the exchange rate of Renminbi against US dollars and other foreign currencies will not have any impact on our results and financial position (including ability to pay dividends).

## CREDIT RISK

The extent of our credit exposure is represented by an aggregated balance of trade receivables and other receivables, trading investments, held-to-maturity investments, pledged deposits and term deposits with an initial term of over three months. The maximum credit exposures in the event that other parties fail to perform their obligation under these financial instruments was approximately RMB4,702.6 million and RMB3,206.8 million as at 31 December 2003 and 2002 respectively. In addition, the Group made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB266.6 and RMB235.0 million as at 31 December 2003 and 2002 respectively.

## EMPLOYEES

The Group (representing the Company and its subsidiaries) had 13,200 employees as at the end of 2003 (2002: 13,462). As the Group believes people are the cornerstone of its success, the Group has long been concerned with its employees' development by organising various training courses to broaden their horizon.

The Group spares no effort in promoting the reform of its remuneration system by introducing long incentive schemes, such as Share Appreciation Rights Scheme and Long-term Performance Unit Scheme, and establishing a uniform performance assessment system, which form an effective incentive control mechanism in motivating staff to work more diligently.

## PROSPECTS OF BUSINESS DEVELOPMENT

The Group believes that the Chinese economy will sustain its healthy and robust growth in 2004 with increasing demands from the logistics and transportation market that will be beneficial to the Group's services.

Despite uncertainties like realignments of the export tax refund policy, fluctuations in prices of sea freight market, the Group believes through its diligent efforts, the Group's network coverage will be more well-established, unified services strategy and competence be strengthened and market competitiveness be enhanced, with a view to sustaining its leading position in China's logistics and transportation market in the future year.