

The board of directors (the “Board”) of the Company is pleased to present its report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003.

REORGANISATION FOR LISTING AND BASIS OF PREPARATION

The Company was listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 13 February 2003.

The reorganisation for listing (“Reorganisation”) and the basis of preparation of the financial statements are set out in Notes 1 and 2 to the financial statements.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Group are freight forwarding, express services, shipping agency services, storage and terminal services, marine transportation and trucking services. The activities of the Company’s subsidiaries, jointly controlled entities and associated companies are set out in Notes 16, 17 and 18 to the financial statements. There were no material changes in the nature of the principal activities of the Group during the year.

An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 4 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the financial statements on page 41.

DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.030 per share, subject to shareholders’ approval in respect of the declaration, recommendation and payment of the final dividend for 2003 at the forthcoming Annual General Meeting to be held on Wednesday, 2 June 2004. Please refer to the “Notice of the Annual General Meeting” for further details.

It is expected that the final dividend will be paid on or before Friday, 25 June 2004 to shareholders whose names appear on the register of members on Tuesday, 1 June 2004. The register of members of the Company will be closed from Saturday, 1 May 2004 to Tuesday, 1 June 2004 (both days inclusive), during which no transfers will be registered.

In order to qualify for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with relevant share certificates to the Company’s Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Rooms 1901–1905, 19/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 30 April 2004, for registration.

Pursuant to the Articles of Association of the Company, dividends payable to the holders of Domestic Shares will be paid in Renminbi, while dividends payable to the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars is the mean average exchange rate of Renminbi to Hong Kong dollar published by the People's Bank of China during the calendar week (22 March 2004 to 26 March 2004) prior to the date of declaration of the dividend. During the period, the average exchange rate of Renminbi to Hong Kong Dollar was HK\$1=RMB1.06168. Accordingly, the amount of final dividend for each H Share of the Company is HK\$0.02826.

USES OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY

Proceeds from the initial public offering of the Company, after deducting related expenses, were RMB3,543.6 million. As at 31 December 2003, RMB480.8 million has been used for capital expenditures. Uses of the proceeds from the initial public offering as stated in the prospectus of the Company dated 13 February 2003 remained unchanged.

BANK LOANS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2003, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's aggregate turnover and purchases respectively.

For the year ended 31 December 2003, none of the directors, supervisors, their respective associates and any shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) had any interest in the five largest customers and the five largest suppliers of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2003 are disclosed in Note 37 to the financial statements.

Certain related party transactions, which also constitute connected transactions under the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:

	Note	2003 RMB'000
Transactions with Sinotrans Group Company and its subsidiaries:	1	
Provision of transportation and logistics services		313,362
Receipt of transportation and logistics services		(128,845)
Vessel chartering		(29,900)
Container leasing		(22,161)
Vehicle rental		(3,001)
Property leasing		(52,591)
Information technology services		(960)
Transactions with connected joint venture partners	2	
Provision of services		64,482
Receipt of services		(26,638)
Financial assistance of certain companies within the Group	3	5,200
Transactions with connected non wholly-owned subsidiaries and associates of the Company:	4	
Provision of services		168,130
Receipt of services		(146,182)

Note 1: Transactions with Sinotrans Group Company and its subsidiaries are connected transactions of the Company as Sinotrans Group Company is a substantial shareholder of the Company, and its subsidiaries are associates of the Company.

Note 2: Transactions with connected joint venture partners are connected transactions of the Company as these joint venture partners are substantial shareholders of the Company's subsidiaries.

Note 3: Financial assistance of certain companies within the Group are connected transactions of the Company as this is financial assistance provided by the Company or its subsidiaries to non wholly-owned subsidiaries of the Company on a non pro-rata basis, details of which were disclosed in the Company's prospectus dated 29 January 2003.

Note 4: Transactions with connected non wholly-owned subsidiaries and associates of the Company are connected transactions of the Company as these companies are associates of a substantial shareholder of the Company or its subsidiaries.

On 24 July 2003, Sinotrans Air Transportation Development Company Limited ("Sinoair") entered into an agreement with Sinotrans Beijing Airfreight Forwarding Co. ("Beikong") to acquire a 50% equity interest in UPS-Sinotrans Beikong Parcel International Express Co., Ltd. (the "UPS JV"), representing Beikong's entire interest in the UPS JV. The acquisition consideration of RMB5,400,000 is payable in cash. As at 31 December 2003, the acquisition was still in progress and not completed.

Further particulars of some of these connected transactions are described in the section under the heading "Contracts with Sinotrans Group Company and transactions in securities of subsidiaries".

As disclosed in the Company's prospectus dated 29 January 2003, the Company has obtained waivers in relation to the continuing connected transactions of the Group described in Notes 1 to 4 above from The Stock Exchange of Hong Kong Limited.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions, and the respective agreements (if any) governing such transactions, were:

- (a) entered into by members of the Group in the ordinary and usual course of its business; and
- (b)
 - (i) on normal commercial terms; or
 - (ii) on terms no less favourable to the Company than those available to (or from) independent third parties; or
 - (iii) where there was no available comparison for the purpose of determining whether (i) or (ii) was satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

The auditors to the Company have examined the transactions and have advised the directors in writing that:

- (a) the transactions have been approved by the Board of Directors;
- (b) the transactions are in accordance with the pricing policies as disclosed in Note 37 the Company's financial statements;
- (c) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (d) the relevant annual caps for connected transaction waiver have not been exceeded.

ACQUISITIONS AND DISPOSALS

Save under the Reorganisation, the Company did not undertake any significant acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2003.

FIXED ASSETS

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

TAXATION

Details of taxation of the Company and the Group as at 31 December 2003 are set out in Note 9 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the financial statements on page 46 and in Note 32.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2003, calculated in accordance with the PRC accounting standards, amounted to RMB475,478,000 (2002: RMB22,945,000).

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 31 to the financial statements.

Shareholding structure of the Company as at 31 December 2003 is as follows:

Nature of Shares	Number of Shares	As a % of total issued share capital
Domestic Shares	2,461,596,200	57.93%
H Shares	1,787,406,000	42.07%

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than directors or supervisors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Corporate Interests	Short Position	Class of Shares	As a % of total issued share capital	As a % of total issued H share capital
China National Foreign Trade Transportation (Group) Corporation	2,461,596,200	—	Domestic Shares	57.93%	—
Deutsche Post Beteiligungen Holdings GmbH	201,852,000	—	H Shares	4.75%	11.29%
UPS Air Couriers of America Limited	124,657,000	—	H Shares	2.93%	6.97%
Deutsche Bank Aktiengesellschaft	108,086,000	—	H Shares	2.54%	6.05%
J.P. Morgan Chase & Co.	90,154,000	—	H Shares	2.12%	5.04%
	—	52,459,000 ^(P)	H Shares	1.23%	2.93%

(P) Shares in lending pool

Save as disclosed above, as at 31 December 2003, so far as was known to the directors of the Company, no person (other than directors or supervisors) had any interest or short position in any shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Reorganisation and the Company's initial public offering in February 2003, there was no purchase, sale or redemption of H Shares by any member of the Group during the year ended 31 December 2003.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company are as follows:

Executive directors:

Zhang Bin	(appointed on 19 November 2002)
Zhang Jianwei	(appointed on 19 November 2002)
Tao Suyun	(appointed on 19 November 2002)
Li Jianzhang	(appointed on 18 June 2003)

Non-executive directors:

Yang Yuntao	(appointed on 14 January 2003)
Liu Jinghua	(appointed on 18 June 2003)
Jerry Hsu	(appointed on 18 June 2003)
Ken Torok	(appointed on 18 June 2003)
Lee Chong Kwee	(appointed on 18 June 2003)

Independent non-executive directors:

Koo Kou Hwa	(appointed on 19 November 2002)
Sun Shuyi	(appointed on 19 November 2002)

Supervisors:

Su Yi	(appointed on 18 June 2003)
Wang Xiaozheng	(appointed on 19 November 2002)

Independent supervisor:

Zhang Junkuo	(appointed on 19 November 2002)
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Pursuant to the Articles of the Company, all directors and supervisors are appointed for a term of three years and are eligible for re-election upon expiry of term.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year ended 31 December 2003, changes in directors, supervisors and senior management of the Company were as follows:

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

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

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

Mr. Li Jianzhang, supervisor, resigned on 18 June 2003 and was re-appointed on the same day as executive director of the Company.

Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok, Mr. Lee Chong Kwee, non-executive directors, and Ms. Su Yi, supervisor, were appointed on 18 June 2003.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 22 to 25.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive directors and supervisors (save for Mr. Zhang Junkuo, independent supervisor) of the Company has entered into a service contract with the Company for a term of three years.

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any director or supervisor.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2003, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2003, none of the directors or supervisors had any material interest in any contract of the Company to which the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party.

CONTRACTS WITH SINOTRANS GROUP COMPANY AND TRANSACTIONS IN SECURITIES OF SUBSIDIARIES

In anticipation of the Company's listing in February 2003, the Company underwent the Reorganisation under which the Company entered into a number of agreements with Sinotrans Group Company to document the basis on which the Reorganisation is to be effected and also to regulate the on-going business relationship between our Group and Sinotrans Group. These agreements are the Reorganisation Agreement, Business Services Agreement, Master Lease Agreement, Trademarks Licence Agreement and Registered User Agreement, Computer Software Licence Agreement and IT Services Agreement (as defined and described in more details below).

Reorganisation Agreement

On 14 January 2003, the Company entered into a reorganisation agreement with Sinotrans Group Company under which Sinotrans Group Company agreed, inter alia, to inject certain businesses and companies within the Sinotrans Group into the listed Group. As part of the Reorganisation, the Company thus acquired certain interests of its subsidiaries in the year ended 31 December 2003.

Under the Reorganisation Agreement, Sinotrans Group Company has also agreed to indemnify the Company against, inter alia, certain liabilities of the Group which may arise as a result of the Reorganisation and the Company has also agreed to indemnify Sinotrans Group Company against a breach of any provision of the Reorganisation Agreement on the part of the Company and its subsidiaries.

Save as disclosed above, the Company had not been involved in any purchase, sales or redemption of its securities or those of its subsidiaries in the year ended 31 December 2003.

Business Services Agreement

The Company entered into a business services agreement with Sinotrans Group Company on 14 January 2003 in order to regulate the provision of transportation and logistics services and ancillary services by members of the Group to the Sinotrans Group and vice versa. Contracts for specific services and for the leasing of certain assets were also entered between members of the Group and those of the Sinotrans Group to govern the provision of services of each individual transaction.

Master Lease Agreement

On 14 January 2003, the Company entered into a master lease agreement with Sinotrans Group Company to lease from members of the Sinotrans Group certain office premises and other properties required for the day to day business operations of the Group.

Trademarks Licence Agreement and Registered User Agreement

In order to continue using the trademarks for normal business operations, the Company, on 14 January 2003, entered into a trademarks licence agreement and a registered user agreement with Sinotrans Group Company to lease from it free of charge certain trademarks which were not injected into the Group at the time of listing because the same trademarks were used by other members of the Sinotrans Group in relation to businesses which are different from those of the Group.

Computer Software Licence Agreement and IT Services Agreement

On 14 January 2003, the Company entered into a computer software licence agreement with Sinotrans Group Company to lease from it free of charge a licence to continue to use various application software used by members of the Group. On the same day, it also entered into an IT services agreement with Sinotrans Group Company under which it agreed to provide to members of the Sinotrans Group information technology support and technical services which, prior to the Reorganisation, had been provided by the IT department of Sinotrans Group.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At any time during the year ended 31 December 2003, none of the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2003 are set out in Notes 3(q) and 6 to the financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

PRE-EMPTION RIGHTS

There are no provisions for pre-emption rights under the Articles of the Company or the laws of the PRC.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules, for the entire accounting period covered by the financial statements contained herein.

AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The principal functions of the audit committee include the appointment of external auditors, the review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to the Board. The audit committee comprises one executive director and two independent non-executive directors, namely Ms. Tao Suyun, Mr. Koo Kuo Hwa and Mr. Sun Shuyi.

SIGNIFICANT POST BALANCE SHEET EVENTS

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

AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were the international and PRC auditors to the Company respectively for the year ended 31 December 2003. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors to the Company will be proposed at the forthcoming Annual General Meeting on 2 June 2004.

By Order of the Board
Zhang Bin
Chairman

Hong Kong, 29 March 2004