

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".

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").

In February 2003, the Company completed its global initial public offering ("Global offering"). 1,787,406,000 H shares were offered to the public which comprise 1,624,915,000 new shares issued 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 from 2,624,087,200 shares 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.

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 year ended 31 December 2002 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 year ended 31 December 2002 present the results of the Group as if it had been in existence throughout the year and as if the Transferred Businesses were transferred to the Company by Sinotrans Group Company at 1 January 2002 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.

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 for the year ended at 31 December 2002.

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(i) 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).

(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 ventures 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 interest 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.

(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 interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

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.

(iii) *Express services*

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

(iv) *Marine transportation*

Freight revenues from the operation of the international shipping business are recognised on a percentage of completion basis, which are determined on the time proportion method of each individual vessel voyage. Revenue from feeder services is recognised upon completion of services.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Revenue recognition *(continued)*

(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.

(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 year
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.

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.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(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 up to a maximum period of 10 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 classifications 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.

(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 5 years.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Intangible assets *(continued)*

(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 and held-to-maturity 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.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Held-to-maturity investments are carried at amortised cost using the effective yield method.

(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 lessor) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

(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. 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 asset revaluation surplus during Reorganisation deductible for enterprise income tax purposes, gain on deemed disposal of interest in a subsidiary, provision for one-off cash housing subsidies, depreciation on property, plant and equipment, provision for impairment of receivables, provision for litigation claims, salary payable which is not deductible for current income tax 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.

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 also provided supplementary pension subsidies to employees who retired prior to the Reorganisation. The ultimate holding company agreed to bear any further early retirement, termination and supplementary pension benefits to these retirees and former employees in the excess of the amount of RMB497,574,000 provided by the Group as at 30 June 2002. 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 were identified as being subject to sale under these arrangements, the carrying value of the staff quarters was written down to the net recoverable amount. Upon sale, any difference between sales proceeds and the carrying amount of the staff quarters was charged to the profit and loss account.

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 the individual provincial or municipal government based on the particular situation of the province or municipality.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Employee benefits *(continued)*

(iii) *Housing benefits (continued)*

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 had not been allocated with quarters at all or who had 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 were 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 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.

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 currency risk.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Financial instruments *(continued)*

(i) *Financial risk factors (continued)*

— 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 2003 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.

— Credit risk

The extent of the Group's credit exposure is represented by aggregated balances of trade receivables and other receivables, trading investments, held-to-maturity investments, pledged deposits and term deposits with initial term of over three months. The maximum credit risk exposure in the event that other parties fail to perform their obligation under these financial instruments was RMB4,702,590,000 (2002: RMB3,206,829,000) as at 31 December 2003. In addition, the Group made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB266,639,000 (2002: RMB234,993,000) as at 31 December 2003.

(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. 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 2003.

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

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

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 party transactions

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.

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.

(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.

4. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

(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 is of a sufficient size to be reported separately.

4. TURNOVER AND SEGMENT INFORMATION (continued)

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

As at and for the year ended 31 December 2003

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Other RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Turnover — external	12,102,700	374,556	1,704,598	2,576,244	512,120	103,670	—	17,373,888
Turnover — inter-segment	197,429	42,859	55,433	205,197	21,350	39,384	(561,652)	—
	12,300,129	417,415	1,760,031	2,781,441	533,470	143,054	(561,652)	17,373,888
Segment results	318,410	207,002	450,270	183,436	91,386	(1,755)	—	1,248,749
Unallocated costs								(130,031)
Operating profit								1,118,718
Finance income, net								72,451
								1,191,169
Share of results of associates before taxation								9,637
Profit before taxation								1,200,806
Taxation								(339,585)
Profit after taxation								861,221
Minority interests								(156,199)
Profit for the year								705,022
Assets								
Segment assets	4,947,797	1,176,910	1,677,395	1,230,944	667,750	73,167	(525,951)	9,248,012
Investments in associates								68,992
Unallocated assets								2,597,806
Total assets								11,914,810
Liabilities								
Segment liabilities	2,969,403	828,825	356,433	872,713	168,561	37,822	(522,756)	4,711,001
Unallocated liabilities								194,272
Total liabilities								4,905,273
Other information								
Capital expenditures	187,929	9,364	66,305	14,354	154,297	48,571	—	480,820
Depreciation	84,560	7,192	49,359	10,497	32,782	16,138	—	200,528
Amortisation	5,357	160	2,536	264	501	9,080	—	17,898
Impairment loss on fixed assets	27	—	—	—	—	—	—	27
Other non-cash expenses/ (income)	8,764	(1,398)	5,004	2,052	(361)	(303)	—	13,758

4. TURNOVER AND SEGMENT INFORMATION (continued)

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

	As at and for the year ended 31 December 2002							
	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Other RMB'000	Inter-segment elimination RMB'000	Group 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)	—
	<u>10,324,940</u>	<u>380,707</u>	<u>1,150,845</u>	<u>1,950,488</u>	<u>446,401</u>	<u>150,957</u>	<u>(853,927)</u>	<u>13,550,411</u>
Segment results	316,647	215,084	292,542	34,579	76,278	(7,749)	—	927,381
Unallocated costs								<u>(34,004)</u>
Operating profit								893,377
Finance income, net								<u>28,053</u>
								921,430
Share of results of associates before taxation								<u>10,117</u>
Profit before taxation								931,547
Taxation								<u>(244,243)</u>
Profit after taxation								687,304
Minority interests								<u>(115,082)</u>
Profit for the year								<u>572,222</u>
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								<u>141,617</u>
Total assets								<u>7,386,735</u>
Liabilities								
Segment liabilities	2,811,676	684,114	306,449	943,392	139,030	51,772	(730,324)	4,206,109
Unallocated liabilities								<u>627,612</u>
Total liabilities								<u>4,833,721</u>
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	—	<u>(7,940)</u>

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 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.

As at and for the year ended 31 December 2003

	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000	Total assets RMB'000	Capital expenditures RMB'000
Northern China	1,671,273	7,835	1,679,108	56,422	2,235,295	71,341
Eastern China	12,930,484	228,914	13,159,398	890,696	5,532,314	186,013
Southern China	2,494,076	33,164	2,527,240	279,075	1,395,899	174,198
Other locations	278,055	296	278,351	22,556	162,911	49,268
Inter-segment elimination	—	(270,209)	(270,209)	—	(78,407)	—
	<u>17,373,888</u>	<u>—</u>	<u>17,373,888</u>	<u>1,248,749</u>	<u>9,248,012</u>	<u>480,820</u>
Unallocated costs				<u>(130,031)</u>		
Operating profit				<u>1,118,718</u>		
Investments in associates					68,992	
Unallocated assets					<u>2,597,806</u>	
Total assets					<u>11,914,810</u>	

4. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

As at and for the year ended 31 December 2002						
	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000	Total assets RMB'000	Capital expenditures 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)	—
	<u>13,550,411</u>	<u>—</u>	<u>13,550,411</u>	<u>927,381</u>	<u>7,220,751</u>	<u>428,360</u>
Unallocated costs				<u>(34,004)</u>		
Operating profit				<u>893,377</u>		
Investments in associates					24,367	
Unallocated assets					<u>141,617</u>	
Total assets					<u>7,386,735</u>	

5. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company by the Group during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees	137	—
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	859	725
— Discretionary bonuses	2,960	1,230
— Contributions to pension plans	14	47
	<u>3,970</u>	<u>2,002</u>

Directors' fees and other emoluments disclosed above include RMB137,000 paid to independent non-executive directors (2002: Nil).

No directors of the Company waived any remuneration during the year (2002: Nil).

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

(a) Directors' emoluments *(continued)*

The emoluments of the directors were within the following band:

	Number of directors	
	2003	2002
Nil–HK\$1,000,000	1	5
HK\$1,000,001–HK\$1,500,000	3	—
	4	5

(b) Five highest paid individuals

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

	2003	2002
Directors	3	3
Senior management	2	2

The five individuals whose emoluments were the highest in the Group during the year include three (2002: three) directors whose emoluments are reflected in the analysis presented in Note 5(a). Details of remuneration of senior management amongst the five highest paid individuals are as follows:

	2003 RMB'000	2002 RMB'000
Basic salaries, housing allowances and other allowances and benefits in kind	1,076	296
Discretionary bonuses	1,387	596
Contributions to pension plans	25	21
	2,488	913

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

	Number of individuals	
	2003	2002
Nil–HK\$1,000,000	—	2
HK\$1,000,001–HK\$1,500,000	2	—
	2	2

6. STAFF COSTS

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

	2003	2002
<i>Note</i>	RMB'000	RMB'000
Wages and salaries	897,801	701,999
Housing benefits	(a) 41,088	32,749
Contributions to pension plans	(b) 95,953	73,387
Cost of supplementary pension subsidies to retirees	(c)	
— current service cost	—	1,047
— interest cost	—	738
— actuarial gains and losses	—	(29,923)
Termination benefits and early retirement benefits	(d) 4,949	17,978
Welfare and other expenses	222,844	214,873
	1,262,635	1,012,848

- (a) These include the Group's 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 its employees.
- (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 also provided supplementary pension subsidies to employees who retired prior to the Reorganisation. Employees who retire after the date of Reorganisation are not entitled to such pension subsidies.
- (d) Certain employees of the Group were directed to retire early or their employment services were terminated. 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.

As at 31 December 2003, the Group (representing the Company and its subsidiaries) had 13,200 employees (2002: 13,462).

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Crediting		
Rental income from		
— Land and buildings	6,919	9,505
— Plant and machinery	—	60
Interest income	77,007	33,325
Gain on disposal of property, plant and equipment	4,512	2,265
Fair value gains on listed trading investments	—	2,356
Reversal of provision for impairment of receivables	—	7,940
Charging		
Depreciation		
— owned property, plant and equipment	195,232	173,400
— owned property, plant and equipment leased out under operating leases	5,296	1,677
Loss on disposal of property, plant and equipment	5,141	4,744
Auditors' remuneration	8,828	7,863
Provision for impairment of property, plant and equipment	27	272
Provision for impairment of receivables and bad debts written off	13,758	—
Loss on disposal of listed trading investments	4,794	—
Operating leases		
— land and buildings	133,959	112,783
— plant and equipment	789,327	465,546
Amortisation of land use rights and intangible assets	17,898	11,190

8. FINANCE INCOME, NET

	2003 RMB'000	2002 RMB'000
Interest income on bank balances	77,007	33,325
Interest expenses on bank loans and overdrafts	(7,564)	(6,923)
Interest expenses on other loans which are wholly repayable within five years	—	(100)
Exchange gains, net	8,448	6,649
Bank charges	(5,440)	(4,898)
	72,451	28,053

9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2003 RMB'000	2002 RMB'000
Provision for PRC income tax		
— current	327,472	232,656
— deferred taxation charge	9,028	9,260
	336,500	241,916
Share of taxation attributable to associates	3,085	2,327
	339,585	244,243

No provision for Hong Kong profits tax has been made as there were no estimated Hong Kong assessable profits for the years ended 31 December 2003 and 2002.

Taxation has been provided on the tax laws and regulations applicable to the PRC enterprises.

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

- (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:

	2003 RMB'000	2002 RMB'000
Profit before taxation	1,200,806	931,547
Tax calculated at the statutory tax rate of 33%	396,266	307,411
Utilisation of prior year unrecognised tax losses	(6,638)	(2,198)
Deferred tax benefits arising from tax losses in certain entities not recognised	2,085	3,454
Non-taxable income	(14,722)	(25,593)
Expenses not deductible for tax purposes	46,906	15,092
Preferential tax rates on the income of certain subsidiaries/jointly controlled entities	(86,379)	(55,268)
Others	2,067	1,345
Tax charge	339,585	244,243

9. TAXATION (continued)

- (b) Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates which are enacted or substantively enacted by the balance sheet date.

The movement in the deferred taxation accounts is as follows:

Deferred tax assets:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
As at 1 January	52,900	62,499	3,006	—
Credited to equity	221,678	—	—	—
Charged to profit and loss account	(9,043)	(9,599)	(3,006)	3,006
As at 31 December	265,535	52,900	—	3,006
Provided for in respect of:				
Asset revaluation surplus during				
Reorganisation deductible for enterprise				
income tax purposes (Note (i))	208,684	—	—	—
Provision for impairment of receivables	20,373	27,957	—	—
Provision for one-off cash housing subsidies	15,312	17,215	—	—
Salary payable which is not deductible for				
income tax purposes	12,863	—	—	—
Provision for claims	1,108	2,948	—	—
Depreciation on property, plant and				
equipment	811	—	—	—
Other temporary differences	6,384	4,780	—	3,006
	265,535	52,900	—	3,006
Temporary differences for which deferred				
tax assets were not recognised:				
Amortisation on intangible asset				
and non-current asset	7,298	2,492	6,943	2,492
Provision for impairment of receivables	5,118	3,612	—	—
Depreciation on property, plant and				
equipment	845	635	845	635
Losses carried forward	6,612	8,607	—	—
Others	1,316	—	—	—
	21,189	15,346	7,788	3,127

9. TAXATION (continued)

- (i) On 31 March 2003, the Group 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 RMB839,800,000, arising from the Reorganisation, which was recorded by the Group in the financial statements prepared under the PRC accounting standards, is deductible for the PRC 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 RMB221,678,000 was recognised and credited to capital reserve in 2003. Such deferred tax asset is charged to taxation during each year based on the depreciation and amortisation charges on the asset revaluation surplus and RMB12,994,000 was charged to taxation in 2003.

Deferred tax liabilities

	The Group	
	2003 RMB'000	2002 RMB'000
As at 1 January	1,618	1,957
Credited to profit and loss account	(15)	(339)
As at 31 December	1,603	1,618
Provided for in respect of:		
Depreciation on property, plant and equipment	1,304	1,594
Other temporary differences	299	24
	1,603	1,618

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Deferred tax assets to be recovered after more than 12 months	239,678	41,573	—	—
Deferred tax liabilities to be settled after more than 12 months	1,440	1,603	—	—

The temporary differences associated with the Group's underlying investments in subsidiaries, jointly controlled entities and associates amounted to RMB610,203,000 (2002: RMB610,203,000) as at 31 December 2003 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 in the year ended 31 December 2000.

9. TAXATION (continued)

(c) Current tax liabilities represent:

	The Group	
	2003 RMB'000	2002 RMB'000
Enterprise income tax	131,296	117,311
Business tax	35,710	33,825
Other taxes	9,798	10,327
	176,804	161,463

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB705,022,000 (2002: RMB94,252,000).

11. DIVIDENDS

	2003 RMB'000	2002 RMB'000
Special dividend	—	477,970
Interim, paid, of RMB0.026 (2002: Nil) per ordinary share	110,474	—
Final, proposed, of RMB0.030 (2002: Nil) per ordinary share	127,470	—
	237,944	477,970

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 the PRC accounting standards, which amounted to RMB477,970,000. The Group had paid such an amount to Sinotrans Group Company in 2003.

At the Board of Directors' meeting held on 29 March 2004, the directors proposed a final dividend of RMB0.030 per ordinary share for the year ended 31 December 2003. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

12. EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2003 have been computed by dividing the profit of RMB705,022,000 (2002: RMB572,222,000) by 4,049,057,340 shares, being the weighted average number of shares in issue during the year ended 31 December 2003 (2002: 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 year ended 31 December 2002). As there are no potentially dilutive securities, there is no difference between basic and diluted earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Port and rail facilities	Containers	Plant and machinery	Motor vehicles and vessels	Furniture and office equipment	Assets under construction	2003 Total	2002 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost										
At beginning of year	698,438	45,199	70,352	23,166	285,446	549,674	333,612	43,264	2,049,151	1,718,840
Additions	21,505	16,227	11,165	306	51,097	92,306	51,964	169,818	414,388	345,297
Acquisition of subsidiaries/a jointly controlled entity	—	—	—	—	—	—	—	—	—	64,630
Disposals	(5,240)	(406)	—	(4,749)	(21,894)	(37,018)	(41,126)	(1,360)	(111,793)	(79,616)
Transfer upon completion	32,140	—	2,914	—	37,620	4,265	9,898	(86,837)	—	—
At end of year	746,843	61,020	84,431	18,723	352,269	609,227	354,348	124,885	2,351,746	2,049,151
Accumulated depreciation and impairment losses										
At beginning of year	(159,237)	(16,556)	(36,126)	(16,867)	(129,224)	(294,546)	(176,433)	—	(828,989)	(703,859)
Depreciation for the year	(25,438)	(7,462)	(5,975)	(1,463)	(33,085)	(73,574)	(53,531)	—	(200,528)	(175,077)
Disposals	2,540	—	—	1,721	14,461	28,852	33,095	—	80,669	50,219
Impairment losses	—	—	—	—	—	(27)	—	—	(27)	(272)
At end of year	(182,135)	(24,018)	(42,101)	(16,609)	(147,848)	(339,295)	(196,869)	—	(948,875)	(828,989)
Net book value										
At end of year	564,708	37,002	42,330	2,114	204,421	269,932	157,479	124,885	1,402,871	1,220,162
At beginning of year	539,201	28,643	34,226	6,299	156,222	255,128	157,179	43,264	1,220,162	1,014,981

The Company

	Plant and machinery	Motor vehicles and vessels	Furniture and office equipment	Assets under construction	2003 Total	2002 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At beginning of year	—	—	17,018	11,655	28,673	—
Transferred from Sinotrans Group Company upon incorporation	—	—	—	—	—	21,377
Additions	6,535	4,606	3,747	—	14,888	7,296
Transfer upon completion	—	—	10,009	(10,009)	—	—
At end of year	6,535	4,606	30,774	1,646	43,561	28,673
Accumulated depreciation						
At beginning of year	—	—	(456)	—	(456)	—
Depreciation for the year	(940)	(130)	(5,916)	—	(6,986)	(456)
At end of year	(940)	(130)	(6,372)	—	(7,442)	(456)
Net book value						
At end of year	5,595	4,476	24,402	1,646	36,119	28,217
At beginning of year	—	—	16,562	11,655	28,217	—

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

All of the Group's buildings are located outside Hong Kong.

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

	The Group	
	2003 RMB'000	2002 RMB'000
Net book value of property, plant and equipment pledged	8,349	28,916
Corresponding borrowings	(5,610)	(18,882)

14. LAND USE RIGHTS

All of the Group's land use rights are located outside Hong Kong and are held on leases of between 10 to 50 years.

	The Group	
	2003 RMB'000	2002 RMB'000
Cost	211,882	189,685
Accumulated amortisation	(23,960)	(21,960)
Net book value	187,922	167,725

15. INTANGIBLE ASSETS

	The Group			
	Software RMB'000	Goodwill RMB'000	2003 Total RMB'000	2002 Total RMB'000
Cost				
At beginning of year	28,853	8,014	36,867	16,152
Additions	45,720	(562)	45,158	21,058
Disposals	(2,601)	—	(2,601)	(343)
At end of year	71,972	7,452	79,424	36,867
Accumulated amortisation				
At beginning of year	(15,783)	(374)	(16,157)	(6,926)
Amortisation for the year	(14,517)	(1,381)	(15,898)	(9,419)
Disposals	2,152	—	2,152	188
At end of year	(28,148)	(1,755)	(29,903)	(16,157)
Net book value				
At end of year	43,824	5,697	49,521	20,710
At beginning of year	13,070	7,640	20,710	9,226

15. INTANGIBLE ASSETS (continued)

	The Company	
	2003 Software RMB'000	2002 Software RMB'000
Cost		
At beginning of year	9,706	—
Transferred from Sinotrans Group Company upon incorporation	—	7,948
Additions	24,270	1,758
At end of year	33,976	9,706
Accumulated amortisation		
At beginning of year	(1,014)	—
Amortisation for the year	(9,045)	(1,014)
At end of year	(10,059)	(1,014)
Net book value		
At end of year	23,917	8,692

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003 RMB'000	2002 RMB'000
Investments at cost:		
Unlisted equity interests	1,647,367	1,471,911
Shares in a listed company in the PRC	1,278,378	1,278,378
	2,925,745	2,750,289
Share of undistributed post-acquisition profits less losses	798,514	97,475
Share of capital reserve	221,680	—
Dividends received	(66,332)	(50,133)
	3,879,607	2,797,631

Shares in a listed company in the PRC represent 70.36% equity interest in Sinoair, a company listed on the Shanghai Stock Exchange. The market value of these shares based on the quoted share price of Sinoair's listed shares was approximately RMB6,212,307,000 (2002: RMB4,205,888,000) as at 31 December 2003.

16 INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries at 31 December 2003:

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	RMB30,000,000	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
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

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 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	RMB7,000,000	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
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	—	60.30%	Warehousing

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	
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
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 Kunshan International Freight forwarding Agency Co., Ltd	Suzhou, the PRC 12 November 2002 Limited liability company	RMB5,000,000	—	60%	Freight forwarding and express services
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 Wuxi Customs Broker Company Limited	Wuxi, the PRC 3 January 2003 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

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 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
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
*Sinotrans Wenzhou Customs Broker Company Limited	Wenzhou, the PRC 10 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
*Sinotrans Ningbo Customs Broker Company Limited	Ningbo, the PRC 14 January 2003 Limited liability company	RMB2,400,000	—	100%	Freight forwarding

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 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
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 Hubei Customs Broker Company Limited	Wuhan, the PRC 18 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding

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 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 Customs Broker Company Limited	Xiamen, the PRC 18 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
*Sinotrans Quanzhou Customs Broker Company Limited	Quanzhou, the PRC 24 January 2003 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
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 Guangdong Customs Broker Company Limited	Guangzhou, the PRC 30 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding

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 Shenzhen Customs Broker Company Limited	Shenzhen, the PRC 12 November 1993 Limited liability company	RMB2,120,000	—	100%	Freight forwarding
*Sinotrans Zhongshan Customs Broker Company Limited	Zhongshan, the PRC 11 February 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
*Sinotrans Shenzhen International Freight Forwarding Co., Ltd.	Shenzhen, the PRC 29 January 2003 Limited liability company	RMB5,500,000	—	100%	Freight forwarding
*Sinotrans Guangdong Huangpu Warehousing & Terminal Co., Ltd.	Guangzhou, the PRC 30 January 2003 Limited liability company	RMB5,000,000	—	100%	Warehousing, depot and cargo terminal services
*Sinotrans Guangdong Dongjiang Warehousing & Terminal Co., Ltd.	Guangzhou, the PRC 30 January 2003 Limited liability company	RMB5,000,000	—	100%	Warehousing, depot and cargo terminal services
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
*China Marine Shipping Agency Guangdong Company Limited	Guangzhou, the PRC 16 January 2003 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*Sinotrans Guangdong Foshan Airfreight Forwarding Company Limited	Foshan, the PRC 24 January 2003 Limited liability company	RMB3,000,000	—	100%	Express services

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	
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
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
*Sinotrans Qingdao Logistics Co., Ltd.	Qingdao, the PRC 16 May 2003 Limited liability company	RMB100,000,000	90%	100%	Warehousing
Qingdao Bonded Zone Lianfeng Customs Broker Company Limited	Qingdao, the PRC 21 March 1997 Limited liability company	RMB500,000	—	100%	Freight forwarding
*Sinotrans Weihai Customs Broker Company Limited	Weihai, the PRC 21 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
*China Marine Shipping Agency Shandong Company Limited	Qingdao, the PRC 13 January 2003 Limited liability company	RMB3,000,000	—	100%	Shipping agency

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	
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
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
*China Marine Shipping Agency Tianjin Company Limited	Tianjin, the PRC 8 January 2003 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*Sinotrans Tianjin Customs Broker Company Limited	Tianjin, the PRC 23 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
Tianjin Tianshan International Forwarding Co., Ltd.	Tianjin, the PRC 7 October 1986 Sino-foreign equity joint venture	RMB18,000,000	20%	60%	Trucking, freight forwarding
*Sinotrans Tianjin Container Development Co., Ltd	Tianjin, the PRC 26 December 2003 Limited liability company	RMB80,000,000	90%	100%	Warehousing

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 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
*Sinotrans Shenyang Customs Broker Company Limited	Shenyang, the PRC 22 January 2003 Limited liability company	RMB1,500,000	—	100%	Freight forwarding
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
*China Marine shipping Agency Lianyungang Company Limited	Lianyungang, the PRC 8 January 2003 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*Shanghai Fortune International Shipping Agency Co., Ltd.	Shanghai, the PRC 18 August 2003 Sino-foreign equity joint venture	RMB5,000,000	—	51%	Shipping agency

* Subsidiaries established in 2003

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 2003, 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
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 Huayou 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
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

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	
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
*Hankyu Sinotrans International Transport Co., Ltd.	Shanghai, the PRC 10 January 2003 Sino-foreign equity joint venture	US\$1,200,000	—	35.18%	Freight forwarding and express services

* Jointly controlled entities established in 2003

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.

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

	2003 RMB'000	2002 RMB'000
Non-current assets	229,873	215,400
Current assets	825,903	589,048
Non-current liabilities	971	2,900
Current liabilities	454,981	426,391
Revenue	3,031,562	2,166,155
Expenses	(2,678,467)	(1,907,895)

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

The capital commitments in respect of acquisition of property, plant and equipment related to the Group's interests in the jointly controlled entities are summarised as follows:

	2003 RMB'000	2002 RMB'000
Authorised and contracted for but not provided for	—	698
Authorised but not contracted for	10,794	84,094
	10,794	84,792

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

	2003 RMB'000	2002 RMB'000
Pending lawsuits	669	4,469
Guarantees provided by jointly controlled entities for the benefit of joint venture partners (attributable to the Group's interests in those jointly controlled entities)	—	9,933
	669	14,402

18. INVESTMENTS IN ASSOCIATES

	The Group	
	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	58,889	18,909
Share of undistributed post-acquisition profits less losses	12,010	8,698
Dividends received	(1,907)	(3,240)
	68,992	24,367

18. INVESTMENTS IN ASSOCIATES (continued)

The following is a list of the principal associates at 31 December 2003:

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 30 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	US\$1,000,000	—	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
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

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	
China International Exhibition Transportation Company Limited	Beijing, the PRC 20 July 1988 Limited liability company	RMB2,000,000	—	50%	Freight forwarding
*Shanghai Cargostar Co., Ltd.	Shanghai, the PRC 28 October 1997 Sino-foreign equity joint venture	US\$1,000,000	—	24.63%	Air freight forwarding
*Qingdao Yunhai Tongda Air Logistics Co., Ltd.	Qingdao, the PRC 28 March 2003 Sino-foreign equity joint venture	RMB30,000,000	—	27.44%	Warehousing
*China Peace International Travel Service Co., Ltd.	Beijing, the PRC 29 May 1992 Limited liability company	RMB9,000,000	—	21.11%	Tourism information services
*Qingdao Wufang Container Storage Co., Ltd.	Qingdao, the PRC 15 August 2002 Limited liability company	RMB24,292,000	—	30%	Warehousing
*Fujian International Trade Shipping Agency Ltd.	Fujian, the PRC 27 April 1995 Limited liability company	RMB1,500,000	—	40%	Shipping agency

* Associates acquired or established in 2003

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	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepayments on behalf of customers	225,815	184,134	423	—
Prepaid expenses	33,555	46,967	1,200	—
Others	7,269	3,892	145	281
	266,639	234,993	1,768	281

20. INVENTORIES

Inventories mainly comprise supplies, consumables and spare parts. As at 31 December 2003, the inventories of the Group stated at net realisable value amounted to RMB468,000 (2002: RMB4,265,000).

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables	2,987,316	2,082,033	5,672	—
Bills receivable	18,066	6,617	1,703	—
Other receivables	139,095	111,748	7,262	4
Due from related parties	318,968	476,367	600,265	153,528
	3,463,445	2,676,765	614,902	153,532

(a) Trade receivables

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables	3,049,434	2,160,336	5,672	—
Less: Provision for impairment of receivables	(62,118)	(78,303)	—	—
	2,987,316	2,082,033	5,672	—

21. TRADE AND OTHER RECEIVABLES (continued)

(a) Trade receivables (continued)

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 6 months	2,939,222	2,045,551	5,672	—
Between 6 and 12 months	58,949	44,421	—	—
Between 1 and 2 years	19,646	21,660	—	—
Between 2 and 3 years	9,413	12,626	—	—
Over 3 years	22,204	36,078	—	—
	3,049,434	2,160,336	5,672	—

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Deposits receivable	121,466	94,638	735	—
Dividend and investment income receivables	4,575	3,349	—	—
Interest receivables	6,157	—	5,977	—
Others	19,107	28,801	550	4
	151,305	126,788	7,262	4
Less: Provision for impairment of receivables	(12,210)	(15,040)	—	—
	139,095	111,748	7,262	4

21. TRADE AND OTHER RECEIVABLES (continued)

(d) Due from related parties

The amounts due from related parties are analysed as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables:				
Ultimate holding company and fellow subsidiaries	95,839	112,954	1,958	—
Jointly controlled entities	16,584	5,627	—	—
Associates	1,210	15	—	—
Other related parties	170,883	149,977	—	—
	284,516	268,573	1,958	—
Less: Provision for impairment of receivables	(6,437)	(12,387)	—	—
	278,079	256,186	1,958	—
Other receivables:				
Ultimate holding company and fellow subsidiaries	16,063	211,708	591,711	146,932
Jointly controlled entities	14,204	8,654	6,596	6,596
Associates	1,350	2,368	—	—
Other related parties	16,178	6,858	—	—
	47,795	229,588	598,307	153,528
Less: Provision for impairment of receivables	(6,906)	(9,407)	—	—
	40,889	220,181	598,307	153,528
	318,968	476,367	600,265	153,528

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.

21. TRADE AND OTHER RECEIVABLES (continued)

(d) Due from related parties (continued)

The aging of these 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		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 6 months	257,743	220,762	1,958	—
Between 6 and 12 months	10,575	26,965	—	—
Between 1 and 2 years	4,557	11,860	—	—
Between 2 and 3 years	7,121	3,127	—	—
Over 3 years	4,520	5,859	—	—
	284,516	268,573	1,958	—

Other receivables from related parties are generally unsecured, non-interest bearing and repayable on demand.

22. TRADING INVESTMENTS AND HELD-TO-MATURITY INVESTMENTS

	The Group	
	2003 RMB'000	2002 RMB'000
Trading investments		
Equity securities listed outside Hong Kong	609	10,818
Held-to-maturity investments	42,500	—

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.

During the year ended 31 December 2003, the Group entered into an investment agreement with a security company in the PRC. According to the investment agreement, the Group deposited cash into the security company, and the security company made short-term loans to other parties with maturity periods ranging from 1 to 182 days, which matched with the maturity periods of the PRC Government bonds held by such borrowers pledged as collateral on these loans by the borrowers. The held-to-maturity investments of the Group as at 31 December 2003 represented the balance of such loans plus accrued interest.

23. PLEDGED DEPOSITS

	The Group	
	2003 RMB'000	2002 RMB'000
Term deposits with initial term of over three months	55,927	28,666
Corresponding bank borrowings	51,013	12,507

24. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

- (a) As at 31 December 2003, RMB521,535,000 (2002: RMB428,131,000) 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 2003, RMB618,574,000 (US\$74,736,000) (2002: RMB61,866,000 (US\$7,474,000)) and RMB562,830,000 (US\$68,000,000) (2002: Nil) of the Group's and the Company's term deposits with initial term of over three months were denominated in the United States Dollar, respectively. Other term deposits with initial term of over three months were denominated in various foreign currencies.
- (c) The weighted average effective interest rate on term deposits with initial term of over three months of the Group and the Company was 1.97% (2002: 1.82%) and 2.04%(2002: Nil) respectively for the year ended 31 December 2003.

25. CASH AND CASH EQUIVALENTS

- (a) As at 31 December 2003, RMB2,421,470,000 (2002: RMB1,353,200,000) and RMB689,558,000 (2002: RMB27,760,000) of the Group's and the Company's bank balances and cash respectively were 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 1.34% (2002: 1.64%) for the year ended 31 December 2003.

26. TRADE PAYABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade payables	2,753,474	2,229,576	2,817	—
Due to related parties	177,985	99,086	3,281	—
	2,931,459	2,328,662	6,098	—

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		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 6 months	2,590,088	1,992,288	2,817	—
Between 6 and 12 months	87,665	91,837	—	—
Between 1 and 2 years	33,619	93,139	—	—
Between 2 and 3 years	21,425	24,088	—	—
Over 3 years	20,677	28,224	—	—
	2,753,474	2,229,576	2,817	—

(b) Due to related parties

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Ultimate holding company and fellow subsidiaries	99,542	65,375	3,262	—
Jointly controlled entities	4,852	4,930	19	—
Associates	3,295	—	—	—
Other related parties	70,296	28,781	—	—
	177,985	99,086	3,281	—

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 6 months	134,452	69,713	3,279	—
Between 6 and 12 months	30,204	9,106	2	—
Between 1 and 2 years	3,961	10,578	—	—
Between 2 and 3 years	4,442	6,413	—	—
Over 3 years	4,926	3,276	—	—
	177,985	99,086	3,281	—

27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Other payables and accruals	235,384	197,537	31,669	10,245
Due to related parties	378,797	1,063,545	372,360	824,682
	614,181	1,261,082	404,029	834,927

(a) Other payables and accruals

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payable for property, plant and equipment	22,052	12,825	9,571	1,137
Customers' deposits	87,099	69,981	8	—
Accrued expenses	49,951	41,339	21,373	9,108
Dividends payable to minority shareholders of subsidiaries	29,246	27,156	—	—
Advances from other entities	14,330	23,613	36	—
Others	32,706	22,623	681	—
	235,384	197,537	31,669	10,245

(b) Due to related parties

The amounts due to related parties are analysed as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Ultimate holding company and fellow subsidiaries	346,006	1,031,747	372,360	824,682
Jointly controlled entities	1,285	915	—	—
Associates	6,208	10,868	—	—
Other related parties	25,298	20,015	—	—
	378,797	1,063,545	372,360	824,682

Included in the amounts due to the ultimate holding company and fellow subsidiaries as at 31 December 2003 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 RMB165,858,000 (2002: RMB165,858,000) (See Note 29 for details). In addition, a special dividend of RMB477,970,000 is also included in the amounts due to the ultimate holding company and fellow subsidiaries as at 31 December 2002, which was settled in 2003 (See Note 11 for details).

Other than those disclosed above, the amounts due to related parties are generally unsecured, non-interest bearing and have no fixed repayment terms.

28. BORROWINGS

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

	The Group	
	2003 RMB'000	2002 RMB'000
Current		
Bank borrowings	89,333	60,667
Current portion of non-current borrowings	704	947
	90,037	61,614
Non-current		
Bank borrowings	—	710
Total borrowings	90,037	62,324
Borrowings		
Unsecured	29,016	1,657
Secured	61,021	60,667
	90,037	62,324

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.

- (b) The non-current bank borrowings as at 31 December 2002 were repayable between 1 to 2 years.
- (c) Securities

	The Group	
	2003 RMB'000	2002 RMB'000
Term deposits with initial term of over three months pledged	55,927	28,666
Bills receivable pledged	2,005	—
Net book value of property, plant and equipment pledged	8,349	28,916
Guarantee provided by companies within the Group	2,750	28,953
Guarantee provided by third parties	—	325
Corresponding borrowings	61,021	60,667

The weighted average effective interest rate of the borrowings was 3.53% (2002: 5.28%) for the year ended 31 December 2003.

29. EARLY RETIREMENT, TERMINATION AND SUPPLEMENTARY PENSION BENEFITS OBLIGATIONS

Prior to the Reorganisation, 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 agreed that the Group's obligations to make these early retirement, termination and supplementary pension benefits payments as at 30 June 2002 were assumed by the ultimate holding company and the actual payments of these obligations were to be made by the ultimate holding company. The ultimate holding company also agreed to bear any further early retirement, termination and supplementary pension benefits to these retirees and former employees in the excess of the amount of RMB497,574,000 provided by the Group as at 30 June 2002. 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 was to be settled in three equal instalments on 31 December 2003, 2004 and 2005:

	Obligations of				Long-term payable to ultimate holding company RMB'000	Current portion recorded in other payables, accruals and other current liabilities RMB'000
	Early retirement benefits	Termination benefits	Supplementary pension subsidies	Total		
	RMB'000	RMB'000	RMB'000	RMB'000		
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	—	—	—	—	(165,858)	165,858
As at 31 December 2002	—	—	—	—	331,716	165,858
Less: Payment in 2003	—	—	—	—	—	(165,858)
Less: Current portion recorded in other payables, accruals and other current liabilities	—	—	—	—	(165,858)	165,858
As at 31 December 2003	—	—	—	—	165,858	165,858

29. EARLY RETIREMENT, TERMINATION AND SUPPLEMENTARY PENSION BENEFITS OBLIGATIONS (continued)

The above obligations as at 1 January 2002 and 30 June 2002 were actuarially determined by an insurance company in the PRC 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;

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%;

- (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.

30. PROVISIONS

	One-off cash housing subsidies RMB'000	Guarantees RMB'000 <i>Note 34(a)</i>	Outstanding claims RMB'000 <i>Note 34(b)</i>	Total RMB'000
As at 1 January 2002	76,546	13,482	21,294	111,322
Utilised during the year	(10,086)	(1,450)	(13,905)	(25,441)
As at 31 December 2002	66,460	12,032	7,389	85,881
As at 1 January 2003	66,460	12,032	7,389	85,881
Additional provision	—	—	1,188	1,188
Utilised during the year	(7,346)	(3,854)	—	(11,200)
As at 31 December 2003	59,114	8,178	8,577	75,869

One-off cash housing subsidies represent the Group's provision made prior to the Reorganisation. The ultimate holding company 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.

31. SHARE CAPITAL

	The Company	
	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	2,461,596	2,624,087
H shares of RMB1.00 each	1,787,406	—
	4,249,002	2,624,087

Upon its incorporation, 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 as at 1 January 2002 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 year ended 31 December 2002 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 2002 was presented. Retained profits of the Transferred Businesses prior to 1 January 2002 were capitalised and incorporated in the capital reserve pursuant to the Reorganisation and accordingly they were not separately disclosed as at 1 January 2002.

In February 2003, the Company completed its 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 the Hong Kong Dollar.

32. RESERVES

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.

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 the 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 the 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.

For the year ended 31 December 2003, the Board of Directors proposed appropriations of 10% and 5% of profit after tax (2002: 10% and 5%) respectively determined under the PRC accounting standards, of RMB66,236,000 and RMB33,118,000 (2002: RMB2,699,000 and RMB1,350,000) respectively to the statutory surplus reserve fund and the statutory public welfare fund.

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 the PRC accounting standards and the amount determined in accordance with IFRS. As at 31 December 2003, the amount of retained profits available for distribution was approximately RMB475,478,000 (2002: RMB22,945,000), being the amount determined in accordance with the PRC accounting standards.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2003 RMB'000	2002 RMB'000
Profit for the year	705,022	572,222
Interest income	(77,007)	(33,325)
Interest expenses	7,564	7,023
Loss on disposal of property, plant and equipment	629	2,479
Loss on disposal of/(fair value gains on) trading investments	4,794	(2,356)
Charge/(write back) of provision for impairment of receivables and bad debts written off	13,758	(7,940)
Depreciation of property, plant and equipment	200,528	175,077
Impairment losses of property, plant and equipment	27	272
Amortisation of intangible assets	15,898	9,419
Amortisation of land use rights	2,000	1,771
Share of results of associates, net of taxation	(6,552)	(7,790)
Minority interests	156,199	115,082
Operating profit before working capital changes	1,022,860	831,934
Decrease in deferred tax assets	9,043	9,599
Increase in prepayments, deposits and other current assets	(31,646)	(9,657)
(Increase)/decrease in inventories	(940)	1,453
Increase in trade and other receivables	(794,281)	(752,757)
Decrease in deferred tax liabilities	(15)	(339)
Decrease in early retirement, termination and pension benefits obligations	(165,858)	(36,543)
Increase in other liabilities	10,425	1,709
Decrease in provisions	(10,012)	(25,441)
Increase in trade payables	602,797	531,363
(Decrease)/increase in other payables, accruals and other current liabilities	(168,931)	37,555
Increase/(decrease) in receipts in advance from customers	126,700	(7,007)
Increase in income and other taxes liabilities	328,828	228,645
Increase in salary and welfare payable	111,362	17,472
Cash generated from operations	1,040,332	827,986

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 Co 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:

	<u>RMB'000</u>
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	<u>(3,011)</u>
	<u>45,987</u>
12.5% interest acquired by the Group	5,748
Goodwill on acquisition	<u>3,592</u>
Cash consideration paid	<u>9,340</u>
Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents (at 100% attributable interest)	4,939
Cash paid	<u>(9,340)</u>
	<u>(4,401)</u>

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 Co Ltd., 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 follows:

	<u>RMB'000</u>
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	<u>(2,649)</u>
	<u>18,566</u>
11.7% interest acquired by the Group	2,172
Goodwill on acquisition	<u>4,615</u>
Cash consideration paid	<u>6,787</u>
Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents (at 100% attributable interest)	3,162
Cash paid	<u>(6,787)</u>
	<u>(3,625)</u>

34. CONTINGENT LIABILITIES

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

	The Group	
	2003 RMB'000	2002 RMB'000
Outstanding loan guarantees	—	9,933
Guarantees provided by the Group for the benefit of jointly controlled entities	6,000	5,393
Bills discounted with recourse	3,996	9,959
Pending lawsuits	10,659	42,545
	20,655	67,830

- (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. Provision as set out in Note 30 was 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 had been released or withdrawn prior to the listing of the Company's shares in 2003.
- (b) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provision 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 provisions have been made as disclosed in Note 30.
- (d) In addition, in the ordinary course of business, Sinoair has issued various performance and liability guarantees of unspecified amounts to the Civil Aviation Administration of China for the benefit of certain jointly controlled entities to enable those entities to obtain the required air freight forwarding operating licenses.

35. CAPITAL COMMITMENTS

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

	The Group	
	2003 RMB'000	2002 RMB'000
Authorised and contracted for but not provided for	116,019	37,823
Authorised but not contracted for	749,327	36,875
	865,346	74,698
An analysis of the above capital commitments by nature is as follows:		
Acquisition of property, plant and equipment	389,068	65,986
Construction commitments	307,978	320
Purchase of software	10,800	8,392
Investment in an associate	157,500	—
	865,346	74,698

- (b) On 24 July 2003, 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.

36. OPERATING LEASE COMMITMENTS

- (a) **The Group as lessee**

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

	The Group	
	2003 RMB'000	2002 RMB'000
Land and buildings		
— Not later than one year	71,369	51,675
— Later than one year but not later than five years	130,940	108,930
— Later than five years	146,313	129,684
Vessels, containers and other fixed assets		
— Not later than one year	524,050	242,130
— Later than one year but not later than five years	413,148	158,638
— Later than five years	474	—
	1,286,294	691,057

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:

	The Group	
	2003 RMB'000	2002 RMB'000
Land and buildings		
— Not later than one year	6,096	3,436
— Later than one year but not later than five years	5,574	2,416
— Later than five years	1,093	1,340
Plant and machinery		
— Not later than one year	360	204
— Later than one year but not later than five years	370	340
	13,493	7,736

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 in jointly controlled entities of the Group, and entities, directly or indirectly, controlled or significantly influenced by 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 our 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;
- Leasing of certain containers by the Group; and
- Leasing of certain motor vehicles by the Group.

In addition, 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.

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	
	2003 RMB'000	2002 RMB'000
<i>Transactions with ultimate holding company and fellow subsidiaries:</i>		
<i>Revenue:</i>		
Revenue from provision of services	313,362	384,403
Rental income from vessels leased out	—	495
Management fee income	—	5,450
<i>Expenses:</i>		
Service fees	(128,845)	(330,382)
Rental expenses for office buildings	(49,991)	(30,517)
Rental expenses for containers	(22,161)	(41,107)
Rental expenses for warehouses and depots	(2,600)	(5,240)
Rental expenses for ships	(29,900)	(38,390)
Rental expenses for motor vehicles	(3,001)	(3,884)
Rental expenses for machinery and equipment	—	(3,539)
Management fees	—	(5,842)
<i>Transactions with associates of the Group:</i>		
<i>Revenue:</i>		
Revenue from provision of services	5,900	10
<i>Expenses:</i>		
Service fees	(1,968)	(436)

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

	The Group	
	2003 RMB'000	2002 RMB'000
<i>Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities):</i>		
<i>Revenue:</i>		
Revenue from provision of services	89,601	64,198
<i>Expenses:</i>		
Service fees	(43,550)	(21,480)
<i>Others:</i>		
Guarantees provided by the Group for the benefit of jointly controlled entities	6,000	5,393

In addition, in the ordinary course of business, Sinoair has issued various performance and liability guarantees of unspecified amounts to the Civil Aviation Administration of China for the benefit of certain jointly controlled entities to enable those entities to obtain the required air freight forwarding operating licenses.

	The Group	
	2003 RMB'000	2002 RMB'000
<i>Transactions between jointly controlled entities and joint venture partners in those jointly controlled entities (attributable to the Group's interests in those jointly controlled entities):</i>		
<i>Revenue:</i>		
Revenue from provision of services	427,092	253,220
<i>Expenses:</i>		
Service fees	(471,770)	(292,645)
<i>Transactions with other related parties:</i>		
<i>Revenue:</i>		
Revenue from provision of pick-up, delivery and other services	343,867	261,605
<i>Expenses:</i>		
Expenses from provision of pick up, delivery and other services	(18,247)	(25,852)
<i>Others:</i>		
Guarantees provided by jointly controlled entities for the benefit of joint venture partners (attributable to the Group's interests in those jointly controlled entities)	—	9,933

These transactions were entered into at terms agreed with these related parties in the ordinary course of business.

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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 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	
	2003 RMB'000	2002 RMB'000
<i>Balances with the ultimate holding company and fellow subsidiaries:</i>		
Trade and other receivables	111,902	324,662
Trade payables	(99,542)	(65,375)
Other payables, accruals and other liabilities	(346,006)	(1,031,747)
Long-term payable	(165,858)	(331,716)
<i>Balances with jointly controlled entities:</i>		
Trade and other receivables	30,788	14,281
Trade payables	(4,852)	(4,930)
Other payables, accruals and other liabilities	(1,285)	(915)
<i>Balances with associates of the Group:</i>		
Trade and other receivables	2,560	2,383
Trade payables	(3,295)	—
Other payables, accruals and other liabilities	(6,208)	(10,868)
<i>Balances with other related parties:</i>		
Trade and other receivables	187,061	156,835
Trade payables	(70,296)	(28,781)
Other payables, accruals and other liabilities	(25,298)	(20,015)

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.

38. SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2003 and up to the date of this report:

- (a) On 18 January 2004, the Group entered into a strategic cooperation agreement (the "Agreement") with Crystalry Holdings Limited ("CHL"), a Hong Kong incorporated company. Pursuant to the Agreement, CHL is to set up a new company (the "Newco") in Hong Kong in 2004 and transfer its direct and indirect equity interests in several of its subsidiaries, jointly controlled entities and associates in the PRC, Hong Kong and the U.S. (collectively named as "Yuli Group") to the Newco. The Yuli Group is engaged in freight forwarding, storage and terminal services, and trucking services. Most of these businesses are in Fujian Province. The Group will acquire a 75% equity interest in the Newco through transfer of equity interest from CHL and additional capital contribution to the Newco. It is expected that the total investment by the Group would not exceed RMB210 million.
- (b) At the Board of Directors' meeting held on 29 March 2004, the directors proposed a final dividend of RMB0.030 per ordinary share for the year ended 31 December 2003.

38. SUBSEQUENT EVENTS *(continued)*

- (c) On 12 March 2004, the Group signed a cooperation agreement with Lianyungang Port Group Co., Ltd., Lianyungang Keyinge Bulk Cargo Terminal Co., Ltd. ("Keyinge") and the current shareholders of Keyinge. The Group and a subsidiary of Sinotrans Group Company will make a total investment of RMB157.5 million to hold a 42% total equity interest in Keyinge, which operates bulk cargo terminal facilities in Lianyungang, the PRC.
- (d) On 29 March 2004, Sinoair entered into acquisition agreements with Sinotrans Group Company and Sinotrans Real Estate Development Company to acquire 41% and 5% equity interests in Sinotrans Air Logistic Co., Ltd. respectively. After completion of these acquisitions, Sinoair's equity interest in Sinotrans Air Logistic Co., Ltd. will increase from 44% as at 31 December 2003 to 90%. The considerations for the acquisitions of RMB4,100,000 and RMB500,000 are payable in cash.
- (e) On 29 March 2004, the Group entered into a framework acquisition agreement with Sinotrans Group Company and its certain subsidiaries, to acquire their interests in seven companies. The name of the seven companies and the percentage of interest to be acquired by the Group are listed as follows:

Name of the company	Percentage of interest
Shanghai Haihui International Container Repair Co., Ltd.	35%
Sinotrans Hi-Tech Logistics (Suzhou) Co., Ltd.	30%
Jiangsu Nissin Sinotrans International Transportation Co., Ltd.	50%
Changshu Nissin Sinotrans Transportation Co., Ltd.	30%
China Taicang Marine Shipping Agency Co., Ltd.	100%
Ningbo Dagang Container Co., Ltd.	50%
Xuzhou Sinotrans Maruzen Transportation Co., Ltd.	50%

The primary business activities of the seven companies are the provision of logistics, freight forwarding and shipping agency services in Shanghai and the Provinces of Zhejiang and Jiangsu, the PRC. The acquisition consideration amounting to RMB80,545,000 is payable in cash on completion of the transfer of the equity interest in each of the above seven companies.

- (f) On 29 March 2004, the Group entered into an agreement with a subsidiary of Sinotrans Group Company to form a Sino-foreign equity joint venture, namely, Shenyang Sinotrans International Forwarding Co., Ltd. ("Shenyang JV"). The registered capital of Shenyang JV is RMB70 million. The Group and the subsidiary of Sinotrans Group Company will make capital contributions of RMB 36.9 million and RMB33.1 million, respectively. The primary business activities of Shenyang JV will be international freight forwarding and related storage and transportation services in the Province of Liaoning, the PRC.

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 29 March 2004.