

Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2004

The following unaudited condensed consolidated financial statements of Sinotrans Limited (the “Company”) and its subsidiaries (collectively the “Group”) as at and for the six months ended 30 June 2004, together with comparative figures in 2003, are prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board, and have been reviewed by the Audit Committee of the Company:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

For the six months ended 30 June			
	Note	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Turnover	3	9,909,205	7,692,092
Other revenues		29,318	26,532
		9,938,523	7,718,624
Transportation and related charges		(7,440,176)	(5,565,620)
Staff costs		(655,200)	(549,396)
Depreciation and amortisation		(115,857)	(103,109)
Repairs and maintenance		(42,477)	(40,358)
Fuel		(208,182)	(217,132)
Travel and promotional expenses		(109,749)	(77,025)
Office and communications expenses		(78,986)	(78,045)
Rental expenses		(546,590)	(398,569)
Other operating expenses		(160,650)	(144,180)
Operating profit	5	580,656	545,190
Finance income, net	4	26,229	31,036
		606,885	576,226
Share of results of associates before taxation		9,302	3,638
Profit before taxation		616,187	579,864
Taxation	6	(167,759)	(157,689)
Profit after taxation		448,428	422,175
Minority interests		(74,117)	(76,622)
Profit for the period		374,311	345,553
Declared/proposed interim dividend	7(b)	(127,470)	(110,474)
Earnings per share, basic and diluted	8	RMB0.09	RMB0.09

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For the six months ended 30 June 2004

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

	Note	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,563,378	1,402,871
Prepayments for acquisition of land use rights		113,143	42,015
Land use rights		191,458	187,922
Intangible assets		44,035	49,521
Investments in associates		83,306	68,992
Held-to-maturity investments	10	206,915	—
Other non-current assets		50,928	27,680
Deferred tax assets	6	261,803	265,535
		2,514,966	2,044,536
Current assets			
Prepayments, deposits and other current assets		228,668	266,639
Inventories		17,234	18,228
Trade and other receivables	11	4,055,543	3,463,445
Trading investments		609	609
Held-to-maturity investments	10	—	42,500
Pledged deposits	13(c)	57,815	55,927
Term deposits with initial term of over three months		506,783	1,140,109
Cash and cash equivalents		5,264,251	4,882,817
		10,130,903	9,870,274
Total assets		12,645,869	11,914,810

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2004

	Note	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Share capital		4,249,002	4,249,002
Reserves		2,103,419	1,856,578
Declared/proposed dividend		127,470	127,470
Shareholders' equity		6,479,891	6,233,050
Minority interests		826,315	776,487
Non-current liabilities			
Borrowings	13	81	—
Deferred tax liabilities		1,354	1,603
Long-term payable to ultimate holding company	14	165,858	165,858
Provisions		72,549	75,869
Other liabilities		11,573	14,074
		251,415	257,404
Current liabilities			
Trade payables	12	3,166,732	2,931,459
Other payables, accruals and other current liabilities	14	691,557	614,181
Receipts in advance from customers		524,559	519,473
Current tax liabilities		210,315	176,804
Borrowings	13	134,966	90,037
Salary and welfare payable		360,119	315,915
		5,088,248	4,647,869
Total liabilities		5,339,663	4,905,273
Total equity and liabilities		12,645,869	11,914,810

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*For the six months ended 30 June 2004***UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2004*

	<i>Note</i>	For the six months ended 30 June	
		2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Net cash inflow from operating activities		295,600	344,274
Net cash provided from/(used in) investing activities	16(a)	120,623	(1,518,216)
Net cash (used in)/provided from financing activities	16(b)	(34,789)	3,023,748
Net increase in cash and cash equivalents		381,434	1,849,806
Cash and cash equivalents at 1 January		4,882,817	2,342,026
Cash and cash equivalents at 30 June		5,264,251	4,191,832

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For the six months ended 30 June 2004

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2004

For the six months ended 30 June 2004 (unaudited)

	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2004	4,249,002	1,295,248	68,935	34,468	585,397	6,233,050
Profit for the period	—	—	—	—	374,311	374,311
2003 final dividend	—	—	—	—	(127,470)	(127,470)
Transfer to statutory reserves (Note 7(a))	—	—	35,584	17,792	(53,376)	—
As at 30 June 2004	4,249,002	1,295,248	104,519	52,260	778,862	6,479,891
Representing:						
Share capital and reserves	4,249,002	1,295,248	104,519	52,260	651,392	6,352,421
2004 declared interim dividend	—	—	—	—	127,470	127,470
As at 30 June 2004	4,249,002	1,295,248	104,519	52,260	778,862	6,479,891

For the six months ended 30 June 2003 (unaudited)

	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2003	2,624,087	(845,111)	2,699	1,350	90,203	1,873,228
Issuance and sale of H shares	1,624,915	1,918,681	—	—	—	3,543,596
Deferred tax assets arising from the asset revaluation surplus during Reorganisation deductible for income tax purposes (Note 6)	—	221,678	—	—	—	221,678
Profit for the period	—	—	—	—	345,553	345,553
Transfer to statutory reserves (Note 7(a))	—	—	32,633	16,316	(48,949)	—
As at 30 June 2003	4,249,002	1,295,248	35,332	17,666	386,807	5,984,055
Representing:						
Share capital and reserves	4,249,002	1,295,248	35,332	17,666	276,333	5,873,581
2003 proposed interim dividend	—	—	—	—	110,474	110,474
As at 30 June 2003	4,249,002	1,295,248	35,332	17,666	386,807	5,984,055

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For the six months ended 30 June 2004

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Group reorganisation and principal activities

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

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 and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2004 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31 December 2003.

3. Turnover and segment information

(a) Primary reporting format — business segments

The Group has five main business segments: freight forwarding, shipping agency, express services, marine transportation and storage and terminal 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.

Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2004

3. Turnover and segment information (Continued)

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

For the six months ended 30 June 2004 (unaudited)

	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	7,106,984	215,367	971,323	1,273,047	281,428	61,056	—	9,909,205
Turnover — inter-segment	51,518	16,195	2,339	107,865	23,205	5,615	(206,737)	—
	7,158,502	231,562	973,662	1,380,912	304,633	66,671	(206,737)	9,909,205
Segment results	155,303	110,901	215,981	87,490	59,469	(715)	—	628,429
Unallocated costs								(47,773)
Operating profit								580,656
Finance income, net								26,229
								606,885
Share of results of associates before taxation								9,302
Profit before taxation								616,187
Taxation								(167,759)
Profit after taxation								448,428
Minority interests								(74,117)
Profit for the period								374,311

For the six months ended 30 June 2003 (unaudited)

	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	5,399,638	208,622	702,887	1,088,472	239,479	52,994	—	7,692,092
Turnover — inter-segment	103,187	13,959	30,059	87,055	19,329	13,902	(267,491)	—
	5,502,825	222,581	732,946	1,175,527	258,808	66,896	(267,491)	7,692,092
Segment results	179,305	124,287	209,624	39,869	50,815	(2,347)	—	601,553
Unallocated costs								(56,363)
Operating profit								545,190
Finance income, net								31,036
								576,226
Share of results of associates before taxation								3,638
Profit before taxation								579,864
Taxation								(157,689)
Profit after taxation								422,175
Minority interests								(76,622)
Profit for the period								345,553

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For the six months ended 30 June 2004

3. 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.

For the six months ended 30 June 2004 (unaudited)

	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000
Northern China	1,118,596	14,709	1,133,305	57,691
Eastern China	7,197,905	41,733	7,239,638	439,116
Southern China	1,461,269	14,209	1,475,478	126,542
Other locations	131,435	72	131,507	5,080
Inter-segment elimination	—	(70,723)	(70,723)	—
	9,909,205	—	9,909,205	628,429
Unallocated costs				(47,773)
Operating profit				580,656

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For the six months ended 30 June 2004

3. Turnover and segment information (Continued)

(b) Secondary reporting format — geographical segments (Continued)

	For the six months ended 30 June 2003 (unaudited)			
	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000
Northern China	712,107	5,267	717,374	44,270
Eastern China	5,712,664	50,132	5,762,796	405,492
Southern China	1,129,383	18,879	1,148,262	141,208
Other locations	137,938	2,359	140,297	10,583
Inter-segment elimination	—	(76,637)	(76,637)	—
	7,692,092	—	7,692,092	601,553
Unallocated costs				(56,363)
Operating profit				545,190

4. Finance income, net

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Interest income on bank balances	33,026	34,521
Interest income on held-to-maturity investments	3,236	—
Interest expenses on bank loans	(5,000)	(2,968)
Exchange (losses)/gains, net	(2,189)	2,164
Bank charges	(2,844)	(2,681)
	26,229	31,036

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5. Operating profit

Operating profit is stated after crediting and charging the following:

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Crediting		
Rental income from		
— Land and buildings	3,829	4,500
— Plant and machinery	95	179
Gain on disposal of property, plant and equipment	2,227	1,775
Charging		
Depreciation		
— owned property, plant and equipment	102,116	93,233
— owned property, plant and equipment leased out under operating leases	2,383	768
Loss on disposal of property, plant and equipment	775	2,230
Provision for impairment of receivables and bad debts written off	9,593	1,926
Impairment loss for trading investments	—	8,573
Operating leases		
— land and buildings	73,409	68,722
— plant and equipment	473,181	329,847
Amortisation of land use rights and intangible assets	11,358	9,108

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6. Taxation

Taxation in the unaudited condensed consolidated profit and loss account represents:

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Provision for PRC income tax		
— current	162,025	150,057
— deferred taxation charge	3,483	6,874
	165,508	156,931
Share of taxation attributable to associates	2,251	758
	167,759	157,689

No provision for Hong Kong profits tax has been made as there were no estimated Hong Kong assessable profits for the period ended 30 June 2004 and 2003.

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

The Group provides for enterprise income tax on the basis of its profit for financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for enterprise income tax purposes.

The provision for PRC current income tax is based on the statutory rate of 33% (2003: 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% (2003: 0% to 30%) based on the relevant PRC tax laws and regulations.

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

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, associated companies 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.

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 approximately RMB839,800,000, arising from the Reorganisation, which was recorded by the Group in the financial statements prepared under PRC accounting standards, is deductible for enterprise income tax purposes. Since the Group did not recognise the above asset revaluation surplus in its financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), a deferred tax asset of RMB221,678,000 was recognised and credited into capital reserve in 2003. Such deferred tax asset is charged to taxation during each period based on the depreciation and amortisation on the asset revaluation surplus.

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7. Profit appropriations

(a) Statutory surplus reserve and statutory public welfare fund

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 six months ended 30 June 2004, approximately RMB35,584,000 and RMB17,792,000 (corresponding period in 2003: RMB32,633,000 and RMB16,316,000), representing 10% and 5% of profit after tax (corresponding period in 2003: 10% and 5%) respectively determined under the PRC accounting standards, have been appropriated 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 30 June 2004, the amount of retained profits available for distribution was approximately RMB650,469,000 (30 June 2003: RMB300,324,000), being the amount determined in accordance with the PRC accounting standards.

(b) Dividend

At the Board of Directors' meeting held on 24 August 2004, the directors declared an interim dividend of RMB0.030 per ordinary share for the six months ended 30 June 2004. The total dividend declared is approximately RMB127,470,066 for 4,249,002,200 shares, being the number of ordinary shares issued and outstanding on 30 June 2004. This declared dividend is not reflected as a dividend payable in these unaudited condensed consolidated accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

8. Earnings per share

Basic and diluted earnings per share for the six months ended 30 June 2004 and 2003 have been computed by dividing the profit for the periods by 4,249,002,200 shares and 3,852,585,771 shares, respectively, being the weighted average number of ordinary shares in issue for those periods. As there are no potentially dilutive securities, there is no difference between basic and diluted earnings per share.

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9. Property, plant and equipment

	Unaudited								
	Buildings RMB'000	Leasehold improvements RMB'000	Port and rail facilities RMB'000	Containers RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture and office equipment RMB'000	Assets under construction RMB'000	30 June 2004 Total RMB'000
Cost									
At beginning of the period	746,843	61,020	84,431	18,723	352,269	609,227	354,348	124,885	2,351,746
Additions	8,748	6,589	—	2,156	11,630	54,324	42,254	142,995	268,696
Disposals	—	(1,299)	—	—	(2,821)	(11,555)	(6,505)	—	(22,180)
Transfer upon completion	1,716	—	1,821	—	56,550	—	4,782	(64,869)	—
At end of the period	757,307	66,310	86,252	20,879	417,628	651,996	394,879	203,011	2,598,262
Accumulated depreciation and impairment losses									
At beginning of the period	(182,135)	(24,018)	(42,101)	(16,609)	(147,848)	(339,295)	(196,869)	—	(948,875)
Depreciation for the period	(12,162)	(7,733)	(3,505)	(392)	(18,591)	(36,492)	(25,624)	—	(104,499)
Disposals	—	981	—	—	1,378	11,042	5,089	—	18,490
At end of the period	(194,297)	(30,770)	(45,606)	(17,001)	(165,061)	(364,745)	(217,404)	—	(1,034,884)
Net book value									
At end of the period	563,010	35,540	40,646	3,878	252,567	287,251	177,475	203,011	1,563,378
At beginning of the period	564,708	37,002	42,330	2,114	204,421	269,932	157,479	124,885	1,402,871

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10. Held-to-maturity investments

	Note	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Held-to-maturity investments:			
— Non current	(i)	206,915	—
— Current	(ii)	—	42,500

(i) Held-to-maturity investments as at 30 June 2004 represented term deposits denominated in the US dollar at a bank with maturities ranging from 5 years to 10 years. The interest rates are variable with reference to US dollar London InterBank Offered Rate and the weighted average effective interest rate for the six months ended 30 June 2004 was 8.16%. The bank has early repayment options under the deposit agreements. The derivatives embedded in these deposits are not separately accounted for because their risks and characteristics are considered to be closely related to the deposits.

(ii) 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.

11. Trade and other receivables

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Trade receivables, net		
— Due from third parties	3,557,388	2,987,316
— Due from related parties	273,212	278,079
	3,830,600	3,265,395
Bills receivable	19,860	18,066
Other receivables, net		
— Due from third parties	155,539	139,095
— Due from related parties	49,544	40,889
	4,055,543	3,463,445

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11. Trade and other receivables (Continued)

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Trade receivables		
— Due from third parties	3,626,451	3,049,434
— Due from related parties	277,018	284,516
	3,903,469	3,333,950
Less: Provision for impairment of receivables		
— Due from third parties	(69,063)	(62,118)
— Due from related parties	(3,806)	(6,437)
Trade receivables, net	3,830,600	3,265,395

As at 30 June 2004 and 31 December 2003, the aging analysis of trade receivables are as follows:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Within 6 months	3,731,081	3,196,965
Between 6 and 12 months	102,831	69,524
Between 1 and 2 years	31,016	24,203
Between 2 and 3 years	8,648	16,534
Over 3 years	29,893	26,724
	3,903,469	3,333,950

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

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Other receivables		
— Due from third parties	167,171	151,305
— Due from related parties	58,128	47,795
	225,299	199,100
Less: Provision for impairment of receivables		
— Due from third parties	(11,632)	(12,210)
— Due from related parties	(8,584)	(6,906)
Other receivables, net	205,083	179,984

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12. Trade payables

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Trade payables		
— Due to third parties	2,931,309	2,753,474
— Due to related parties	235,423	177,985
	3,166,732	2,931,459

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:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Within 6 months	2,736,332	2,724,540
Between 6 and 12 months	317,494	117,869
Between 1 and 2 years	52,133	37,580
Between 2 and 3 years	16,189	25,867
Over 3 years	44,584	25,603
	3,166,732	2,931,459

13. Borrowings

(a) Borrowings represent bank borrowings which are analysed as follows:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Current:		
Bank borrowings	134,614	89,333
Current portion of non-current borrowings	352	704
	134,966	90,037
Non-current:		
Bank borrowings	81	—
Total borrowings	135,047	90,037
Borrowings:		
Unsecured	57,536	29,016
Secured	77,511	61,021
	135,047	90,037

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13. Borrowings (Continued)

(b) The Group's long term bank borrowings were repayable as follows:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Bank borrowings:		
Within 1 year	352	704
Between 2 to 5 years	81	—
	433	704
Less: current portion	(352)	(704)
	81	—

(c) Securities

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Deposits pledged	57,815	55,927
Bills receivable pledged	—	2,005
Net book value of property, plant and equipment pledged	16,932	8,349
Guarantees provided by companies within the Group	8,966	2,750
Guarantees provided by third parties	8,000	—
Corresponding borrowings	77,511	61,021

14. Long-term payable to ultimate holding company

Pursuant to the Reorganisation, the Group and the ultimate holding company agreed that the Group's obligations to make early retirement, termination and supplementary pension benefits payments to those employees who retired or whose employment was terminated prior to the Reorganisation were assumed by the ultimate holding company in consideration of the payment by the Group of an amount of RMB497,574,000 to the ultimate holding company. The Group paid RMB165,858,000 to the ultimate holding company in 2003. As at 30 June 2004, RMB165,858,000 was recorded in other payables, accruals and other current liabilities, and the remaining RMB165,858,000 was recorded in long-term payable to ultimate holding company.

15. Additional financial information on balance sheet

As at 30 June 2004, the net current assets of the Group amounted to RMB5,042,655,000 (31 December 2003: RMB5,222,405,000), and the total assets less current liabilities of the Group were RMB7,557,621,000 (31 December 2003: RMB7,266,941,000).

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16. Supplementary information to unaudited condensed consolidated cash flow statement

(a) Major investing activities:

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Purchase of property, plant and equipment	(268,696)	(173,733)
Purchase of intangible assets	(5,108)	(20,428)
Purchase of land use rights	(6,676)	(422)
Prepayments for acquisition of land use rights	(71,128)	(6,329)
Purchase of held-to-maturity investments	(206,915)	—
Disposal of held-to-maturity investments	42,500	—
Decrease/(increase) in term deposits with initial term of over three months	633,326	(1,376,605)
Interest income received	26,313	34,521
Increase in other non-current assets	(23,248)	(811)

(b) Major financing activities:

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
New bank borrowings	155,562	40,113
Repayments of bank borrowings	(110,552)	(56,392)
Gross proceeds from initial public offering	—	3,533,390
Payment of dividends	(53,622)	(478,000)
Dividends to minority shareholders in subsidiaries	(24,289)	(32,086)

17. Contingent liabilities

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

		30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Guarantees provided by the Group for the benefit of jointly controlled entities	(i)	6,500	6,000
Bills discounted with recourse		2,993	3,996
Pending lawsuits	(ii)	31,240	10,659
		40,733	20,655

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17. Contingent liabilities (Continued)

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

	Note	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Pending lawsuits	(ii)	669	669

- (i) The Group had acted as the guarantor for various external borrowings by the ultimate holding company, certain fellow subsidiaries under the ultimate holding company and certain third party entities. 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. As at 30 June 2004 and 31 December 2003, it acted as the guarantor for certain jointly controlled entities and certain third party entities. Provisions as set out in unaudited condensed consolidated balance sheet have been made for those guarantees where management believes it is probable that the Group will have to pay up those guarantees and at amounts based on its best estimate. Other outstanding guarantees are disclosed as contingent liabilities above.
- (ii) The Group has been named in a number of lawsuits arising in the ordinary course of business. Provisions as set out in unaudited condensed consolidated balance sheet have 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, but they are disclosed as contingent liabilities above.
- (iii) 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.

18. Capital commitments

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

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Authorised and contracted for but not provided for	750,934	116,019
Authorised but not contracted for	541,568	749,327
	1,292,502	865,346

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18. Capital commitments (Continued)

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

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Acquisition of property, plant and equipment	394,244	389,068
Construction commitments	368,967	307,978
Purchase of software	11,600	10,800
Investment in subsidiaries, jointly controlled entities, associates	517,691	157,500
	1,292,502	865,346

- (b) 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:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Authorised but not contracted for	6,294	10,794

19. Operating leases commitments

(a) The Group as lessee

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

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Land and buildings		
— Not later than one year	82,370	71,369
— Later than one year but not later than five years	136,376	130,940
— Later than five years	148,963	146,313
Vessels, containers and other fixed assets		
— Not later than one year	630,641	524,050
— Later than one year but not later than five years	351,606	413,148
— Later than five years	56	474
	1,350,012	1,286,294

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19. Operating leases 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:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Land and buildings		
— Not later than one year	13,301	6,096
— Later than one year but not later than five years	9,869	5,574
— Later than five years	2,674	1,093
Plant and machinery		
— Not later than one year	360	360
— Later than one year but not later than five years	177	370
	26,381	13,493

20. Significant related party transactions

During the six months ended 30 June 2004, 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.

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

(a) Profit and loss items

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Transactions with ultimate holding company and fellow subsidiaries		
Revenue:		
Revenue from provision of services	194,160	179,080
Expenses		
Service fees	(112,776)	(96,969)
Rental expenses for office buildings	(17,352)	(20,098)
Rental expenses for containers	(16,558)	(8,917)
Rental expenses for warehouse and depots	—	(1,791)
Rental expenses for ships	(23,266)	(12,352)
Rental expenses for motor vehicles	(1,550)	(1,708)
Transactions with associates of the Group		
Revenue:		
Revenue from provision of services	5,293	4,296
Expenses:		
Service fees	(1,636)	(164)

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20. Significant related party transactions (Continued)

(a) Profit and loss items (Continued)

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities)		
Revenue:		
Revenue from provision of services	37,936	30,176
Expenses:		
Service fees	(22,618)	(17,790)
Others:		
Guarantees provided by the Group for the benefit of jointly controlled entities	2,250	7,100

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.

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
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)		
Revenue:		
Revenue from provision of services	172,581	177,807
Expenses:		
Service fees	(320,585)	(201,635)

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20. Significant related party transactions (Continued)

(a) Profit and loss items (Continued)

	For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Transactions with other related parties		
Revenue:		
Revenue from provision of pick-up, delivery and other services	171,283	149,131
Expenses:		
Expenses from provision of pick-up, delivery and other services	(3,494)	(2,132)

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

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 14) 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.

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20. Significant related party transactions (Continued)

(b) Balance sheet items

As at 30 June 2004 and 31 December 2003, balances with related parties comprised:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Balances with ultimate holding company and fellow subsidiaries		
Trade and other receivables	152,693	111,902
Trade payables	(94,831)	(99,542)
Other payables, accruals and other liabilities	(412,159)	(346,006)
Long-term payable	(165,858)	(165,858)
Balances with jointly controlled entities		
Trade and other receivables	23,499	30,788
Guarantees provided by the Group for the benefit of jointly controlled entities	6,500	6,000
Trade payables	(3,927)	(4,852)
Other payables, accruals and other liabilities	(2,564)	(1,285)
Balances with associates of the Group		
Trade and other receivables	5,734	2,560
Trade payables	(3,721)	(3,295)
Other payables, accruals and other liabilities	(8,184)	(6,208)
Balances with other related parties		
Trade and other receivables	153,220	187,061
Trade payables	(132,944)	(70,296)
Other payables, accruals and other liabilities	(18,200)	(25,298)

For the balance sheet items, other related parties primarily represent the joint venture partners in jointly controlled entities. Other receivables from related parties are generally unsecured, non-interest bearing and repayable on demand. Other than those disclosed in Note 14, the amounts due to related parties are generally unsecured, non-interest bearing and have no fixed repayment terms.

21. Subsequent event

At the Board of Directors' meeting held on 24 August 2004, the directors declared an interim dividend of RMB0.030 per ordinary share for the six months ended 30 June 2004.