

Report of the Directors

The board of directors (the “Board”) is pleased to present its report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004.

BUSINESS ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The business activities of the Group are freight forwarding, express services, shipping agency services, storage and terminal services, marine transportation and trucking services. There were no material changes in the nature of the principal activities of the Group during the year.

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

SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

Particulars of the subsidiaries, jointly-controlled entities and associated companies of the Company are set out in Notes 16, 17 and 18 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the financial statements on page 48. The summary of results and assets and liabilities of the Group for the previous five years is set out on page 3.

DIVIDENDS

The Company paid an interim dividend of RMB0.030 per share (2003: an interim dividend of RMB0.026 per share paid) on 18 October 2004.

The Board recommended the payment of a final dividend of RMB0.034 per share, subject to shareholders’ approval in respect of the recommendation, declaration and payment of the final dividend for 2004 at the Annual General Meeting to be held on Monday, 6 June 2005. Please refer to the “Notice of the Annual General Meeting” for further details.

It is expected that the final dividend will be paid on or before Thursday, 30 June 2005 to shareholders whose names appear on the register of members on Thursday, 5 May 2005. The register of members of the Company will be closed from Thursday, 5 May 2005 to Friday, 3 June 2005 (both days inclusive), during which no transfers will be registered.

In order to qualify for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with relevant share certificates to the Company’s Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 46/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Wednesday, 4 May 2005, for registration.

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Pursuant to the Articles of Association of the Company, dividends payable to the holders of Domestic Shares will be paid in Renminbi, while dividends payable to the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars is the mean average exchange rate of Renminbi to Hong Kong dollar published by the People's Bank of China during the calendar week (15 March 2005 to 21 March 2005) prior to the date of declaration of the dividend. During the period, the average exchange rate of Renminbi to Hong Kong Dollar was HK\$1 = RMB1.06074. Accordingly, the amount of final dividend for each H Share of the Company is HK\$0.03205.

BANK LOANS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2004, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively.

For the year ended 31 December 2004, none of the directors, supervisors, their respective associates and any shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) of the Company had any interest in the five largest customers or the five largest suppliers of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2004 are disclosed in Note 37 to the financial statements.

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

	2004	
	Note	RMB'000
Transactions with Sinotrans Group Company and its subsidiaries	1	
Provision of transportation and logistics services		388,914
Receipt of transportation and logistics services		(192,641)
Vessel chartering		(48,361)
Container leasing		(48,079)
Vehicle rental		(2,353)
Property leasing		(45,835)
Provision of information technology services		960
Transactions with connected joint venture partners	2	
Provision of services		50,123
Receipt of services		(12,229)
Transactions with connected non wholly-owned subsidiaries and associates of the Company	3	
Provision of services		203,794
Receipt of services		(69,119)

Note 1: Transactions with China National Foreign Trade Transportation (Group) Corporation ("Sinotrans Group Company") and its subsidiaries are considered as connected transactions as Sinotrans Group Company is a controlling shareholder of the Company, and its subsidiaries are associates of the Company.

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

Note 3: Transactions with connected non wholly-owned subsidiaries and associates of the Company are considered as connected transactions as these companies are associates of a substantial shareholder of the Company or its subsidiaries.

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As stated in the Company's prospectus dated 29 January 2003, the Company has obtained waivers in relation to the continuing connected transactions of the Group described in Notes 1 to 3 from the Stock Exchange.

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

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

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

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

During the reporting period, the Company also had the following connected transactions:

1. On 29 March 2004, Sinotrans Air Transportation Development Co., Ltd ("Sinoair"), a non-wholly-owned subsidiary of the Group, entered into acquisition agreements with Sinotrans Group Company and Sinotrans Real Estate Development Company to acquire 41% and 5% equity interests in Sinotrans Konggang Logistics Co., Ltd. respectively. After the completion of the acquisitions, the shareholding in Sinotrans Konggang Logistics Co., Limited held by Sinoair increased from 44% as at 31 December 2003 to 90%. The transfer price were RMB4,100,000 and RMB500,000 respectively.

2. On 29 March 2004, the Group entered into a framework acquisition agreement with Sinotrans Group Company and certain of its subsidiaries to acquire the interest of Sinotrans Group Company and certain of its subsidiaries in seven companies. The names of these seven companies and the shareholding which the Group intended to acquire are as follows:

Company Name	Shareholding
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 principal business activities of these seven companies are the provision of logistics, freight forwarding and shipping agency services in Shanghai, Zhejiang and Jiangsu. The transfer price of RMB80,545,000 in total shall be payable in cash on completion of transfer of equity interest of the seven companies.

3. On 29 March 2004, the Group entered into a joint venture agreement with a subsidiary of Sinotrans Group Company to form Shenyang Sinotrans International Forwarding Co., Ltd. The joint venture company has a registered capital of RMB70,000,000. The Group and such subsidiary of Sinotrans Group Company made capital injection of RMB36,900,000 and RMB33,100,000 respectively. The joint venture company engages in international freight forwarding and related storage and transportation services in Liaoning province, the PRC.
4. On 28 April 2004, the Company and its wholly-owned subsidiary 中國外運陸橋運輸有限公司 (Sinotrans Landbridge Transportation Company Limited) entered into a joint venture agreement with 江蘇交通產業集團有限公司 (Jiangsu Traffic Assets Holdings Company Limited) and a subsidiary of Sinotrans Group Company to form 新陸橋(連運港)碼頭有限公司 (Xin Luqiao (Lianyungang) Terminal Company Limited). The company has a registered capital of RMB375,000,000. The Company, the wholly-owned subsidiary of the Company and such subsidiary of Sinotrans Group Company made capital injection of RMB3,750,000, RMB3,750,000 and RMB150,000,000 respectively. The joint venture company provides storage and terminal services in Lianyungang including bulk cargo terminal operation, storage, feeding service and leasing.

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5. On 16 June 2004, the Company, Sinoair (the non wholly-owned subsidiary of the Company) and Sinotrans Group Company entered into a joint venture agreement to form 中外運物流投資控股有限公司 (Sinotrans Logistics Investment Holding Co, Ltd.). The company has a registered capital of RMB200,000,000. The Company, Sinoair and Sinotrans Group Company made capital injection of RMB70,000,000, RMB25,000,000 and RMB105,000,000 respectively. The joint venture company engages in infrastructure investment in logistics, industrial and commercial property investment, enterprise equity investment, venture investment, operation and management of various types of assets, leasing services for logistics equipment and machinery, consultancy services for logistics-related technology, etc.
6. On 6 December 2004, 中外運湖北有限公司 (“Hubei Company”), 中國外運華東有限公司 (“Huadong Company”) (which are both wholly-owned subsidiaries of the Company) and Sinotrans Group Company entered into a joint venture agreement under which Hubei Company and Huadong Company agreed to sell a total of 49% of the registered capital in 上海中外運長江運輸有限公司 (Sinotrans Changjiang Shipping Company Limited) (“Changjiang Company”) to Sinotrans Group Company at an aggregate consideration of RMB6,500,000. Under the joint venture agreement, Huadong Company and Sinotrans Group Company agreed, after the share sale, to increase Changjiang Company’s registered capital from RMB10,000,000 to RMB100,000,000 pro rata to their shareholding. Huadong Company and Sinotrans Group Company agreed to make capital injection of RMB45,900,000 and RMB44,100,000 into Changjiang Company respectively. The principal operations of Changjiang Company include inland water transportation.

Under the requirements of the Listing Rules, the above transactions are connected transactions of the Company. The Company has released announcements for disclosure.

ACQUISITIONS AND DISPOSALS

On 31 December 2004, the Group completed its acquisition of a 75% equity interest in Trade Sky International Limited for a cash consideration, which is disclosed in Note 33(b) to the financial statements. Except that, the Group did not undertake any significant acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2004.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

TAXATION

Details of taxation of the Company and the Group as at 31 December 2004 are set out in Note 9 to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in page 52 of the financial statements and Note 32 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2004 amounted to RMB866,292,000 (2003: RMB475,478,000).

SHARE CAPITAL

For the year ended 31 December 2004, there was no change in the shareholding structure of the Company. Shareholding structure of the Company as at 31 December 2004 is as follows:

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than directors or supervisors) in the shares of the Company which were required to be disclosed to the Company pursuant to the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Corporate Interests	Short Position	Class of Shares	As a % of total issued share capital	As a % of total issued H share capital
China National Foreign Trade Transportation (Group) Corporation	2,461,596,200	—	Domestic Shares	57.93%	—
Deutsche Bank Aktiengesellschaft	219,453,000	—	H Shares	5.16%	12.28%
Deutsche Post Beteiligungen Holdings GmbH	201,852,000	—	H Shares	4.75%	11.30%
UPS Air Couriers of America Limited	124,657,000	—	H Shares	2.93%	6.97%
Oppenheimer Funds, Inc	92,079,000	—	H Shares	2.16%	5.15%
J.P. Morgan Chase & Co.	90,154,000	—	H Shares	2.12%	5.04%
	—	52,459,000 ^(P)	H Shares	1.23%	2.93%

Note: (P) Shares in lending pool

Save as disclosed above, as at 31 December 2004, so far as was known to the directors of the Company, no person (other than directors or supervisors) had any interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

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PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

So far as was known to the directors of the Company, there was no purchase, sale or redemption of any H Shares by any member of the Group during the year ended 31 December 2004.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company are as follows:

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

Koo Kou Hwa	(appointed on 19 November 2002 and passed away on 21 January 2005)
Sun Shuyi	(appointed on 19 November 2002)
Lu Zhengfei	(appointed on 27 September 2004)

Supervisors:

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

Independent supervisor:

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

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in directors and senior management of the Company were as follows:

Mr. Lu Zhengfei, independent non-executive director of the Company, was appointed on 27 September 2004.

Mr. Koo Kou Hwa, independent non-executive director of the Company, passed away on 21 January 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 25 to 30.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

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

The remuneration of the directors and the details of the five highest-paid individuals of the Company are set out in Note 5 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2004, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2004, none of the directors or supervisors had any material interest in any contract of the Company to which the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2004 was the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries a party to any arrangement which would enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

MATERIAL CONTRACTS WITH SINOTRANS GROUP COMPANY

Sinotrans Group Company is the controlling shareholder of the Company, with which the Company entered into various agreements, so as to regulate the on-going business relationship between our Group and Sinotrans Group Company. These agreements are the Reorganisation Agreement, Business Services Agreement, Master Lease Agreement, Trademarks Licence Agreement and Registered User Agreement, Computer Software Licence Agreement and IT Services Agreement.

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Reorganisation Agreement

On 14 January 2003, the Company entered into a reorganisation agreement with Sinotrans Group Company. Under the Reorganisation Agreement, Sinotrans Group Company agreed to indemnify the Company against, inter alia, certain liabilities of the Group which may arise as a result of the Reorganisation and the Company also agreed to indemnify Sinotrans Group Company against a breach of any provision of the Reorganisation Agreement on the part of the Company and its subsidiaries.

Business Services Agreement

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

Master Lease Agreement

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

Trademarks Licence Agreement and Registered User Agreement

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

Computer Software Licence Agreement and IT Services Agreement

On 14 January 2003, the Company entered into a computer software licence agreement with Sinotrans Group Company to lease from it free of charge a licence to continue to use various application softwares used by members of the Group. On the same day, it also entered into an IT services agreement with Sinotrans Group Company under which it agreed to provide to members of Sinotrans Group Company information technology support and technical services which, prior to the Reorganisation, had been provided by the IT Department of Sinotrans Group Company. The contract is valid for one year and, in the event that it is not terminated by either party thirty days before its expiry, it shall be renewed automatically for one year.

MANAGEMENT CONTRACTS

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

MATERIAL LITIGATION AND CONTINGENT LIABILITIES

Details of the Group's litigation and contingent liabilities as at 31 December 2004 are set out in Note 34 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2004 are set out in Notes 3(q) and 6 to the financial statements.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTION RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the directors acknowledge that based on publicly available information and within the knowledge of the directors, the Company had sufficient public float as required under the Listing Rules.

SIGNIFICANT EVENTS

1. At the extraordinary general meeting of the Company held on 27 September 2004, Mr. Lu Zhengfei was appointed as the independent non-executive director of the Company.
2. On 1 December 2004, Sinoair, a non wholly-owned subsidiary of the Company entered into a framework agreement with UPS, pursuant to which Sinoair agreed to transfer the UPS express delivery agency businesses conducted by the Group at all locations in the PRC and the 50% interest in the joint venture with UPS owned by Sinoair to UPS, at a consideration of US\$100,000,000, subject to certain adjustments depending primarily on the achievement of certain revenue targets of the UPS express delivery agency business. Those businesses will be transferred to UPS over a period of three years according to their locations in the PRC. The Company has released an announcement and a shareholders' circular in respect of such event.

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND THE MODEL CODE

During the reporting period, the Company has adopted similar practice to the Code of Best Practice as set out in Appendix 14 of the Listing Rules. None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the twelve-month period ended 31 December 2004, in compliance with the above code.

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. During the reporting period, all directors and supervisors of the Company have complied with the Model Code and the required standard regarding directors' securities transactions under its code of conduct.

As at 31 December 2004, Mr. Koo Kou Hwa, Mr. Sun Shuyi and Mr. Lu Zhengfei are the independent non-executive directors of the Company. The Company has received the annual confirmation from each of the independent non-executive directors in respect of their independence and considered that the above independent non-executive directors are independent.

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Due to the passing away with sickness of Mr. Koo Kou Hwa on 21 January 2005, the Company has only two independent non-executive directors in the Board at present, resulting the Company failing to comply with the requirements under Rule 3.10 of the Listing Rules. The Company will approve the relevant nomination and proceed to the appointment procedures for the election of an additional independent director as soon as possible.

SIGNIFICANT POST BALANCE SHEET EVENTS

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

AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The principal functions of the audit committee include the appointment of external auditors, the review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to the Board. As at 31 December 2004, the audit committee comprised one executive director and two independent non-executive directors, namely Mr. Sun Shuyi, Mr. Koo Kuo Hwa and Ms. Tao Suyun.

On 22 March 2005, the Company has appointed Mr. Lu Zhengfei and Ms. Liu Jinghua as additional members of the audit committee, and Ms. Tao Suyun ceased to be a member of the audit committee.

The audit committee has reviewed the 2004 annual results.

AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were the international and PRC auditors to the Company respectively for the year ended 31 December 2004. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors to the Company will be proposed at the forthcoming Annual General Meeting. The Company did not change its auditors in the past two financial years.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to article 72 of the articles of association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or after any vote by show of hands) a poll is demanded:

- (i) by the chairman of such meeting; or
- (ii) by at least two shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a shareholder or shareholders present in person or by proxy and representing one-tenth or not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting.

By Order of the Board

Zhang Bin

Chairman

Beijing, 22 March 2005