

Notes to the 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 Sinotrans Group 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.

The principal activities of the Group include freight forwarding, shipping agency, express services, marine transportation, storage and terminal services and trucking and other services.

2. BASIS OF PREPARATION

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.

The Group adopted IFRS 3 "Business Combinations", International Accounting Standard ("IAS") 36 "Impairment of Assets" and IAS 38 "Intangible Assets" in relation to the acquisitions with respective agreement dated on or after 31 March 2004 (Note 3(h)). Goodwill arising from the acquisition with the agreement dated before 31 March 2004 was amortised using the straight-line method over their estimated useful lives and recognised in the profit and loss account. In accordance with the provisions of IFRS 3, goodwill arising from acquisition with agreement dated on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. There is no impact on opening retained earnings as at 1 January 2004 from the adoption of these standards.

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).

notes to the financial statements

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. (See Note 3(h)(i) for the accounting policy on goodwill). Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The Group adopted IFRS 3 to account for the acquisition of subsidiaries by the Group with respective agreement dated on or after 31 March 2004. In applying the purchase method of accounting under IFRS 3, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (see Note 3(h)(i)).

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.

3. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(d) **Associates**

Investments in associates are accounted for by the equity method of accounting. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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.

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.

(vii) ***Rental income***

Rental income under operating leases of warehouse and depots is recognised on a straight-line basis over the lease term.

notes to the financial statements

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(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. 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 rights is calculated on a straight-line basis over the period of the land use rights.

(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 years
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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated 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.

3. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(g) **Property, plant and equipment (Continued)**

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 profit and loss account 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/associate at the date of acquisition. Goodwill arising from acquisition with respective agreement dated before 31 March 2004 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.

In accordance with IFRS 3, goodwill arising from acquisition with respective agreement dated on or after 31 March 2004 is not amortised but tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

(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.

notes to the financial statements

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 an asset's fair value less costs to sell and value in use.

(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 the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(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.

3. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(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. On 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.

(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.

notes to the financial statements

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(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.

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.

(iv) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not 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, interest rates and credit risk.

— *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.

— *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 31 December 2004 and 2003, 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 RMB5,162,642,000 (2003: RMB4,702,590,000) as at 31 December 2004. In addition, the Group made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB381,071,000 (2003: RMB266,639,000) as at 31 December 2004.

(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).

notes to the financial statements

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.

(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.

3. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(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.

notes to the financial statements

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.

(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 2004							
	Freight forwarding	Shipping agency	Express services	Marine transportation	Storage and terminal services	Other	Inter-segment elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover — external	15,610,403	481,606	2,192,844	2,825,299	631,232	138,447	—	21,879,831
Turnover — inter-segment	96,449	23,155	4,871	231,034	22,712	12,653	(390,874)	—
	15,706,852	504,761	2,197,715	3,056,333	653,944	151,100	(390,874)	21,879,831
Segment results	335,265	234,483	510,698	170,338	129,329	(4,373)	—	1,375,740
Unallocated costs								(138,549)
Operating profit								1,237,191
Finance income, net								68,283
								1,305,474
Share of results of associates before taxation								13,960
Profit before taxation								1,319,434
Taxation								(338,702)
Profit after taxation								980,732
Minority interests								(177,913)
Profit for the year								802,819
Assets								
Segment assets	6,267,353	1,185,272	1,756,231	1,257,242	1,184,550	158,254	(719,809)	11,089,093
Investments in associates								174,102
Unallocated assets								1,817,886
Total assets								13,081,081
Liabilities								
Segment liabilities	3,464,300	815,174	364,173	800,754	245,982	50,876	(719,809)	5,021,450
Unallocated liabilities								243,596
Total liabilities								5,265,046
Other information								
Capital expenditures	313,624	13,190	98,908	14,392	248,056	38,753	—	726,923
Depreciation	94,985	7,664	53,236	9,365	36,889	18,262	—	220,401
Amortisation	8,199	627	5,868	647	1,828	8,356	—	25,525
Reversal of Impairment loss on property, plant and equipment	(14)	—	—	—	—	—	—	(14)
Other non-cash expenses/(income)	11,272	426	5,253	(387)	116	104	—	16,784

notes to the financial statements

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	Shipping agency	Express services	Marine transportation	Storage and terminal services	Other	Inter-segment elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 property, plant and equipment	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)

(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 2004					
	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	2,271,024	44,228	2,315,252	48,079	2,416,967	212,435
Eastern China	16,125,872	206,115	16,331,987	968,487	6,794,031	246,574
Southern China	3,070,242	59,467	3,129,709	341,558	1,733,512	218,560
Other locations	412,693	6,202	418,895	17,616	235,048	49,354
Inter-segment elimination	—	(316,012)	(316,012)	—	(90,465)	—
	21,879,831	—	21,879,831	1,375,740	11,089,093	726,923
Unallocated costs				(138,549)		
Operating profit				1,237,191		
Investments in associates					174,102	
Unallocated assets					1,817,886	
Total assets					13,081,081	

	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)	—
	17,373,888	—	17,373,888	1,248,749	9,248,012	480,820
Unallocated costs				(130,031)		
Operating profit				1,118,718		
Investments in associates					68,992	
Unallocated assets					2,597,806	
Total assets					11,914,810	

notes to the financial statements

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:

	2004 RMB'000	2003 RMB'000
Fees	374	137
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	914	859
— Discretionary bonuses	1,554	2,960
— Contributions to pension plans	43	14
	2,885	3,970

Directors' fees and other emoluments disclosed above include RMB374,000 paid to independent non-executive directors (2003: RMB137,000).

No directors of the Company waived any remuneration during the year (2003: Nil).

The emoluments of the directors were within the following band:

	Number of directors	
	2004	2003
Nil–HK\$1,000,000	6	1
HK\$1,000,001–HK\$1,500,000	—	3
	6	4

(b) Five highest paid individuals

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

	2004	2003
Directors	3	3
Senior management	2	2

5. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals (Continued)

The five individuals whose emoluments were the highest in the Group during the year include three (2003: 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:

	2004 RMB'000	2003 RMB'000
Basic salaries, housing allowances and other allowances and benefits in kind	965	1,076
Discretionary bonuses	795	1,387
Contributions to pension plans	26	25
	1,786	2,488

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

	Number of individuals	
	2004	2003
Nil–HK\$1,000,000	1	—
HK\$1,000,001–HK\$1,500,000	1	2
	2	2

6. STAFF COSTS

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

	Note	2004 RMB'000	2003 RMB'000
Wages and salaries		1,030,394	897,801
Housing benefits	(a)	60,427	41,088
Contributions to pension plans	(b)	114,503	95,953
Termination benefits and early retirement benefits	(c)	13,450	4,949
Welfare and other expenses		258,562	222,844
		1,477,336	1,262,635

- (a) These include the Group's contributions to government sponsored housing funds (at rates ranging from 5% to 25% 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 governments 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.

notes to the financial statements

6. STAFF COSTS (Continued)

- (c) 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 2004, the Group (representing the Company and its subsidiaries) had 15,966 employees (2003: 13,200).

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
Crediting		
Rental income from		
— land and buildings	8,423	6,919
— plant and machinery	742	—
Gain on disposal of property, plant and equipment	3,950	4,512
Gain on disposal of held-to-maturity investments	469	—
Reversal of provision for impairment of property, plant and equipment	14	—
Charging		
Depreciation		
— owned property, plant and equipment	213,826	195,232
— owned property, plant and equipment leased out under operating leases	6,575	5,296
Loss on disposal of property, plant and equipment	7,720	5,141
Auditors' remuneration	9,831	8,828
Provision for impairment of property, plant and equipment	—	27
Provision for impairment of receivables and bad debts written off	16,784	13,758
Loss on disposal of listed trading investments	—	4,794
Operating leases		
— land and buildings	147,977	133,959
— plant and equipment	1,131,762	789,327
Amortisation of land use rights and intangible assets	25,525	17,898

8. FINANCE INCOME, NET

	2004 RMB'000	2003 RMB'000
Interest income on bank balances	73,755	77,007
Interest expenses on bank loans and overdrafts	(5,152)	(7,564)
Exchange gains, net	6,114	8,448
Bank charges	(6,434)	(5,440)
	68,283	72,451

9. TAXATION

Taxation in the consolidated profit and loss account represents:

	2004 RMB'000	2003 RMB'000
Provision for PRC income tax		
— current	321,830	327,472
— deferred taxation charge	13,817	9,028
	335,647	336,500
Share of taxation attributable to associates	3,055	3,085
	338,702	339,585

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 2004 and 2003.

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% (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.

- (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:

	2004 RMB'000	2003 RMB'000
Profit before taxation	1,319,434	1,200,806
Tax calculated at the statutory tax rate of 33%	435,413	396,266
Utilisation of prior year unrecognised tax losses	(6,889)	(6,638)
Deferred tax benefits arising from tax losses in certain entities not recognised	4,953	2,085
Non-taxable income	(15,261)	(14,722)
Expenses not deductible for tax purposes	46,124	46,906
Preferential tax rates on the income of certain subsidiaries/jointly controlled entities	(127,686)	(86,379)
Others	2,048	2,067
Tax charge	338,702	339,585

notes to the financial statements

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:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Deferred tax assets:				
As at 1 January	265,535	52,900	—	3,006
Credited to equity	—	221,678	—	—
Charged to profit and loss account	(13,894)	(9,043)	—	(3,006)
As at 31 December	251,641	265,535	—	—
Provided for in respect of:				
Asset revaluation surplus during Reorganisation deductible for enterprise income tax purposes (Note (i))	197,447	208,684	—	—
Provision for impairment of receivables	23,535	20,373	—	—
Provision for one-off cash housing subsidies	11,608	15,312	—	—
Salary payable which is not deductible for income tax purposes	11,695	12,863	—	—
Provision for claims	1,108	1,108	—	—
Depreciation on property, plant and equipment	804	811	—	—
Other temporary differences	5,444	6,384	—	—
	251,641	265,535	—	—
Temporary differences for which deferred tax assets were not recognised:				
Amortisation on intangible asset and non-current asset	5,999	7,298	5,999	6,943
Provision for impairment of receivables	—	5,118	—	—
Depreciation on property, plant and equipment	692	845	692	845
Losses carried forward	9,955	6,612	—	—
Others	—	1,316	—	—
	16,646	21,189	6,691	7,788

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.

	The Group	
	2004	2003
	RMB'000	RMB'000
Deferred tax liabilities		
As at 1 January	1,603	1,618
Credited to profit and loss account	(77)	(15)
As at 31 December	1,526	1,603
Provided for in respect of:		
Depreciation on property, plant and equipment	1,304	1,304
Other temporary differences	222	299
	1,526	1,603

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets to be recovered after more than 12 months	228,232	239,678	—	—
Deferred tax liabilities to be settled after more than 12 months	1,365	1,440	—	—

The temporary differences associated with the Group's underlying investments in subsidiaries, jointly controlled entities and associates amounted to RMB610,203,000 (2003: RMB610,203,000) as at 31 December 2004 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.

notes to the financial statements

9. TAXATION (Continued)

(c) Current tax liabilities represent:

	The Group	
	2004	2003
	RMB'000	RMB'000
Enterprise income tax	144,557	131,296
Business tax	39,096	35,710
Other taxes	12,980	9,798
	196,633	176,804

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB802,819,000 (2003: RMB705,022,000).

11. DIVIDENDS

	2004	2003
	RMB'000	RMB'000
Interim, paid, of RMB0.030 (2003: RMB0.026) per ordinary share	127,470	110,474
Final, proposed, of RMB0.034 (2003: RMB0.030) per ordinary share	144,466	127,470
	271,936	237,944

At the Board of Directors' meeting held on 22 March 2005, the directors proposed a final dividend of RMB0.034 per ordinary share for the year ended 31 December 2004. 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 2005.

12. EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2004 and 2003 have been computed by dividing the profit for the years by 4,249,002,200 shares and 4,049,057,340 shares, respectively, being the weighted average number of ordinary shares in issue for the years. 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	2004 Total	2003 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	746,843	61,020	84,431	18,723	352,269	609,227	354,348	124,885	2,351,746	2,049,151
Additions	11,262	7,816	5,053	4,555	67,078	112,703	74,028	339,332	621,827	414,388
Acquisition of subsidiaries	77,313	6,958	—	163	63,021	13,284	15,261	1,413	177,413	—
Disposals	(23,928)	(1,590)	(1,595)	(99)	(22,727)	(37,129)	(34,369)	—	(121,437)	(111,793)
Transfer upon completion	74,831	—	6,019	—	71,370	4,555	11,452	(168,227)	—	—
At end of year	886,321	74,204	93,908	23,342	531,011	702,640	420,720	297,403	3,029,549	2,351,746
Accumulated depreciation and impairment losses										
At beginning of year	(182,135)	(24,018)	(42,101)	(16,609)	(147,848)	(339,295)	(196,869)	—	(948,875)	(828,989)
Depreciation for the year	(32,633)	(13,808)	(5,547)	(1,321)	(40,442)	(75,412)	(51,238)	—	(220,401)	(200,528)
Acquisition of subsidiaries	(5,495)	(5,305)	—	(65)	(30,556)	(7,616)	(9,368)	—	(58,405)	—
Disposals	19,696	981	1,420	99	20,927	28,365	23,358	—	94,846	80,669
Reversal of impairment losses/(impairment losses) for the year	—	—	—	—	—	14	—	—	14	(27)
At end of year	(200,567)	(42,150)	(46,228)	(17,896)	(197,919)	(393,944)	(234,117)	—	(1,132,821)	(948,875)
Net book value										
At end of year	685,754	32,054	47,680	5,446	333,092	308,696	186,603	297,403	1,896,728	1,402,871
At beginning of year	564,708	37,002	42,330	2,114	204,421	269,932	157,479	124,885	1,402,871	1,220,162

The Company

	Plant and machinery	Motor vehicles and vessels	Furniture and office equipment	Assets under construction	2004 Total	2003 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At beginning of year	6,535	4,606	30,774	1,646	43,561	28,673
Additions	1,599	9	2,746	13,683	18,037	14,888
Disposal	(168)	—	(72)	—	(240)	—
Transfer upon completion	—	—	9,579	(9,579)	—	—
At end of year	7,966	4,615	43,027	5,750	61,358	43,561
Accumulated depreciation						
At beginning of year	(940)	(130)	(6,372)	—	(7,442)	(456)
Depreciation for the year	(1,241)	(705)	(7,553)	—	(9,499)	(6,986)
Disposal	32	—	29	—	61	—
At end of year	(2,149)	(835)	(13,896)	—	(16,880)	(7,442)
Net book value						
At end of year	5,817	3,780	29,131	5,750	44,478	36,119
At beginning of year	5,595	4,476	24,402	1,646	36,119	28,217

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

notes to the financial statements

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Net book value of property, plant and equipment pledged	43,458	8,349
Corresponding borrowings	18,499	5,610

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	
	2004	2003
	RMB'000	RMB'000
Cost	318,123	211,882
Accumulated amortisation	(34,412)	(23,960)
Net book value	283,711	187,922

Land use rights pledged as security for bank loans were as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Net book value of land use rights pledged	77,362	—
Corresponding borrowings	57,496	—

15. INTANGIBLE ASSETS

	The Group			
	Software RMB'000	Goodwill RMB'000	2004 Total RMB'000	2003 Total RMB'000
Cost				
At beginning of year	71,972	7,452	79,424	36,867
Additions	15,744	—	15,744	45,158
Acquisition of subsidiaries	—	14,156	14,156	—
Disposals	—	776	776	(2,601)
At end of year	87,716	22,384	110,100	79,424
Accumulated amortisation				
At beginning of year	(28,148)	(1,755)	(29,903)	(16,157)
Amortisation for the year	(16,121)	(1,589)	(17,710)	(15,898)
Disposals	—	(222)	(222)	2,152
At end of year	(44,269)	(3,566)	(47,835)	(29,903)
Net book value				
At end of year	43,447	18,818	62,265	49,521
At beginning of year	43,824	5,697	49,521	20,710

	The Company	
	2004 Software RMB'000	2003 Software RMB'000
Cost		
At beginning of year	33,976	9,706
Additions	9,454	24,270
At end of year	43,430	33,976
Accumulated amortisation		
At beginning of year	(10,059)	(1,014)
Amortisation for the year	(9,080)	(9,045)
At end of year	(19,139)	(10,059)
Net book value		
At end of year	24,291	23,917
At beginning of year	23,917	8,692

notes to the financial statements

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004 RMB'000	2003 RMB'000
Investments at cost:		
Unlisted equity interests	1,857,367	1,647,367
Shares in a listed company in the PRC	1,278,378	1,278,378
	3,135,745	2,925,745
Share of undistributed post-acquisition profits less losses	1,559,925	798,514
Share of capital reserve	221,507	221,680
Dividends received	(275,329)	(66,332)
	4,641,848	3,879,607

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 RMB 4,216,184,000 (2003: RMB 6,212,307,000) as at 31 December 2004.

The following is a list of the principal subsidiaries at 31 December 2004:

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the		
			Company	Group	Principal activities
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	RMB823,165,200	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	RMB7,000,000	—	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

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 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 Konggang Logistic Co., Ltd.	Beijing, the PRC 5 March 1999 Limited liability company	RMB10,000,000	—	63.32%	Warehousing and freight forwarding distribution
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
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

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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 Well Trans International Forwarding 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
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

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 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
*China Marine Shipping Agency Taizhou Company Limited	Taizhou, the PRC 6 January 2004 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*Nanjing Export Processing Zone Sinotrans Logistics Co., Ltd.	Nanjing, the PRC 25 October 2004 Limited liability company	RMB2,000,000	—	100%	Warehousing
*Lianyungang Sinotrans Transportation Co., Ltd.	Lianyungang, the PRC 8 November 2004 Limited liability company	RMB800,000	—	100%	Trucking
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
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

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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	
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
Sinotrans Fujian Company Limited	Xiamen, the PRC 5 December 2002 Limited liability company	RMB223,257,966	90%	100%	Freight forwarding, shipping agency, express services and non-vessel operating common carrier
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 Co., Ltd.	Fuzhou, the PRC 1 March 1985 Sino-foreign equity joint venture	US\$3,000,000	—	75%	Marine transportation
*Trade Sky International Limited	Hong Kong, the PRC 10 October 2003 Limited liability company	HK\$161,100,000	75%	—	Investment activities
*Sinotrans Greeting Group Limited	Xiamen, the PRC 23 April 1998 Wholly foreign owned enterprise	US\$10,080,000	—	75%	Container services and container trucking
*Xiamen Greeting-Far Container Repairing Engineering Co., Ltd.	Xiamen, the PRC 26 May 1997 Sino-foreign equity joint venture	US\$210,000	—	75%	Container 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 Company Group		Principal activities
*Xiamen Greeting-Fortune Refrigeration Engineering Co., Ltd.	Xiamen, the PRC 29 July 1997 Sino-foreign equity joint venture	US\$400,000	—	75%	Container services
*Xiamen Greeting-Rich Storage & Transportation Co., Ltd.	Xiamen, the PRC 22 July 1999 Sino-foreign equity joint venture	US\$2,280,000	—	75%	Container services
*Fuzhou Bonanza Bondedhouse & Enterprises Co., Ltd.	Fuzhou, the PRC 26 February 1993 Sino-foreign equity joint venture	US\$3,000,000	—	53%	Warehousing and container services
*Fuzhou Greeting-Goal Storage & Transportation Co., Ltd.	Fuqing, the PRC 17 October 2002 Sino-foreign equity joint venture	RMB2,500,000	—	75%	Container services
*Greeting Marine (U.S.A.) Inc.	Los Angeles, U.S.A. 28 April 2003 Limited liability company	US\$200,000	—	75%	Freight forwarding
*Greeting Marine (Hong Kong) Limited	Hong Kong, the PRC 31 January 2001 Limited liability company	HK\$300,000	—	75%	Freight forwarding
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
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 Guangdong International Freight Forwarding Company Limited	Shenzhen, the PRC 29 January 2003 Limited liability company	RMB10,000,000	—	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

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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	
Sinoway Shipping Limited	Hong Kong, the PRC 6 October 1987 Limited liability company	HK\$1,000,000	—	100%	Marine transportation
Guangdong Transport Limited	Hong Kong, the PRC 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
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 Co., 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 Shenzhen Logistics Co., Ltd.	Shenzhen, the PRC 4 November 2004 Limited liability company	RMB10,000,000	—	100%	Freight forwarding
*China Marine Shipping Agency Shenzhen Company Limited	Shenzhen, the PRC 16 November 1992 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*China Marine Shipping Agency Zhuhai Company Limited	Zhuhai, the PRC 1 July 2004 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*China Marine Shipping Agency Chaozhou Company Limited	Chaozhou, the PRC 3 November 2004 Limited liability company	RMB3,000,000	—	100%	Shipping agency
*Great Delta Terminal Service Limited	Hong Kong, the PRC 23 April 2004 Limited liability company	HK\$10,000	—	100%	Warehousing, depot and cargo terminal 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 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
*Sinotrans Hong Kong Air Transportation Company Limited	Hong Kong, the PRC 30 June 2004 Limited liability company	HK\$3,000,000	—	100%	Freight forwarding
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
*Shandong Sinotrans Greeting-Fortune Container Engineering Co., Ltd.	Qingdao, the PRC 8 November 2004 Sino-foreign equity joint venture	RMB5,000,000	—	88.75%	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

notes to the financial statements

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 Tianjin Customs Broker Company Limited	Tianjin, the PRC 23 January 2003 Limited liability company	RMB5,000,000	—	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
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
*Shenyang Sinotrans International Forwarding Co., Ltd.	Shenyang, the PRC 22 July 2004 Limited liability company	RMB70,000,000	—	52.70%	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
*Shanghai Sinotrans Jiaotong Container Development Co., Ltd.	Shanghai, the PRC 18 February 2004 Limited liability company	RMB5,000,000	—	60%	Trucking

* Subsidiaries acquired or established in 2004.

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 2004, which are held by the Company directly and 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	—	55%	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\$11,400,000	—	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
*Shanghai Sino-Star International Shipping Agency Co., Ltd.	Shanghai, the PRC 16 January 2004 Sino-foreign equity joint venture	RMB5,000,000	—	51%	Shipping agency
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 Co., Ltd.	Beijing, the PRC 25 June 1986 Sino-foreign equity joint venture	US\$14,500,000	—	35.18%	Express services
Sinotrans-OCS International Express Co., Ltd.	Beijing, the PRC 13 December 1995 Sino-foreign equity joint venture	US\$2,540,000	—	35.18%	Express services
Rex International Forwarding Co., Ltd.	Beijing, the PRC 13 July 1994 Sino-foreign equity joint venture	US\$2,200,000	—	35.18%	Air freight forwarding

notes to the financial statements

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	
Exel-Sinotrans Freight Forwarding Co., Ltd.	Beijing, the PRC 15 May 1996 Sino-foreign equity joint venture	US\$1,840,000	—	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
*Xiamen Greeting-Container Services Co., Ltd.	Xiamen, the PRC 2 July 1992 Sino-foreign equity joint venture	US\$3,100,000	—	38%	Freight forwarding
*Greeting-E&E Transport International Company Limited	Hong Kong, the PRC 8 August 2001 Limited liability company	HK\$10,000	—	38%	Air freight forwarding

* Jointly controlled entities acquired or established in 2004.

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:

	2004	2003
	RMB'000	RMB'000
Non-current assets	317,662	229,873
Current assets	1,080,573	825,903
Non-current liabilities	145	971
Current liabilities	623,095	454,981
Revenues	4,346,441	3,031,562
Expenses	(3,978,387)	(2,678,467)

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:

	2004 RMB'000	2003 RMB'000
Authorised and contracted for but not recorded	—	—
Authorised but not contracted for	—	10,794

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

	2004 RMB'000	2003 RMB'000
Pending lawsuits	—	669

18. INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At beginning of year	68,992	24,367	—	—
Addition	107,965	39,980	73,750	—
Share of results before taxation	13,960	9,637	(475)	—
Share of taxation	(3,055)	(3,085)	—	—
Share of results after taxation	10,905	6,552	(475)	—
Disposal	(11,960)	—	—	—
Dividend received	(1,800)	(1,907)	—	—
At end of year	174,102	68,992	73,275	—

The following is a list of the principal associates at 31 December 2004:

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

notes to the financial statements

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	
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	—	33%	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
China International Exhibition Transportation Company Limited	Beijing, the PRC 20 July 1988 Limited liability company	RMB2,000,000	—	50%	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
*Sinotrans (HK) Logistics Limited	Hong Kong, the PRC 15 January 2003 Limited liability company	HK\$500,000	—	40%	Shipping agency, freight forwarding
*Sinotrans Logistics Investment Holding Co., Ltd.	Beijing, the PRC 10 August 2004 Limited liability company	RMB200,000,000	35%	43.79%	Investment activities

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	
*New Land Bridge (Lianyungang) Terminal Company Limited	Lianyungang, the PRC 28 September 2004 Sino-foreign equity joint venture	RMB375,000,000	1%	18%	Storage & terminal service
*Xuzhou Sinotrans Maruzen Transportation Co., Ltd.	Jiangsu, the PRC 3 December 1996 Sino-foreign equity joint venture	US\$1,100,000	—	21%	Freight forwarding
*Lantian World Express International Air Service Co., Ltd.	Beijing, the PRC 29 December 1995 Sino-foreign equity joint venture	RMB7,000,000	—	35%	Freight forwarding
*China Peace International Travel Co., Ltd.	Beijing, the PRC 7 July 2000 Limited liability company	RMB9,000,000	—	21%	International travel
*UPS Sinotrans International Express Co.Ltd.	Beijing, the PRC 21 May 1996 Sino-foreign equity joint venture	RMB1,000,000	—	35%	Freight forwarding
*Beijing Sinotrans Xinhaicang Logistic Co., Ltd.	Beijing, the PRC 13 November 2003 Limited liability company	RMB3,000,000	—	24%	Logistic, exhibition and express service
*Global Alliance Logistics Co., Ltd.	Shanghai, the PRC 2 July 1992 Sino-foreign equity joint venture	US\$1,000,000	—	38%	Freight forwarding

* Associates acquired or established in 2004.

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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments on behalf of customers	309,060	225,815	—	423
Prepaid expenses	54,032	33,555	2,027	1,200
Others	17,979	7,269	595	145
	381,071	266,639	2,622	1,768

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20. INVENTORIES

Inventories mainly comprise supplies, consumables and spare parts. As at 31 December 2004, the inventories of the Group stated at net realisable value amounted to RMB740,000 (2003: RMB468,000).

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables	3,395,686	2,987,316	7,258	5,672
Bills receivable	31,867	18,066	1,000	1,703
Other receivables	145,042	139,095	4,458	7,262
Due from related parties	500,994	318,968	884,330	600,265
	4,073,589	3,463,445	897,046	614,902

(a) Trade receivables

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables	3,469,956	3,049,434	7,258	5,672
Less: Provision for impairment of receivables	(74,270)	(62,118)	—	—
	3,395,686	2,987,316	7,258	5,672

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 6 months	3,309,744	2,939,222	7,154	5,672
Between 6 and 12 months	77,612	58,949	17	—
Between 1 and 2 years	48,381	19,646	87	—
Between 2 and 3 years	11,198	9,413	—	—
Over 3 years	23,021	22,204	—	—
	3,469,956	3,049,434	7,258	5,672

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

21. TRADE AND OTHER RECEIVABLES (Continued)

(b) Bills receivable are bills of exchange with maturity dates of within 6 months.

(c) Other receivables

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Deposits receivable	119,165	121,466	372	735
Dividend and investment income receivables	3,552	4,575	46	—
Interest receivables	3,114	6,157	3,034	5,977
Others	29,271	19,107	1,006	550
	155,102	151,305	4,458	7,262
Less: Provision for impairment of receivables	(10,060)	(12,210)	—	—
	145,042	139,095	4,458	7,262

(d) Due from related parties

The amounts due from related parties are analysed as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables:				
Ultimate holding company and fellow subsidiaries	194,373	95,839	674	1,958
Jointly controlled entities	16,781	16,584	—	—
Associates	5,016	1,210	—	—
Other related parties	205,600	170,883	—	—
	421,770	284,516	674	1,958
Less: Provision for impairment of receivables	(3,570)	(6,437)	—	—
	418,200	278,079	674	1,958

notes to the financial statements

21. TRADE AND OTHER RECEIVABLES (Continued)

(d) Due from related parties (Continued)

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Other receivables:				
Ultimate holding company and fellow subsidiaries	12,255	16,063	877,060	591,711
Jointly controlled entities	49,551	14,204	6,596	6,596
Associates	2,318	1,350	—	—
Other related parties	27,277	16,178	—	—
	91,401	47,795	883,656	598,307
Less: Provision for impairment of receivables	(8,607)	(6,906)	—	—
	82,794	40,889	883,656	598,307
	500,994	318,968	884,330	600,265

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

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.

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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 6 months	320,046	257,743	541	1,958
Between 6 and 12 months	93,046	10,575	83	—
Between 1 and 2 years	5,130	4,557	50	—
Between 2 and 3 years	313	7,121	—	—
Over 3 years	3,235	4,520	—	—
	421,770	284,516	674	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

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trading investments					
Equity securities listed outside Hong Kong	(i)	542	609	—	—
Held-to-maturity investments					
— Non current	(ii)	66,212	—	66,212	—
— Current	(iii)	—	42,500	—	—

- (i) 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.
- (ii) Held-to-maturity investments as at 31 December 2004 represented term deposits denominated in the US dollar at a bank with maturities of 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 year ended 31 December 2004 was 8.70%. 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.
- (iii) 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.

notes to the financial statements

23. PLEDGED DEPOSITS

	The Group	
	2004 RMB'000	2003 RMB'000
Term deposits with initial term of over three months	97,430	55,927
Corresponding bank borrowings	81,950	51,013

24. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

- (a) As at 31 December 2004, RMB722,885,000 (2003: RMB521,535,000) and RMB112,250,000 (2003: RMB Nil) of the Group's and the company'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 2004, RMB201,984,000 (US\$24,404,000) (2003: RMB618,574,000 (US\$74,736,000)) and RMB148,977,000 (US\$18,000,000) (2003: RMB562,830,000 (US\$68,000,000)) of the Group's and the Company's term deposits with initial term of over three months respectively were denominated in the United States Dollar.
- (c) The weighted average effective interest rate on term deposits with initial term of over three months of the Group and the Company was 1.88% (2003: 1.97%) and 1.90% (2003: 2.04%) respectively for the year ended 31 December 2004.

25. CASH AND CASH EQUIVALENTS

- (a) As at 31 December 2004, RMB2,774,077,000 (2003: RMB2,421,470,000) and RMB528,886,000 (2003: RMB689,558,000) 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 rates of the Group and the Company on short term bank deposits as set out in Note (a) above were 1.89% (2003: 1.34%) and 1.97% (2003: 1.20%) for the year ended 31 December 2004.

26. TRADE PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	2,906,823	2,753,474	3,508	2,817
Due to related parties	167,734	177,985	1,742	3,281
	3,074,557	2,931,459	5,250	6,098

(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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within 6 months	2,623,015	2,590,088	2,949	2,817
Between 6 and 12 months	106,819	87,665	496	—
Between 1 and 2 years	139,514	33,619	63	—
Between 2 and 3 years	14,904	21,425	—	—
Over 3 years	22,571	20,677	—	—
	2,906,823	2,753,474	3,508	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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Ultimate holding company and fellow subsidiaries	82,243	99,542	1,742	3,262
Jointly controlled entities	6,584	4,852	—	19
Associates	1,885	3,295	—	—
Other related parties	77,022	70,296	—	—
	167,734	177,985	1,742	3,281

notes to the financial statements

26. TRADE PAYABLES (Continued)

(b) Due to related parties (Continued)

The normal credit period for trade payables and amounts due to related parties generally ranges from 1 to 3 months. 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 6 months	99,536	134,452	1,602	3,279
Between 6 and 12 months	24,176	30,204	99	2
Between 1 and 2 years	42,334	3,961	35	—
Between 2 and 3 years	839	4,442	6	—
Over 3 years	849	4,926	—	—
	167,734	177,985	1,742	3,281

27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Other payables and accruals	300,389	235,384	16,041	31,669
Due to related parties	423,243	378,797	309,059	372,360
	723,632	614,181	325,100	404,029

(a) Other payables and accruals

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Payable for property, plant and equipment	21,928	22,052	—	9,571
Customers' deposits	148,091	87,099	688	8
Accrued expenses	47,026	49,951	13,176	21,373
Dividends payable to minority shareholders of subsidiaries	4,001	29,246	—	—
Advances from other entities	30,669	14,330	1,434	36
Others	48,674	32,706	743	681
	300,389	235,384	16,041	31,669

27. OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES (Continued)

(b) Due to related parties

The amounts due to related parties are analysed as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Ultimate holding company and fellow subsidiaries	348,877	346,006	279,059	372,360
Jointly controlled entities	14,398	1,285	—	—
Associates	8,010	6,208	—	—
Other related parties	51,958	25,298	30,000	—
	423,243	378,797	309,059	372,360

Included in the amounts due to the ultimate holding company and fellow subsidiaries as at 31 December 2004 is the current portion of the Group's long-term payable to Sinotrans Group Company for the early retirement, termination and supplementary pension benefit obligations of RMB165,858,000 (2003: RMB165,858,000) (See Note 29 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.

notes to the financial statements

28. BORROWINGS

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Current		
Bank borrowings	186,690	89,333
Current portion of non-current borrowings	7,850	704
	194,540	90,037
Non-current		
Bank borrowings	13,750	—
Total borrowings	208,290	90,037
Borrowings		
Unsecured	24,066	29,016
Secured or guaranteed	184,224	61,021
	208,290	90,037

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 2004 were repayable between 1 to 5 years.
- (c) Securities and guarantees

	The Group	
	2004	2003
	RMB'000	RMB'000
Term deposits with initial term of over three months pledged	97,430	55,927
Bills receivable pledged	—	2,005
Net book value of property, plant and equipment pledged	43,458	8,349
Net book value of land use rights pledged	77,362	—
Guarantees provided by companies within the Group	18,279	2,750
Guarantees provided by third parties	8,000	—
Corresponding borrowings	184,224	61,021

The weighted average effective interest rate of the borrowings was 3.35% (2003: 3.53%) for the year ended 31 December 2004.

29. LONG-TERM PAYABLE TO ULTIMATE HOLDING COMPANY

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 Sinotrans Group 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 Sinotrans Group Company and the actual payments of these obligations were to be made by Sinotrans Group Company. Sinotrans Group 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:

	The Group and the Company	
	Long-term payable to ultimate holding company	Current portion recorded in other payables, accruals and other current liabilities
	RMB'000	RMB'000
As at 1 January 2003	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
As at 1 January 2004	165,858	165,858
Less: Payment in 2004	—	(165,858)
Less: Current portion recorded in other payables, accruals and other current liabilities	(165,858)	165,858
As at 31 December 2004	—	165,858

notes to the financial statements

30. PROVISIONS

	The Group			
	One-off cash		Outstanding	
	housing	Guarantees	claims	Total
	subsidies			
	RMB'000	RMB'000	RMB'000	RMB'000
			Note 34(a)	
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
As at 1 January 2004	59,114	8,178	8,577	75,869
Utilised during the year	(14,099)	—	(1,187)	(15,286)
As at 31 December 2004	45,015	8,178	7,390	60,583

One-off cash housing subsidies represent the Group's provision made prior to the Reorganisation. Sinotrans Group 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	
	2004	2003
	RMB'000	RMB'000
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	2,461,596	2,461,596
H shares of RMB1.00 each	1,787,406	1,787,406
	4,249,002	4,249,002

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 Sinotrans Group 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

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 2004, the Board of Directors proposed appropriations of 10% and 5% of profit after tax (2003: 10% and 5%) respectively determined under the PRC accounting standards, of RMB75,971,000 and RMB37,985,000 (2003: RMB66,236,000 and RMB33,118,000) 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 2004, the amount of retained profits available for distribution was approximately RMB866,292,000 (2003: RMB475,478,000), being the amount determined in accordance with the PRC accounting standards.

notes to the financial statements

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2004 RMB'000	2003 RMB'000
Profit for the year	802,819	705,022
Interest income	(73,755)	(77,007)
Interest expenses	5,152	7,564
Loss on disposal of property, plant and equipment	3,770	629
Loss on disposal of trading investments	—	4,794
Gain on disposal of held-to-maturity investments	(469)	—
Provision for impairment of receivables and bad debts written off	16,784	13,758
Depreciation of property, plant and equipment	220,401	200,528
(Reversal of)/provision for impairment of property, plant and equipment	(14)	27
Amortisation of intangible assets	17,710	15,898
Amortisation of land use rights	7,815	2,000
Share of results of associates, net of taxation	(10,905)	(6,552)
Minority interests	177,913	156,199
Operating profit before working capital changes	1,167,221	1,022,860
Decrease in deferred tax assets	13,894	9,043
Increase in prepayments, deposits and other current assets	(112,460)	(31,646)
Decrease/(increase) in inventories	2,293	(940)
Increase in trade and other receivables	(506,711)	(794,281)
Decrease in deferred tax liabilities	(77)	(15)
Decrease in long-term payable to ultimate holding company	(165,858)	(165,858)
(Decrease)/increase in other liabilities	(7,356)	10,425
Decrease in provisions	(15,286)	(10,012)
Increase in trade payables	94,428	602,797
Increase/(decrease) in other payables, accruals and other current liabilities	37,892	(168,931)
Increase in receipts in advance from customers	77,570	126,700
Increase in income and other taxes liabilities	326,572	328,828
Increase in salary and welfare payable	67,203	111,362
Cash generated from operations	979,325	1,040,332

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

On 31 December 2004, the Group acquired a 75% equity interest in Trade Sky International Limited for a cash consideration of RMB210,000,000. The acquisition is accounted for by the purchase method of accounting. Details of the assets and liabilities acquired are as follows:

	RMB'000
Assets/liabilities acquired (at 100% interest)	
Property, plant and equipment	119,008
Land use rights	72,370
Intangible assets	499
Investment in associates	6,397
Other non-current assets	656
Prepayments, deposits and other current assets	1,972
Inventories	2,159
Trade and other receivables	111,854
Cash and cash equivalents	132,301
Borrowings	(13,750)
Other liabilities	(2,002)
Trade payables	(48,670)
Other payables, accruals and other current liabilities	(41,559)
Receipts in advance from customers	(1,225)
Current tax liabilities	(1,826)
Borrowings	(63,550)
Salary and welfare payable	(9,719)
Minority interests	(9,196)
	255,719
Interest acquired by the Group	196,343
Goodwill on acquisition	13,657
Cash consideration payable	210,000
Cash consideration paid	180,000
Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents (at 100% attributable interest)	132,301
Cash paid	(180,000)
	(47,699)

notes to the financial statements

34. CONTINGENT LIABILITIES

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

	Note	The Group	
		2004	2003
		RMB'000	RMB'000
Guarantees provided by the Group for the benefit of jointly controlled entities		29,100	6,000
Guarantees provided by the Group for the benefit of joint venture partner		8,800	—
Bills discounted with recourse		—	3,996
Pending lawsuits	(a)	21,282	10,659
		59,182	20,655

- (a) 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.
- (b) The above amounts do not include those items for which provisions have been made as disclosed in Note 30.
- (c) In addition, in the ordinary course of business, Sinoair has issued various performance and liability guarantees of unspecified amounts to the General Administration of Civil Aviation of China for the benefit of certain jointly controlled entities to enable those entities to obtain the required air freight forwarding operating licences.

35. CAPITAL COMMITMENTS

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Authorised and contracted for but not provided for	264,300	116,019
Authorised but not contracted for	196,752	749,327
	461,052	865,346
An analysis of the above capital commitments by nature is as follows:		
Acquisition of property, plant and equipment	56,456	389,068
Construction commitments	272,696	307,978
Purchase of software	4,000	10,800
Investment in subsidiaries/jointly controlled entities/associates	127,900	157,500
	461,052	865,346

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	
	2004 RMB'000	2003 RMB'000
Land and buildings		
— Not later than one year	255,055	71,369
— Later than one year but not later than five years	128,663	130,940
— Later than five years	133,008	146,313
Vessels, containers and other fixed assets		
— Not later than one year	528,792	524,050
— Later than one year but not later than five years	243,698	413,148
— Later than five years	3,486	474
	1,292,702	1,286,294

(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	
	2004 RMB'000	2003 RMB'000
Land and buildings		
— Not later than one year	10,237	6,096
— Later than one year but not later than five years	11,191	5,574
— Later than five years	5,736	1,093
Plant and machinery		
— Not later than one year	—	360
— Later than one year but not later than five years	—	370
	27,164	13,493

notes to the financial statements

37. SIGNIFICANT RELATED PARTY TRANSACTIONS

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.

The related party transactions are summarised as follows:

	The Group	
	2004 RMB'000	2003 RMB'000
Profit and loss items		
<i>Transactions with ultimate holding company and fellow subsidiaries</i>		
<i>Revenue:</i>		
Revenue from provision of transportation and logistics services	388,914	313,362
Revenue from provision of information technology services	960	960
<i>Expenses:</i>		
Service fees	(192,641)	(128,845)
Rental expenses for office buildings	(45,835)	(49,991)
Rental expenses for containers	(48,079)	(22,161)
Rental expenses for warehouses and depots	—	(2,600)
Rental expenses for vessels	(48,361)	(29,900)
Rental expenses for motor vehicles	(2,353)	(3,001)
<i>Transactions with associates of the Group</i>		
<i>Revenue:</i>		
Revenue from provision of services	10,744	5,900
<i>Expenses:</i>		
Service fees	(2,562)	(1,968)

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

	The Group	
	2004 RMB'000	2003 RMB'000
<i>Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities)</i>		
<i>Revenues</i>		
Revenue from provision of services	105,008	89,601
Rental income from buildings leased out	5,480	—
<i>Expenses</i>		
Service fees	(52,046)	(43,550)
<i>Others</i>		
Guarantees provided by the Group for the benefit of jointly controlled entities	29,100	6,000

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

	The Group	
	2004 RMB'000	2003 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	442,139	427,092
<i>Expenses</i>		
Service fees	(729,357)	(471,770)
<i>Transactions with other related parties</i>		
<i>Revenue</i>		
Revenue from provision of pick-up, delivery and other services	403,813	343,867
<i>Expenses</i>		
Expenses from provision of pick up, delivery and other services	(25,062)	(18,247)
<i>Others</i>		
Guarantees provided by the Group for the benefit of joint venture partners	8,800	—

notes to the financial statements

37 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

These transactions were 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 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	
	2004 RMB'000	2003 RMB'000
<i>Balances with the ultimate holding company and fellow subsidiaries</i>		
Trade and other receivables	206,628	111,902
Trade payables	(82,243)	(99,542)
Other payables, accruals and other liabilities	(348,877)	(346,006)
Long-term payable	—	(165,858)
<i>Balances with jointly controlled entities</i>		
Trade and other receivables	66,332	30,788
Trade payables	(6,584)	(4,852)
Other payables, accruals and other liabilities	(14,398)	(1,285)
<i>Balances with associates of the Group</i>		
Trade and other receivables	7,334	2,560
Trade payables	(1,885)	(3,295)
Other payables, accruals and other liabilities	(8,010)	(6,208)
<i>Balances with other related parties</i>		
Trade and other receivables	232,877	187,061
Trade payables	(77,022)	(70,296)
Other payables, accruals and other liabilities	(51,958)	(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 and amounts due to related parties have repayment terms as disclosed in Note 21 and Note 27 respectively.

37. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

A distinguishable component of the Group's express services business has been conducted by the Group through an agreement for international express package delivery services with UPS World Forwarding Inc. ("UPS") and its affiliates, as well as the operation of a jointly controlled entity with UPS (collectively referred to as "UPS Express Business"). On 1 December 2004, the Group entered into a framework agreement with UPS to transfer the UPS Express Business to UPS over a period until 31 December 2007 for a base consideration of US\$100,000,000, subject to certain adjustments depending primarily on the achievement of certain revenue targets of the UPS Express Business. Moreover, additional consideration may be payable depending on whether certain property, plant and equipment are to be acquired by UPS and the timing of completion of transfer of certain locations. The base consideration covers the transfer of the following:

- Agreement by the Group not to permit or cause the customers of UPS Express Business to terminate or materially reduce its business with UPS, as well as other locations of UPS Express Business operated by the Group for a period until 31 December 2007;
- Transfer of customer lists and the Group's interest in the jointly controlled entity with UPS to UPS;
- Provision by the Group of customer data transition, regulatory assistance, non-solicitation of employees and employment services to facilitate the transition of the UPS Express Business to UPS;
- Transfer of locations and other assets and rights related to the UPS Express Business to UPS.

The base consideration is to be paid by three instalments of US\$40,000,000, US\$10,000,000 and US\$50,000,000 respectively with the final payment due on 31 December 2006, subject to certain closing conditions and adjustments as described above.

During the year ended 31 December 2004, the UPS Express Business earned revenue of approximately RMB448,538,000, incurred operating expenses of approximately RMB275,858,000, and had a pre-tax operating profit of approximately RMB166,372,000 and an income tax expense of RMB30,764,000. During the year ended 31 December 2004, the cash inflow from operating and investing activities of UPS Express Business was approximately RMB103,994,000 and RMB2,976,000 respectively.

The above-mentioned UPS Express Business was conducted by a non wholly-owned subsidiary, Sinoair, as well as certain wholly-owned subsidiaries of the Company. Accordingly, the Company and Sinoair entered into an agreement on 21 December 2004 which provides for the payment of US\$12,090,000 from the above-mentioned base consideration of US\$100,000,000 to those wholly-owned subsidiaries of the Company which have conducted the UPS Express Business. Sinoair will keep the remaining amount.

On 6 December 2004, Sinotrans Group Company and the Group entered into an agreement under which Group agreed to sell a 49% equity interest in Sinotrans Changjiang Shipping Company Limited, a wholly-owned subsidiary of the Group primarily engaged in inland water transportation services, to Sinotrans Group Company at an aggregate consideration of RMB6,500,000. In addition, the Group and Sinotrans Group Company also agreed, after the sale, to increase the registered capital of Sinotrans Changjiang Shipping Company Limited from RMB10,000,000 to RMB100,000,000 with proportionate additional capital contributions from both parties of RMB45,900,000 and RMB44,100,000 respectively.

notes to the financial statements

38. SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2004 and up to the date of this report:

- (a) At the Board of Directors' meeting held on 22 March 2005, the directors proposed a final dividend of RMB0.034 per ordinary share for the year ended 31 December 2004.
- (b) On 21 March 2004, a framework agreement ("SAGC Framework Agreement") was approved by the board of directors of Sinoair for a proposed participation in the comprehensive restructuring and reorganisation of Sichuan Airlines Group Company. Upon the approval of the SAGC Framework Agreement by the respective governing bodies of the relevant parties, the parties are required to execute a formal agreement of capital contribution. It is currently proposed that Sinoair will acquire a 49% equity interest in Sichuan Airlines Group Company to be satisfied by cash, with the remaining 49% to be acquired by State-owned Assets Supervision and Administration Commission of Sichuan Provincial Government and to be satisfied by a 1:1 share exchange on a dollar for dollar basis according to the asset valuation of the Sichuan Airlines Group Company and the remaining 2% to be acquired by a company in Sichuan Province to be satisfied by cash. The amount of the registered capital of Sichuan Airlines Group Company will be determined upon the completion of asset valuation of Sichuan Airlines Group Company.

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 22 March 2005.