

Management Discussion and Analysis of Results of Operations and Financial Position

REVIEW OF OPERATING RESULTS

In the first six months of 2005, the Group faced intense market competition. With its high quality and efficient service network, sizable operations and brand name advantage, the Group adopted active marketing strategies to continuously increase customers' satisfaction; actively launched new service products to advance the extended value-added services of traditional industries in order to strengthen service capabilities that differentiate services from others; and continued the optimisation and transformation of workflow to raise service operation efficiency. These efforts enabled the Group to maintain a faster pace of growth in operating revenue; its financial position was robust and its competitive edge further enhanced.

For the six months ended 30 June 2005, the Group achieved turnover of approximately RMB13.25 billion, representing a 33.7% increase compared with the same period in 2004. Profit for the period attributable to equity holders of the Company amounted to RMB498.7 million, representing a growth of 32.5% when compared with the same period in 2004. Earnings per share were RMB0.12 (corresponding period in 2004: RMB0.09).

OPERATING STATISTICS

The table below sets forth certain Group's operating statistics by business segments for the periods indicated:

	For the six months ended 30 June	
	2005	2004
Freight forwarding		
Sea freight forwarding		
Bulk cargo (in millions of tonnes)	2.3	2.0
Container cargo (in ten thousands of TEUs)	219	163
Air freight forwarding (in millions of kg)	154.4	118.4
Rail freight forwarding		
Bulk cargo (in millions of tonnes)	1.7	1.6
Container cargo (in ten thousands of TEUs)	4.6	4.4
Road freight forwarding		
Bulk cargo (in millions of tonnes)	0.4	0.3
Container cargo (in ten thousands of TEUs)	17.0	16.0
Express services		
Packages — continuing operations (in millions of units)	5.36	4.43
Shipping agency		
Net registered tonnes (in millions of tonnes)	153.8	130.6
Vessel calls (number of times)	31,331	30,550
Containers (in millions of TEUs)	4.33	3.45

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	For the six months ended 30 June	
	2005	2004
Storage and terminal services		
Warehouses operating capacity		
Bulk cargo (in millions of tonnes)	3.8	3.7
Terminal containers (in millions of TEUs)	2.1	1.7
Terminal throughput		
Bulk cargo (in millions of tonnes)	1.2	1.2
Terminal containers (in ten thousands of TEUs)	65.2	49.6
Marine transportation		
TEUs (number of units)	636,800	542,773
Other services		
Trucking of bulk cargo (in ten thousands of tonnes)	6.5	3.2
Trucking of terminal containers (in ten thousands of TEUs)	25.0	17.1

Note: To accurately reflect the Group's business operations, the units of calculation of the statistics of following business operations have been adjusted. The adjustment does not affect past information on business operations:

1. The business information under storage and terminal services has been changed from a storage capacity indicator to a business volume indicator and is divided into bulk cargo and terminal containers operating capacity;
2. The business information under the trucking business has been changed from the total quantity of cargo to the trucking capacity of bulk cargo and terminal containers.

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FINANCIAL STATISTICS

The table below presents the Group's selected financial information for the periods indicated:

	For the six months ended 30 June	
	2005 (Unaudited)	2004 (Unaudited and Restated)
	(RMB in millions, except for earnings per share and number of shares data)	(RMB in millions, except for earnings per share and number of shares data)
Continuing operations:		
Turnover	13,074.0	9,754.4
Other revenues	46.9	29.3
Total revenues	13,120.9	9,783.7
Transportation and related charges	(9,969.1)	(7,356.4)
Depreciation and amortisation	(129.0)	(107.7)
Operating costs		
(Excluding depreciation and amortisation):		
— Staff costs	(802.8)	(645.8)
— Repairs and maintenance	(55.5)	(42.0)
— Fuel	(332.7)	(205.8)
— Travel and promotional expenses	(144.9)	(108.5)
— Office and communications expenses	(80.7)	(78.1)
— Rental expenses	(734.5)	(549.7)
— Other operating expenses	(217.4)	(156.5)
Operating profit	654.3	533.2
Finance income, net	12.6	22.6
Share of results of associates	6.6	6.5
Profit before taxation	673.5	562.3
Taxation	(176.1)	(153.7)
Profit for the period from continuing operations	497.4	408.6
Discontinued operations		
Profit for the period from discontinued operations	104.3	41.8
Profit for the period	601.7	450.4
Attributable to:		
Equity holders of the Company	498.7	376.3
Minority interests	103.0	74.1
Proposed interim dividend	(161.5)	(127.5)
Earnings per share for continuing operations, basic and diluted	RMB0.10	RMB0.08
Earnings per share for discontinued operations, basic and diluted	RMB0.02	RMB0.01
Number of shares (in millions)	4,249.0	4,249.0

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The table below sets forth the Group's unaudited turnover (RMB in millions) by the continuing operations of key business segments and their respective percentage of total turnover before inter-segment elimination for the periods indicated:

	For the six months ended 30 June (unaudited)			
	2005		2004	
Freight forwarding	9,537.2	71.4%	7,158.5	71.9%
Express services	1,083.4	8.1%	818.9	8.2%
Shipping agency	269.6	2.0%	231.6	2.3%
Marine transportation	1,878.3	14.1%	1,380.9	13.9%
Storage and terminal services	434.2	3.3%	304.6	3.1%
Other services	152.1	1.1%	66.6	0.6%

The table below sets forth the segment results of the continuing operations (RMB in millions) of the Group, as compared with the same period in 2004. Segment results are defined as the turnover for that segment less direct operating expenses but before deducting unallocated costs.

	For the six months ended 30 June (unaudited)	
	2005	2004
Freight forwarding	204.9	155.3
Express services	172.8	166.6
Shipping agency	124.6	110.9
Marine transportation	124.6	87.5
Storage and terminal services	97.8	59.4
Other services	4.0	(0.7)

COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

CONTINUING OPERATIONS

Turnover

For the six months ended 30 June 2005, the Group's turnover amounted to RMB13,074.0 million, up 34.0% from RMB9,754.4 million for the same period in 2004. The increase was primarily attributable to the Group's vigorous efforts in restructuring business resources and developing new products, centralising marketing activities and enhancing service networks, as well as economies of scale achieved through proactive market development strategies. Moreover, rising international marine freight rates also contributed to the growth in the Group's turnover.

Freight forwarding

For the six months ended 30 June 2005, turnover from our freight forwarding services grew 33.2% to RMB9,537.2 million, from RMB7,158.5 million for the same period in 2004.

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Turnover from freight forwarding mainly comprised revenue from containers sea freight forwarding services and air freight forwarding services. The number of containers handled in sea freight forwarding services increased 34.4% to 2.19 million TEUs in the first half of 2005 from 1.63 million TEUs for the corresponding period in 2004; while the amount of cargo handled in air freight forwarding services rose 30.4% to 154,400 tonnes in the first half of 2005 from 118,400 tonnes in the first half of 2004.

Revenue growth in freight forwarding in the first half of 2005 was driven by the Group's ability to maintain a relatively fast business development pace during the time of economic growth.

Express services

For the six months ended 2005, the continuing operations of the Group's express services achieved a turnover of RMB1,083.4 million, representing an increase of 32.3% from RMB818.9 million for the same period in 2004.

The number of documents and packages handled in the first half of 2005 were 5.36 million pieces, an increase of 21.0% compared with 4.43 million pieces for the same period in 2004.

The growth was mainly attributable to enhanced marketing efforts, maintaining a faster pace of business development during the time of economic growth. Turnover of the business was higher than its increase in business volume due to a higher average weight per unit.

Shipping agency

For the six months ended 30 June 2005, turnover from our shipping agency services reached RMB269.6 million, representing an increase of 16.4% from RMB231.6 million for the same period in 2004.

For the first half of 2005, the number of containers handled were 4.33 million TEUs, an increase of 25.5% from 3.45 million TEUs in 2004. Net registered tonnage of vessels handled by the Group's shipping agency services reached 153.8 million tonnes, a 17.8% increase from 130.6 million tonnes for the same period in 2004. The number of vessel calls managed also grew 2.6% to 31,331 compared with 30,550 for the same period in 2004.

The Group continued to record turnover and volume growth for shipping agency services as fast growth in business volume was maintained with the support of enhanced customer service and marketing efforts.

Storage and terminal services

For the six months ended 30 June 2005, the aggregate turnover from storage and terminal services amounted to RMB434.2 million, representing a 42.5% growth from RMB304.6 million for the same period in 2004.

For the first half of 2005, the Group's warehouses handled 3.8 million tonnes of cargo, representing a 2.7% increase from 3.7 million tonnes for the same period in 2004; cargo tonnage handled grew to 2.1 million TEUs from 1.7 million TEUs for the same period in 2004, an increase of 23.5%; cargo tonnage handled in terminals grew to 652,000 TEUs from 496,000 TEUs for the same period in 2004, an increase of 31.5%. The volume of bulk cargo handled at terminals did not change significantly from the prior year corresponding period.

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Turnover and business volume growth of storage and terminal services was mainly attributable to the enhancement of overall operating capability through the addition of some warehouses and container terminal depots and the revamping of existing terminals by the Group during the period.

Marine transportation

For the six months ended 30 June 2005, turnover from the Group's marine transportation services grew 36.0% to RMB1,878.3 million from RMB1,380.9 million for the same period in 2004.

The number of containers shipped by the Group rose to 636,800 TEUs during the first half of 2005, up 17.3% from 542,773 TEUs for the same period in 2004.

Such growth was primarily attributable to the steady growth in turnover and transport volume backed by the Group's efforts to enhance utilisation of its own vessel space while improving under-capacities for certain routes by entering into swap arrangements with shipping companies, in a move to capture favourable opportunities presented by the market. In addition, the business volume of the Japanese route, one of the Group's main shipping routes, recorded a year-on-year growth of 52.4% this year, while the shipping price index for container export grew 16.6% year-on-year, resulting in an overall revenue growth that is faster than business growth. At the same time, the year-on-year revenue growth in various surcharge and the Terminal Handling Charges (THC) collected together with shipping charges also contributed to revenue growth.

Other services

For the six months ended 30 June 2005, turnover from other services, mainly trucking services, rose 128.4% to RMB152.1 million from RMB66.6 million for the same period in 2004.

The bulk cargo trucking volume of the Group in the first half of 2005 was 65,000 tonnages, 103.1% increase from the number of the same period of 2004, 32,000 tonnages; container volume increased from 171,000 TEUs for the same period of 2004 to 250,000 TEUs, achieved a growth of 46.2%. The growth was mainly due to the increase in the container volume capacity.

Transportation and Related Charges

For the six months ended 30 June 2005, transportation and related charges grew 35.5% to RMB9.9691 billion, compared with RMB7.3564 billion for the same period in 2004.

The increase in transportation and related charges was mainly attributed to the growth in business volume. The rise in international marine freight rates also contributed to the growth in the Group's transportation costs.

Depreciation and Amortisation

Depreciation and amortisation expenses for the six months ended 30 June 2005 amounted to RMB129.0 million, representing an increase of 19.8% from RMB107.7 million for the same period in 2004, primarily as a result of increased property, plant and equipment due to network and business expansion. In addition, the Group's acquisitions of new companies have caused the depreciation and amortization expenses for the first half of 2005 to increase accordingly.

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Operating Costs, excluding Depreciation and Amortisation

For the six months ended 30 June 2005, the Group's operating costs, excluding depreciation and amortisation, were RMB2,368.5 million, a 32.6% increase from RMB1,786.4 million in 2004.

The increase in operating costs, excluding depreciation and amortisation, was primarily due to increased expenditure on staff costs, rental expenses, fuel, travel and promotional expenses.

The increase in staff costs was primarily due to salary adjustments in accordance with the Group's remuneration system and incentive schemes. In addition, the increase in staff due to business expansion and the new acquisitions also resulted in an increase in staff costs. The increase in rental expenses was mainly attributed to the Group's increased shipping capacity since the second half of 2004 and the rise in ship leasing rates; the increased shipping capacity and the rise in international crude oil prices resulted in fuel costs increase of 61.6% in the interim period of 2005. Travel and promotional expenses also increased due to business expansion.

Operating Profit

For the six months ended 30 June 2005, the Group's operating profit was RMB654.3 million, representing an increase of 22.7% from RMB533.2 million in the same period in 2004, mainly as a result of business volume growth. Operating profit as a percentage of total revenue decreased to 4.99% for the six months ended 30 June 2005 from 5.45% for the six months ended 30 June 2004; net profit as a percentage of total revenue (total revenue less transportation and related expenses) decreased to 20.76% for the six months ended 30 June 2005 from 21.97% for the six months ended 30 June 2004, primarily as a result of the increase in the Group's transportation and related charges and various operating expenses.

Taxation

Taxation of the Group for the six months ended 30 June 2005 amounted to RMB176.1 million, up 14.5% from RMB153.7 million for the same period in 2004, primarily as a result of the increase in profit before taxation. Taxation as a percentage of profit before tax decreased to 26.1% for the six months ended 30 June 2005 from 27.3% for the six months ended 30 June 2004.

DISCONTINUED BUSINESS

The revenue of discontinued business of the Group (UPS express business) in the six months ended 30 June 2005 was RMB178.4 million (corresponding period of 2004 was RMB154.8 million), representing an increase of 15.2%; the operating profit for the discontinued business of the Group in the six months ended 30 June 2005 was RMB46.3 million (that of corresponding period of 2004 was RMB49.4 million), representing a decrease of 6.3%; the income from transferring the UPS express business and the provision of related and transition services in the six months ended 30 June 2005 was RMB98.36 million.

MINORITY INTERESTS

Minority interests for the six months ended 30 June 2005 amounted to RMB103.0 million, up 39.0% from RMB74.1 million for the same period in 2004 and, primarily as a result of the increase in net profit of Sinoair, a non-wholly owned subsidiary of the Group and the inclusion in the interim results of 2005 of the increase in minority interests resulted from the new acquisitions.

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PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the period from the Group's continuing operations for the six months ended 30 June 2005 amounted to RMB497.4 million, representing an increase of 21.7% from RMB408.6 million of same period of 2004.

The profit for the period from the Group's discontinued operations for the six months ended 30 June 2005 amounted to RMB104.3 million, representing an increase of 149.5% from RMB41.8 million of same period of 2004.

Profit attributable to equity holders of the Company of the Group for the six months ended 30 June 2005 amounted to RMB498.7 million, representing an increase of 32.5% from RMB376.3 million for the same period in 2004.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarises the Group's cash flows for the periods indicated:

	For the six months ended 30 June (unaudited)	
	2005 (RMB in millions)	2004 (RMB in millions)
Continuing Operations		
Net cash inflow from operating activities	367.3	243.0
Net cash (used in)/provided from investing activities	(488.1)	119.7
Net cash used in from financing activities	(165.0)	(34.8)
Net (decrease)/increase in cash and cash equivalents	(285.8)	327.9
Discontinued Operations		
Net cash inflow from operating activities	59.9	52.6
Net cash provided from investing activities	3.4	0.9
Net cash inflow from transfer of business and provision of related and transition services	462.3	—
Net increase in cash and cash equivalents	525.6	53.5
Net increase in cash and cash equivalents	239.8	381.4
Cash and cash equivalents at the end of the period	4,962.5	5,264.3

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ANALYSIS OF CASH FLOW OF CONTINUING OPERATIONS

Operating activities

Net cash from operating activities for the six months ended 30 June 2005 amounted to RMB367.3 million, up 51.2% compared with RMB243.0 million for the corresponding period in 2004. The increase in net cash from operating activities was primarily as a result of the profit attributable to equity holders of the Company for the six months ended 30 June 2005 of RMB425.3 million (corresponding period in 2004: RMB346.9 million) as well as an increase of RMB802.2 million in trade payables for the six months ended 30 June 2005 (corresponding period in 2004: increase of RMB220.0 million), which was partially offset by an increase of RMB946.9 million in trade receivables and other receivables for the six months ended 30 June 2005 (corresponding period in 2004: increase of RMB586.4 million) and an increase of RMB136.7 million in prepayment, deposit, and other current assets (corresponding period in 2004: increase of RMB38.0 million).

The average turnover days of trade receivables for the six months ended 30 June 2005 and 2004 were 63 days and 69 days respectively.

Investing activities

For the six months ended 30 June 2005, net cash used in investing activities of RMB488.1 million primarily comprised RMB367.9 million for the acquisition of property, plant and equipment, RMB88.77 million for term deposits of three months or more, RMB13.68 million for the acquisition of land use rights and intangible assets and RMB61.08 million for the acquisition of subsidiaries and associated companies. For the six months ended 30 June 2004, net cash provided from investing activities primarily comprised RMB42.5 million for the recoup of held-to-maturity investments and a reduction of RMB633.3 million in term deposits, partially offset by RMB268.7 million for the acquisition of property, plant and equipment, RMB206.9 million for the acquisition of held-to-maturity investments, RMB82.91 million for the acquisition of land use rights and intangible assets.

Financing activities

Net cash used in the Group's financing activities amounted to RMB165 million for the six months ended 30 June 2005, compared with net cash used in financing activities of RMB34.8 million for the corresponding period in 2004. Bank loan repayments for the six months ended 30 June 2005 amounted to RMB255.5 million, compared to RMB110.6 million for the same period in 2004, dividends paid for the six months ended 30 June 2005 amounted to RMB138.5 million, compared to RMB77.9 million for the corresponding period in 2004, which were offset by new bank loans secured during the six months ended 30 June 2005 amounting to RMB176.9 million (corresponding period in 2004: RMB155.6 million).

Capital expenditure

For the six months ended 30 June 2005, the Group's capital expenditure amounted to RMB381.6 million, consisting of RMB367.9 million for the acquisition of property, plant and equipment and RMB13.68 million for the acquisition of intangible assets and land use rights, among which RMB250.4 million was used for the renovation and construction of docks, warehouses, logistics centres and piling areas, RMB78.43 million for the purchase of vehicles and equipment and RMB32.69 million for IT investment and refurbishment and purchase of office equipment.

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CONTINGENCIES AND GUARANTEES

As at 30 June 2005, the contingent liabilities of the Group amounted to approximately RMB30.232 million, comprising mainly RMB4.732 million in relation to pending litigations and outstanding loan guarantees provided by the Group for the obligations of jointly-controlled entities in the amount of RMB25.5 million.

GEARING RATIO

As at 30 June 2005, the gearing ratio of the Group was 52.0% (as at 31 December 2004: 48.3%), which was arrived at by dividing the sum of liabilities and minority interests by total assets at 30 June 2005.

FOREIGN EXCHANGE RATE RISKS

A substantial portion of the Group's turnover and transportation and related charges are denominated in US dollars, therefore the Group is subject to foreign exchange risks mainly in connection with US dollars. The Group cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollars and other foreign currencies will not adversely affect its results of operations and financial position (including the ability to pay dividends).

CREDIT RISK

The extent of our credit exposure is represented by an aggregated balance of trade receivables and other receivables, financial assets at fair value through profit or loss, restricted cash and term deposits with an initial term of maturity of over three months. The maximum credit exposure in the event of counterparties' default on obligations under these financial instruments was approximately RMB6,109.0 million and RMB5,096.4 million as at 30 June 2005 and 31 December 2004, respectively. In addition, we provided certain prepayments, prepaid expenses and deposits on behalf of customers, the aggregate amounts of which were RMB519.4 million and RMB381.1 million as at 30 June 2005 and 31 December 2004, respectively.

EMPLOYEES

The number of employees employed by the Group and information on remuneration, remuneration policy and employee's development are substantially the same as disclosed in the annual report of 2004, there have not been any material changes.

OUTLOOK AND PROSPECTS

The Group will face a more complicated market environment in the second half of the year. On the one hand, demand for logistics and transportation services in the market will continue to grow steadily; on the other hand, the slowing down of foreign trade growth, cyclical change of the shipping market; exchange rate mechanism reform and the full opening of the Chinese logistics market will provide the Group with both opportunities and challenges.

We will continue to take good opportunity of market development to improve operating standard through business integration and extension of services; continue to perfect the service network to enhance the development of the NVOCC business; strengthen the development of new services and new products to increase new profit sources; reinforce marketing and client management efforts to optimise client structure and to strengthen fundamental management to raise the Group's management standard and its cost control ability.

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With enhanced efforts, we believe the Group's main businesses will continue to show significant growth, and at the same time, we will see an improvement of operating standard, a further enhancement of competitiveness and profitability. The Group will, on the basis of significantly raising management standard, fully accomplish all the estimated operating objectives in order to create greater value for our shareholders.

Zhang Bin

Chairman

Beijing, 26 August 2005