

The board of directors (the “Board”) is pleased to present its report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005.

### **BUSINESS OPERATIONS AND GEOGRAPHICAL ANALYSIS OF THE GROUP**

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

An analysis of the Group’s operating results for the year by business and geographical segments is set out in Note 5 to the financial statements.

### **SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATED COMPANIES**

Particulars of the subsidiaries, jointly-controlled entities and associated companies of the Company are set out in Notes 18, 19 and 20 to the financial statements.

### **FINANCIAL RESULTS**

The results of the Group for the year ended 31 December 2005 are set out in the financial statements on page 71 to 72. The summary of results and assets and liabilities of the Group for the previous five years is set out on page 3.

### **DIVIDENDS**

The Company paid an interim dividend of RMB0.038 per share (2004: an interim dividend of RMB0.030 per share paid) on 1 November 2005.

The Board recommended the payment of a final dividend of RMB0.038 per share, subject to shareholders’ approval in respect of the recommendation, declaration and payment of the final dividend for 2005 at the Annual General Meeting to be held on Monday, 29 May 2006. Please refer to the “Notice of the Annual General Meeting” for further details.

It is expected that the final dividend will be paid on or before Friday, 16 June 2006 to shareholders whose names appear on the register of members on Saturday, 29 April 2006. The register of members of the Company will be closed from Saturday, 29 April 2006 to Monday, 29 May 2006 (both days inclusive), during which no transfers will be registered.

## Report of the Directors

In order to qualify for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with relevant share certificates to the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4: 00 p.m. on 28 April, 2006, for registration.

Pursuant to the Articles of Association of the Company, dividends payable to the holders of Domestic Shares will be paid in Renminbi, while dividends payable to the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars is the mean average exchange rate of Renminbi to Hong Kong dollar published by the People's Bank of China during the calendar week (21 March 2006 to 27 March 2006) prior to the date of declaration of the dividend. During the period, the average exchange rate of Renminbi to Hong Kong Dollar was HK\$1 = RMB1.03474. Accordingly, the amount of final dividend for each H Share of the Company is HK\$0.03672.

### **BANK LOANS**

Details of the bank loans of the Company and the Group are set out in Note 30 to the financial statements.

### **MAJOR CUSTOMERS AND SUPPLIERS**

In 2005, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively.

For the year ended 31 December 2005, none of the directors, supervisors, their respective associates and any shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) of the Company had any interest in the five largest customers or the five largest suppliers of the Group.

### **CONNECTED TRANSACTIONS**

Significant related party transactions entered by the Group during the year ended 31 December 2005 are disclosed in Note 39 to the financial statements.

## Report of the Directors

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

	Note	2005 RMB'000
<b>Transactions with Sinotrans Group Company and its subsidiaries</b>	<b>1</b>	
Provision of transportation and logistics services		504,157
Provision of information technology services		960
Receipt of transportation and logistics services		(255,950)
Vessel charting		(69,538)
Container leasing		(49,553)
Vehicle rental		(4,367)
Property leasing		(48,232)
<b>Transactions with connected joint venture partners</b>	<b>2</b>	
Provision of services		71,073
Receipt of services		(27,805)
<b>Transactions with connected non wholly-owned subsidiaries and associates of the Company</b>	<b>3</b>	
Provision of services		257,831
Receipt of services		(100,037)

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

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

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

## Report of the Directors

As stated in the Company's prospectus dated 29 January 2003, the Company has obtained waivers in relation to the continuing connected transactions of the Group described in Notes 1 to 3 above from the Stock Exchange. These waivers expired on 31 December 2005. In compliance with the relevant requirement of the Listing Rules, these transactions together with the respective annual caps for the years 2006, 2007 and 2008 will be put forward to shareholders for their approval.

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

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

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

- (a) the transactions were approved by the Board;
- (b) the transactions were in accordance with the pricing policies as set out in Note 39 to the Company's financial statements;
- (c) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (d) the relevant annual caps for connected transaction waiver have not been exceeded.

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

On 18th October, 2005 Sinotrans Tianjin Container (a wholly owned subsidiary of the Company) entered into the Acquisition Agreement with Sinotrans Tianjin Storage (a wholly owned subsidiary of Sinotrans Group Company) under which Sinotrans Tianjin Storage agreed to transfer and Sinotrans Tianjin Container agreed to acquire the right to use the a piece of land in Tianjin ("Land") together with the buildings and other assets on the Land at an aggregate consideration of RMB130,449,900 (equivalent to approximately HK\$123,066,000).

According to the Listing Rules, the above transactions constituted a connected transaction subject to announcement requirements. The Company has already issued an announcement in this regard.

## ACQUISITIONS AND DISPOSALS

During the reporting period, the Group acquired certain equity interests in seven companies at a cash consideration of RMB80.55 million. The name of the companies and the percentage of interest acquired are listed as follows:

<u>Name of the company</u>	<u>Percentage of interest</u>
<b>Subsidiary:</b>	
China Taicang Marine Shipping Agency Co., Ltd.	100%
<b>Jointly controlled entities:</b>	
Jiangsu Nissin Sinotrans International Transportation Co., Ltd.	50%
Ningbo Dagang Container Co., Ltd.	50%
Xuzhou Sinotrans Maruzen Transportation Co., Ltd.	50%
Sinotrans Hi-Tech Logistics (Suzhou) Co., Ltd.	30%
<b>Associates:</b>	
Shanghai Haihui International Container Repair Co., Ltd.	35%
Changshu Nissin Sinotrans Transportation Co., Ltd.	30%

## Report of the Directors

On 30 November 2005, the Group acquired a 50% equity interest in Shanghai Jiaoyun International Freight & Transportation Co., Ltd. at a consideration of RMB25,000,000.

On 1 July 2005, the Group acquired a 50% equity interest in Xiamen Greeting-Container Services Co., Ltd. for a cash consideration of RMB5,000,000.

Save as disclosed above, there were no other material acquisitions and disposals of subsidiaries or jointly controlled entities or associated companies of the Group for the year ended 31 December 2005.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

### TAXATION

Details of taxation of the Company and the Group as at 31 December 2005 are set out in Note 11 to the financial statements.

### RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in page 79 of the financial statements and Note 34 to the financial statements.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2005 amounted to RMB1,230,860,000 (2004: RMB866,292,000).

### SHARE CAPITAL

For the year ended 31 December 2005, there was no change in the shareholding structure of the Company. Shareholding structure of the Company as at 31 December 2005 was as follows:

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

**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2005, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than directors or supervisors) in the shares of the Company which were required to be disclosed to the Company pursuant to the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Corporate Interests	Short Position	Class of Shares	As a % of total issued share capital	As a % of total issued H share capital
China National Foreign Trade Transportation (Group) Corporation	2,461,596,200	—	Domestic Shares	57.93%	—
Deutsche Post AG	237,468,000	—	H Shares	5.59%	13.29%
Deutsche Bank Aktiengesellschaft	178,393,805	—	H Shares	4.20%	9.98%
UPS Air Couriers of America Limited	124,657,000	—	H Shares	2.93%	6.97%
OppenheimerFunds, Inc	111,622,000	—	H Shares	2.63%	6.25%
Oppenheimer Developing Markets Fund	91,900,000	—	H Shares	2.16%	5.14%
J.P. Morgan Chase & Co.	90,154,000	—	H Shares	2.12%	5.04%
	—	52,459,000 <sup>(P)</sup>	H Shares	1.23%	2.93

Note: (P) Share in lending pool

Save as disclosed above, as at 31 December 2005, so far as was known to the directors of the Company, no person (other than directors or supervisors) had any interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

# Report of the Directors

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

So far as was known to the directors of the Company, there was no purchase, sale or redemption of any H Shares by any member of the Group during the year ended 31 December 2005.

## **DIRECTORS AND SUPERVISORS**

As at 31 December 2005, the directors and supervisors of the Company are as follows:

### **Executive directors**

Zhang Bin	(re-appointed on 24 October 2005)
Zhang Jianwei	(re-appointed on 24 October 2005)
Tao Suyun	(re-appointed on 24 October 2005)
Li Jianzhang	(appointed on 18 June 2003)

### **Non-executive directors:**

Yang Yuntao	(re-appointed on 24 October 2005)
Liu Jinghua	(appointed on 18 June 2003)
Jerry Hsu	(appointed on 18 June 2003)
Ken Torok	(appointed on 18 June 2003)

Lee Chong Kwee	(appointed on 18 June 2003)
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### **Independent non-executive directors:**

Sun Shuyi	(re-appointed on 24 October 2005)
Lu Zhengfei	(appointed on 27 September 2004)
Miao Yuexin	(appointed on 30 August 2005)

### **Supervisors:**

Su Yi	(appointed on 18 June 2003)
Wang Xiaozheng	(re-appointed on 24 October 2005)

### **Independent Supervisors:**

Zhang Junkuo	(re-appointed on 24 October 2005)
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Pursuant to the articles of association of the Company, all directors and supervisors are appointed for a term of three years and are eligible for re-election upon expiry of term.

### CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Mr. Miao Yuexin was appointed independent non-executive director of the Company on 30 August 2005.

Mr. Zhang Bin, Mr. Zhang Jianwei, Ms. Tao Suyun, executive directors of the Company; Mr. Yang Yuntao, non-executive director of the Company and Mr. Sun Shuyi, independent non-executive director, Mr. Wang Xiaozhang, supervisor of the Company and independent supervisor of the Company Mr. Zhang Junkuo were re-elected on 24 October 2005.

Mr. Zhang Bin, executive director of the Company resigned from the position of executive director and chairman of the Company on 10 January 2006.

Mr. Zhao Huxiang was appointed executive director and chairman of the Company on 3 March 2006.

Mr. Lee Chong Kwee, non-executive director resigned from the position of non-executive director of the board of directors of the Company on 27 March 2006.

## Report of the Directors

Until 28 March 2006, the members of the board of directors of the Company are.

Chairman	Mr. Zhao Huxiang
Executive director	Mr. Zhao Huxiang, Mr. Zhang Jianwei, Ms. Tao Suyun, Mr. Li Jianzhang
Non-executive director	Mr. Yang Yuntao, Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok
Independent non-executive director	Mr. Sun Shuyi, Mr. Lu Zhengfei, Mr. Miao Yuexin

### BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 39 to 46.

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

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

The remuneration of the directors and the details of the five highest-paid individuals of the Company are set out in Note 6 to the financial statements.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2005, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

For the year ended 31 December 2005, none of the directors or supervisors had any material interest in any contract of the Company to which the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party.

## **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year ended 31 December 2005 was the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries a party to any arrangement which would enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **MATERIAL CONTRACTS WITH SINOTRANS GROUP COMPANY**

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

### **Reorganisation Agreement**

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

### **Business Services Agreement**

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

## Report of the Directors

In order to comply with the relevant requirements of the Listing Rules, the Company entered into another business agreement with Sinotrans Group Company on 26 January 2006 on substantially the same terms as the one signed before which extended the term to 31 December 2008.

### Master Lease Agreement

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

### Trademarks Licence Agreement and Registered User Agreement

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

### Computer Software Licence Agreement and IT Services Agreement

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

## MANAGEMENT CONTRACTS

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

## MATERIAL LITIGATION AND CONTINGENT LIABILITIES

Details of the Group's litigation and contingent liabilities as at 31 December 2005 are set out in Note 36 to the financial statements.

### PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2005 are set out in Notes 3(r) and 8 to the financial statements.

### TAX RELIEF AND EXEMPTION

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

### PRE-EMPTION RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

### SIGNIFICANT EVENTS

1. On 30 August 2005, the Extraordinary General Meeting of Shareholders' approved the appointment of Mr. Miao Yuexin as an independent non-executive director of the Company;
2. On 24 October 2005, the Extraordinary General Meeting of Shareholders' approved to re-elect Mr. Zhang Bin, Mr. Zhang Jianwei and Ms. Tao Suyun as executive directors of the Company; to re-elect Mr. Yang Yuntao as a non-executive director of the Company; to re-elect Mr. Sun Shuyi as an independent non-executive director of the Company; and to re-elect Mr. Wang Xiaozheng, Mr. Zhang Junkuo as supervisors of the Company.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE AND THE MODEL CODE

The Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules ("Code") came into effect on 1 January, 2005. The Company has considered the Code and has adopted it as the general rules to the Company's corporate governance. Details please refer to page 26 to 38, Report of Corporate Governance in this annual report.

## Report of the Directors

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

As at 31 December 2005, Mr. Sun Shuyi, Mr. Lu Zhengfei and Mr. Miao Yuexin were the independent non-executive directors of the Company. The Company has received the annual confirmation from each of the independent non-executive directors in respect of their independence and considered that the above independent non-executive directors are independent.

### SIGNIFICANT POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in Note 40 to the financial statements.

### AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The principal functions of the audit committee include the appointment of external auditors, the review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to the Board. As at 31 December 2005, the audit committee comprised one non-executive director and two independent non-executive directors, namely Mr. Sun Shuyi, Mr. Lu Zhengfei and Ms. Liu Jinghua with Mr. Sun Shuyi as the chairman of the audit committee.

On 10 January 2006, the Company appointed Mr. Miao Yuexin as an additional member of the audit committee. The audit committee then comprised Mr. Sun Shuyi (chairman), Mr. Lu Zhengfei, Mr. Miao Yuexin and Ms. Liu Jinghua.

The audit committee has reviewed the 2005 annual results.

### AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were the international and PRC auditors of the Company respectively for the year ended 31 December 2005. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors of the Company will be proposed at the forthcoming Annual General Meeting. The Company did not change its auditors in the past two financial years.

### PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

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

By Order of the Board

**Zhao Huxiang**

*Chairman*

Beijing

28 March 2006