1 GROUP REORGANISATION AND PRINCIPAL ACTIVITIES

The Company was established in the People's Republic of China (the "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 consolidated financial statements of the group 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 consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss as disclosed in the accounting policies in Note 3.

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.

2 BASIS OF PREPARATION (Continued)

In 2005, the Group adopted the new/revised IFRS below, which are relevant to its operations. The 2004 comparatives have been amended in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 28, 32, 33, 39 and IFRS 5 did not result in substantial changes to the Group's accounting policies. In summary:

— IAS 1 has affected the presentation of minority interests and other disclosures;

— IAS 2, 8, 10, 16, 17, 21, 28, 32, 33 and 39 had no material effect on the Group's policies;

— IAS 24 has affected the identification of related parties and some other related-party disclosures;

— IFRS 5 has affected the presentation of discontinued operations and other disclosures.

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, liabilities incurred on employee services received in exchange for cash-settled share-based payments are recognised based on the difference between the market price of the Company's ordinary shares at each balance sheet date and the respective exercise prices under the cash-settled share-based payment arrangements. Upon adoption of IFRS 2, employee services received in exchange for cash-settled share-based payments are recognised at the fair value of the liability incurred and are expensed when consumed. This change in the accounting policy has been accounted for retrospectively.

2 BASIS OF PREPARATION (Continued)

The adoption of IFRS 3, IAS 36 and IAS 38 resulted in a change in the accounting policy for goodwill and negative goodwill and the assessment by management of asset impairment. Until 31 December 2004:

— Goodwill and negative goodwill was amortised on a straight line basis over its estimated useful life up to a maximum period of 10 years; and

— Goodwill was assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3:

— The Group ceased amortisation of goodwill and negative goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and negative goodwill; and

— From the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment while negative goodwill was derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings.

In accordance with the provisions of IAS 36:

— Assets that have indefinite useful lives are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

— An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The adoption of IAS 27 has resulted a change in the accounting policy for investments in subsidiaries and associates in the Company's balance sheet. Until 31 December 2004, investments in subsidiaries and associates are accounted for using the equity method in the Company's balance sheet. Upon adoption of IAS 27, investments in subsidiaries and in associates are stated at cost less provision for impairment losses. The results of subsidiaries and associates are accounted for by the Company on the basis of dividend received and receivable.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All of the new/revised standards adopted by the Group require retrospective application other than IFRS 3 (prospectively after 31 March 2004).

2 BASIS OF PREPARATION (Continued)

(i) The adoption of IFRS 2 resulted in:

	The Group	
	31 December 2005 RMB'000	31 December 2004 RMB'000
Increase in salary and welfare payable	**27,416**	14,583
Decrease in retained earnings	**27,416**	14,583

	For the year ended 31 December 2005 RMB'000	For the year ended 31 December 2004 RMB'000
Increase/(decrease) in staff costs	**12,833**	(1,114)

	The Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000
Increase in salary and welfare payable	**27,416**	14,583
Decrease in retained earnings	**27,416**	14,583

(ii) The adoption of IFRS 3 resulted in:

	The Group	
	31 December 2005 RMB'000	1 January 2005 RMB'000
Increase in goodwill	**4,009**	—
Decrease in negative goodwill	**9,539**	2,177
Increase in retained earnings	**13,548**	2,177

2 BASIS OF PREPARATION (Continued)

(ii) The adoption of IFRS 3 resulted in: (Continued)

	For the year ended 31 December 2005 RMB'000
Decrease in amortisation	**3,180**
Increase in other revenue	**8,191**

The above adoption of IFRS 2 and IFRS 3 has no material impact on the basic/diluted earnings per share.

(iii) The adoption of IAS 27 resulted in:

	The Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000
Decrease in investments in subsidiaries	**2,008,248**	1,506,103
Increase in investments in associates	**517**	475
Decrease in reserves	**2,007,731**	1,505,628

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

— IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).

— IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

— IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).

— IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).

— IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006

2 BASIS OF PREPARATION (Continued)

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

— IFRS 7 (Amendment), Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures (effective from 1 January 2007).

— International Financial Reporting Interpretations Committee ('IFRIC') 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).

— IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).

— IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective from 1 December 2005).

The Group is assessing the impact of the above standards, interpretations and amendments.

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 income statement. The results of operations of jointly controlled entities are accounted for by proportionate consolidation as described in Note 3(c).

(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 by the Group. The cost of an acquisition is measured as the fair value of the assets given, share issued or liabilities undertaken at the date of acquisition 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 (See Note 3(h) for the accounting policy on 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 income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Subsidiaries (Continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(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 interests 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.

(d) Associates

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. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 3(h)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(e) Revenue recognition

Turnover comprises the value of charges for the services in the ordinary course of the Group's activities net of disbursements made on behalf of customer. Turnover is shown net of value-added tax, returns, rebates and discounts and after eliminating revenue generated within the Group. 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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(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.

(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 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. The upfront prepayments made for the land use rights are expensed in the income statement on a straight line basis over the period of the land or when there is impairment, the impairment is expensed in the income statement.

(g) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Repairs and maintenance are charged to the income statement 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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

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. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 and net selling price.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in income statement.

(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 identifiable assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisition of associates is included in "investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Intangible assets (Continued)

(i) *Goodwill (Continued)*

If the cost of acquisition is less than the net fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

(ii) *Computer software development costs*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, not exceeding a period of 5 years.

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.

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.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as trading investments and held-to-maturity investment.

(a) *Trading investment*

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 income statement in the period in which they arise.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(b) *Held-to-maturity investments*

Investments with a fixed maturity that management has the intention 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.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3(m)).

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(c) *Loans and receivables (Continued)*

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement, and subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(k) 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 income statement 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.

(l) 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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "other operating expenses".

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in 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.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) 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.

(q) Deferred income tax

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 consolidated 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, tax rate differential payable on distribution of earnings from subsidiaries and jointly controlled entities, salary payable which is not deductible for current income tax and tax value of losses carried forward. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Deferred income tax (Continued)

Deferred income 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 by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) 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. Sinotrans Group 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.

(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 income statement.

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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iii) *Housing benefits (Continued)*

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 income statement 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) *Long term 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.

(v) *Cash settled share-based payment*

The Group enters into cash-settled share-based payment transactions with key employees and directors.

Employee services received in exchange for cash-settled share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in income statement.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) 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. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Financial risk management

(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.

The Group's overall financial risk management programme focuses on the unpredictability of the financial markets, optimising the level of financial risks the Group can bear, and minimising any potential adverse effects on the financial performance of the Group. Financial risk management is carried out by the Group's finance department, following the overall directions determined by the Board of Directors. The finance department identifies and evaluates financial risks in close co-operation with the Group's operating units and makes decisions on portfolio of currencies and term of deposits. The Board of Directors provides directions on overall risk management and makes key decisions on matters which may give rise to significant financial risks.

— *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. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Financial risk management (Continued)

(i) *Financial risk factors (Continued)*

— *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 31 December 2005 and 2004, 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, financial assets at fair value through profit and loss, held-to-maturity investments, restricted cash 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 RMB5,679,237,000 (2004: RMB5,162,642,000) as at 31 December 2005. In addition, the Group made certain prepayments on behalf of customers, prepaid certain expenses and provided certain deposits, the aggregate of which was RMB357,783,000 (2004: RMB381,071,000) as at 31 December 2005.

(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(v).

(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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Financial risk management (Continued)

(iii) Fair value estimation (Continued)

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.

(u) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Foreign currency translation (Continued)

(iii) *Group companies (Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(v) 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.

(w) Profit distributions and dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

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)

(x) 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 mainly 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.

(y) Related party transactions

Related parties include Sinotrans Group Company and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company and Sinotrans Group Company as well as their close family members.

The Group is part of a larger group of companies under Sinotrans Group Company and has extensive transactions and relationships with members of the Sinotrans Group Company and its subsidiaries. Because of these relationships, it is possible that the terms of the transactions between the Group and members of the Sinotrans Group Company and its subsidiaries are not the same as those that would result from transactions with or among other related parties or wholly unrelated parties.

Sinotrans Group Company itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 (revised 2003), "Related Party Disclosure", state-owned enterprises and their subsidiaries, other than Sinotrans Group Company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Recognition of income from transfer of business and provision of related and transition services relating to discontinued operations

The Group recognises income from the transfer of business which constituted discontinued operations, and provision of related and transition services relating to discontinued operations, when the transfer is substantially completed and the services are provided during the transition period based on the estimated fair value of the business and services.

The Group has also estimated an adjustment to the base consideration in the determination of the income from transfer of business and provision of related and transition services. The adjustment is in respect of the uncertainties surrounding the achievement of certain revenue targets and other potential claims under the framework agreement.

Additional information is disclosed in Note 7.

(b) Recognition of revenue and cost of marine transportation

Freight revenue and the related cost 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. Estimates of revenue and cost are required in respect of voyages not completed at balance sheet date or for which the final invoices are not yet available.

(c) Estimated impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables in accordance with the accounting policy stated in Note 3(m). Such provision for impairment 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. Management reassesses the provision by each balance sheet date.

5 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

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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

(v) *Storage and terminal services (Continued)*

- 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.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2005

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Other RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Continuing operations								
Turnover — external	20,760,386	549,311	2,454,287	3,664,320	848,370	300,142	—	28,576,816
Turnover — inter-segment	64,632	18,465	5,623	286,242	88,631	43,301	(506,894)	—
	20,825,018	567,776	2,459,910	3,950,562	937,001	343,443	(506,894)	28,576,816
Segment results	360,598	253,796	349,154	182,194	208,468	2,295	—	1,356,505
Unallocated costs								(131,614)
Operating profit								1,224,891
Finance expenses net								(33,186)
								1,191,705
Share of profits of associates								12,747
Profit before taxation								1,204,452
Taxation								(376,717)
Profit for the year from continuing operations								827,735
Discontinued operations								
Profit for the year from discontinued operations			216,892					216,892
Profit for the year								1,044,627
Assets								
Segment assets	7,071,764	1,321,219	2,155,054	1,458,677	1,777,812	367,111	(800,400)	13,351,237
Investments in associates								166,208
Non-current assets classified as held for sale								9,024
Unallocated assets								1,209,628
Total assets								14,736,097
Liabilities								
Segment liabilities	3,796,201	911,968	930,615	765,999	216,481	80,941	(800,400)	5,901,805
Unallocated liabilities								321,306
Total liabilities								6,223,111
Other information								
Capital expenditures	225,205	8,542	206,953	31,015	398,789	81,876	—	952,380
Depreciation	86,403	8,248	82,218	7,853	54,501	20,012	—	259,235
Amortisation	8,799	299	2,104	42	5,038	11,948	—	28,230
Reversal of impairment loss on properly, plant and equipment	(7)	—	—	—	—	—	—	(7)
Provision for/(reversal of) impairment loss of receivables and bad debts written off	18,442	(799)	28,647	(422)	25	(202)	—	45,691

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2004 (Restated)

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Other RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Continuing operations								
Turnover — external	15,695,384	507,269	1,795,124	2,885,684	654,168	142,867	—	21,680,496
Turnover — inter-segment	96,449	23,155	4,871	231,034	22,712	12,653	(390,874)	—
	15,791,833	530,424	1,799,995	3,116,718	676,880	155,520	(390,874)	21,680,496
Segment results	335,265	234,483	348,610	170,338	129,329	(4,373)	—	1,213,652
Unallocated costs								(137,435)
Operating profit								1,076,217
Finance income, net								63,999
								1,140,216
Share of profit of associates								10,905
Profit before taxation								1,151,121
Taxation								(304,883)
Profit for the year from continuing operations								846,238
Discontinued operations								
Profit for the year from discontinued operations			135,608					135,608
Profit for the year								981,846
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								165,078
Non-current assets classified as held for sale								9,024
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								258,179
Total liabilities								5,279,629
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 properly, plant and equipment	(14)	—	—	—	—	—	—	(14)
Provision for/(reversal of) impairment loss of receivables and bad debts written off	11,272	426	5,253	(387)	116	104	—	16,784

5 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;

(v) 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.

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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

Continuing operations	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
	As at and for the year ended 31 December 2005					
Northern China	3,242,265	4,077	3,246,342	30,383	3,315,302	290,800
Eastern China	20,982,867	89,067	21,071,934	1,012,159	7,963,417	340,741
Southern China	3,856,136	27,851	3,883,987	332,270	1,980,204	246,613
Other locations	495,548	6,961	502,509	(18,307)	202,975	74,226
Inter-segment elimination	—	(127,956)	(127,956)	—	(110,661)	—
	28,576,816	—	28,576,816	1,356,505	13,351,237	952,380
Unallocated costs				(131,614)		
Operating profit				1,224,891		
Investments in associates					166,208	
Non-current assets classified as held for sale					9,024	
Unallocated assets					1,209,628	
Total assets					14,736,097	

Discontinued operations	Turnover-external RMB'000	Turnover-inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000
	As at and for the year ended 31 December 2005			
Northern China	12,969	—	12,969	2,337
Eastern China	134,074	—	134,074	24,163
Southern China	51,787	—	51,787	9,333
Other locations	13,414	—	13,414	2,418
Inter-segment elimination	—	—	—	—
	212,244	—	212,244	38,251
Unallocated costs				3,302
Operating profit				41,553

5 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2004 (Restated)

Continuing operations	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	2,256,808	44,228	2,301,036	33,523	2,416,967	212,435
Eastern China	16,070,975	206,115	16,277,090	885,645	6,794,031	246,574
Southern China	2,948,355	59,467	3,007,822	281,710	1,733,512	218,560
Other locations	404,358	6,202	410,560	12,774	235,048	49,354
Inter-segment elimination	—	(316,012)	(316,012)	—	(90,465)	—
	21,680,496	—	21,680,496	1,213,652	11,089,093	726,923
Unallocated costs				(137,435)		
Operating profit				1,076,217		
Investments in associates					165,078	
Non-current assets classified as held for sale					9,024	
Unallocated assets					1,817,886	
Total assets					13,081,081	

As at and for the year ended 31 December 2004

Discontinued operations	Turnover - external RMB'000	Turnover - inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000
Northern China	40,279	—	40,279	14,556
Eastern China	229,245	—	229,245	82,841
Southern China	165,616	—	165,616	59,849
Other locations	13,398	—	13,398	4,842
Inter-segment elimination	—	—	—	—
	448,538	—	448,538	162,088
Unallocated costs				—
Operating profit				162,088

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Emoluments of Directors and Supervisors

The aggregate amounts of the emoluments paid and payable to the directors and supervisors of the Company by the Group during the year are as follows:

	2005 RMB'000	2004 RMB'000 (Restated)
Directors:		
Fees	**411**	374
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	**974**	914
— Discretionary bonuses	**1,860**	1,770
— Contributions to pension plans	**48**	42
— Change of fair value on share appreciation rights ("SAR")	**286**	(175)
— Long term bonus plan	**1,111**	1,111
Supervisors:		
Fees	**63**	63
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	**150**	142
— Discretionary bonuses	**178**	178
— Contributions to pension plans	**16**	14
— Change of fair value on SAR	**35**	(22)
— Long term bonus plan	**91**	91

Directors' fees disclosed above include RMB411,000 paid to independent non-executive directors (2004: RMB374,000).

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Emoluments of Directors and Supervisors (Continued)

The emoluments of the directors and supervisors are as follows:

	2005					
	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonuses RMB'000	Contributions to pension plans RMB'000	Change of fair value on SAR RMB'000	Long term bonus plan RMB'000
Name of director						
Zhang Bin	—	**348**	**641**	**16**	**109**	**423**
Zhang Jianwei	—	**328**	**620**	**16**	**92**	**358**
Tao Suyun	—	**298**	**599**	**16**	**85**	**330**
Sun Shuyi	**137**	—	—	—	—	—
Lu Zhengfei	**137**	—	—	—	—	—
Miao Yuexin	**137**	—	—	—	—	—
Name of supervisor						
Zhang Junkuo	**63**	—	—	—	—	—
Wang Xiaozheng	—	**150**	**178**	**16**	**35**	**91**

	2004					
	Fees RMB'000	Basic salaries and allowances RMB'000 (Restated)	Discretionary bonuses RMB'000	Contributions to pension plans RMB'000	Change of fair value on SAR RMB'000 (Restated)	Long term bonus plan RMB'000
Name of director						
Zhang Bin	—	326	610	14	(67)	423
Zhang Jianwei	—	306	590	14	(56)	358
Tao Suyun	—	282	570	14	(52)	330
Sun Shuyi	137	—	—	—	—	—
Lu Zhengfei	137	—	—	—	—	—
Koo Kou Hwa	100	—	—	—	—	—
Name of supervisor						
Zhang Junkuo	63	—	—	—	—	—
Wang Xiaozheng	—	142	178	14	(22)	91

No directors and supervisors of the Company waived any remuneration during the year (2004: Nil).

6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

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

	2005	2004
Directors	3	3
Senior management	2	2

The five individuals whose emoluments were the highest in the Group during the year include 3 (2004: three) directors whose emoluments are reflected in the analysis presented in Note 6(a). Details of remuneration of members of senior management amongst the five highest paid individuals are as follows:

	2005 RMB'000	2004 RMB'000 (Restated)
Basic salaries, housing allowances and other allowances and benefits in kind	1,088	965
Discretionary bonuses	598	560
Contributions to pension plans	32	26
Change of fair value on SAR	148	(90)
Long term bonus plan	572	572

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

	Number of individuals 2005	2004
Nil — HK$1,000,000	—	1
HK$1,000,001 — HK$1,500,000	2	1
	2	2

7 DISCONTINUED OPERATIONS

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 and 12 January 2005, the Group entered into a framework agreement and a transition services agreement, respectively, with UPS to transfer the UPS Express Business to UPS over a period until 31 December 2007. The base consideration for this business transfer is US$100,000,000, subject to certain adjustments depending primarily on the achievement of certain revenue targets of the UPS Express Business and fulfillment of the Group's performance obligations during the transition period. Moreover, additional consideration may be payable by UPS depending on the timing of completion of transfer of identified locations and whether certain property and equipment are to be acquired by UPS. The base consideration covers 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 above-mentioned UPS Express Business was conducted primarily 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.

In 2005, the Group transferred all the initially identified locations and customer lists to UPS and began to provide related and transition services to UPS. In accordance with the terms of framework agreement, the Group has received US$50,000,000 as the initial and progress payments out of the total base consideration of US$100,000,000. The remaining installment of US$50,000,000 is due on 31 December 2006, subject to certain conditions and adjustments. In addition, the Group has received US$20,497,000 as part of an additional consideration based on the timing of the completion of transfer of the identified locations.

The income from the transfer of business and provision of related and transition services is recognised when the transfer is substantially completed and the services are provided during the transition period based on the estimated fair value of the business and services.

7 DISCONTINUED OPERATIONS (Continued)

The Group has also estimated an adjustment to the base consideration in the determination of the income from transfer of business and provision of related and transition services. The adjustment is in respect of the uncertainties surrounding the achievement of certain revenue targets and other potential claims under the framework agreement.

An analysis of the profit for the year from discontinued operations is as follows:

	Note	2005 RMB'000	2004 RMB'000
Discontinued operations			
Income statement			
Turnover	5	**212,244**	448,538
Operating expenses		**(170,691)**	(286,450)
Operating profit		**41,553**	162,088
Finance (expenses)/income, net	10	**(4,871)**	4,284
Profit before taxation		**36,682**	166,372
Taxation	11	**(9,256)**	(30,764)
		27,426	135,608
Income from transfer of business and provision of related and transition services		**226,583**	—
Tax thereon	11	**(37,117)**	—
After-tax income from transfer of business and provision of related and transition services		**189,466**	—
Profit for the year from discontinued operations		**216,892**	135,608
Balance sheet			
Non-current assets classified as held for sale		**9,024**	9,024
Deferred income arising from discontinued operations			
— current		**178,794**	—
— non-current		**175,227**	—
Cash flow statement			
Net cash inflow from operating activities		**44,489**	103,994
Net cash provided from investing activities		**—**	2,976
Net cash inflow from transfer of business and provision of related and transition services		**580,604**	—

8 STAFF COSTS

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

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Wages and salaries		**1,254,817**	1,035,126
Change of fair value on SAR	33	**14,573**	(5,846)
Housing benefits	(a)	**73,597**	60,427
Contributions to pension plans	(b)	**134,060**	114,503
Termination benefits and early retirement benefits	(c)	**8,762**	13,450
Welfare and other expenses		**306,326**	258,562
		1,792,135	1,476,222
Representing:			
Staff costs from continuing operations		**1,731,546**	1,380,183
Staff costs from discontinued operations		**60,589**	96,039

(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.

(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 income statement 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 2005, the Group (representing the Company and its subsidiaries) had 17,687 employees (2004: 15,966).

9 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 RMB'000	2004 RMB'000
Crediting		
Rental income from		
— Buildings	**11,195**	8,423
— plant and machinery	**1,181**	742
Gain on disposal of property, plant and equipment	**13,457**	3,950
Gain on disposal of held-to-maturity investments	**—**	469
Excess of interest in the net fair value of identifiable net asset over cost of acquiring subsidiaries, jointly controlled entities and associates	**8,191**	—
Fair value gains on other financial assets at fair value through profit and loss	**129**	—
Reversal of provision for impairment of property, plant and equipment	**7**	14
Charging		
Depreciation		
— owned property, plant and equipment	**246,630**	201,958
— owned property, plant and equipment leased out under operating leases	**6,704**	6,575
Loss on disposal of property, plant and equipment	**5,483**	7,720
Auditors' remuneration	**9,795**	9,831
Provision for impairment of receivables and bad debts written off	**19,570**	16,784
Operating leases		
— Land use rights	**11,184**	7,815
— Buildings	**157,299**	140,860
— plant and equipment	**1,548,100**	1,131,762
Amortisation of intangible assets	**17,046**	17,710

10 FINANCE (EXPENSE)/INCOME, NET

	2005 RMB'000	2004 RMB'000
Interest income on bank balances	**79,405**	73,755
Interest expenses on bank loans and overdrafts	**(9,640)**	(5,152)
Exchange (losses)/gains, net	**(99,387)**	6,114
Bank charges	**(8,435)**	(6,434)
	(38,057)	68,283
Representing:		
Finance (expense)/income, net, from continuing operations	**(33,186)**	63,999
Finance (expense)/income, net, from discontinued operations	**(4,871)**	4,284

11 TAXATION

Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Provision for PRC income tax		
— current	**400,821**	321,830
— deferred	**22,269**	13,817
	423,090	335,647
Representing:		
Provision for PRC income tax, from continuing operations	**376,717**	304,883
Provision for PRC income tax, from discontinued operations	**46,373**	30,764

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 2005 and 2004.

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

11 TAXATION (Continued)

The provision for PRC current income tax is based on the statutory rate of 33% (2004: 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% (2004: 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:

	2005 RMB'000	2004 RMB'000 (Restated)
Profit before taxation from continuing operations	**1,204,452**	1,151,121
Profit before taxation from discontinued operations	**263,265**	166,372
Profit before taxation	**1,467,717**	1,317,493
Tax calculated at the statutory tax rate of 33%	**484,347**	434,773
Utilisation of prior year unrecognised tax losses	**(9,835)**	(6,889)
Deferred tax benefits arising from tax losses in certain entities not recognised	**6,919**	4,953
Non-taxable income	**(23,510)**	(15,261)
Expenses not deductible for tax purposes	**52,064**	45,757
Preferential tax rates on the income of certain subsidiaries/ jointly controlled entities	**(86,895)**	(127,686)
Tax charge	**423,090**	335,647

11 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:

Deferred tax assets:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
As at 1 January	**251,641**	265,535	—	—
Credited /(charged) to income statement	**3,042**	(13,894)	—	—
As at 31 December	**254,683**	251,641	—	—
Provided for in respect of:				
Asset revaluation surplus during Reorganisation deductible for enterprise income tax purposes (Note (i))	**185,656**	197,447	—	—
Provision for impairment of receivables	**27,149**	23,535	—	—
Provision for one-off cash housing subsidies	**11,601**	11,608	—	—
Salary payable which is not deductible for income tax purposes	**15,587**	11,695	—	—
Provision for claims	**1,108**	1,108	—	—
Depreciation on property, plant and equipment	**3,928**	804	—	—
Other temporary differences	**9,654**	5,444	—	—
	254,683	251,641	—	—
Temporary differences for which deferred tax assets were not recognised:				
Amortisation on intangible asset and non-current asset	**5,212**	5,999	**5,212**	5,999
Depreciation on property, plant and equipment	**1,175**	692	**1,175**	692
Losses carried forward	**12,976**	9,955	—	—
	19,363	16,646	**6,387**	6,691

11 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.

Deferred tax liabilities

	The Group	
	2005	2004
	RMB'000	RMB'000
As at 1 January	**1,526**	1,603
Charged/(credited) to income statement	**25,311**	(77)
Acquisition of jointly controlled entities	**6,671**	—
As at 31 December	**33,508**	1,526
Provided for in respect of:		
Tax rate differential payable on distribution of earnings from jointly controlled entities	**25,589**	—
Prepaid operating lease payments for land use rights	**4,204**	—
Depreciation on property, plant and equipment	**3,417**	1,304
Other temporary differences	**298**	222
	33,508	1,526

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets to be recovered after more than 12 months	**227,305**	228,232	**—**	—
Deferred tax liabilities to be settled after more than 12 months	**20,653**	1,365	**—**	—

11 TAXATION (Continued)

The temporary differences associated with the Group's underlying investments in subsidiaries, jointly controlled entities and associates amounted to RMB929,100,000 (2004: RMB610,203,000) as at 31 December 2005 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, as well as the temporary differences associated with undistributed earnings amounting to RMB318,897,000 (31 December 2004: RMBNil).

(c) Current tax liabilities represent:

	The Group	
	2005	2004
	RMB'000	RMB'000
Enterprise income tax	**175,264**	144,557
Business tax	**41,483**	39,096
Other taxes	**18,341**	12,980
	235,088	196,633

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB148,582,000 (2004: RMB251,882,000).

13 DIVIDENDS

	The Company	
	2005	2004
	RMB'000	RMB'000
Interim, paid, of RMB0.038 (2004: RMB0.030) per ordinary share	**161,462**	127,470
Final, proposed, of RMB0.038 (2004: RMB0.034) per ordinary share	**161,462**	144,466
	322,924	271,936

At the Board of Directors' meeting held on 28 March 2006, the directors proposed a final dividend of RMB0.038 per ordinary share for the year ended 31 December 2005. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

14 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit by the number of ordinary shares in issue during the year.

	2005 RMB'000	2004 RMB'000 (Restated)
Continuing operations		
Profit attributable to equity holders of the Company (RMB '000)	**700,240**	708,525
Number of ordinary shares in issue (thousands)	**4,249,002**	4,249,002
Basic and diluted earnings per share (RMB per share)	**0.16**	0.17
Discontinued operations		
Profit attributable to equity holders of the Company (RMB '000)	**156,673**	95,408
Number of ordinary shares in issue (thousands)	**4,249,002**	4,249,002
Basic and diluted earnings per share (RMB per share)	**0.04**	0.02

15 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Port and rail facilities RMB'000	Containers RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture and office equipment RMB'000	Assets under construction RMB'000	**2005 Total RMB'000**	2004 Total RMB'000
Cost										
At beginning of year	886,321	74,204	93,908	23,342	531,011	702,640	420,720	297,403	**3,029,549**	2,351,746
Additions	55,922	26,459	6,101	147	79,841	155,127	57,962	445,917	**827,476**	621,827
Acquisition of subsidiaries and jointly controlled entities	48,089	—	—	—	28,472	39,222	5,430	3,087	**124,300**	177,413
Disposals	(766)	—	(1,680)	(462)	(5,678)	(55,801)	(22,384)	—	**(86,771)**	(121,437)
Transfer upon completion	206,649	1,623	50,323	—	108,320	8,040	25,350	(400,305)	**—**	—
At end of year	1,196,215	102,286	148,652	23,027	741,966	849,228	487,078	346,102	**3,894,554**	3,029,549
Accumulated depreciation and impairment losses										
At beginning of year	(200,567)	(42,150)	(46,228)	(17,896)	(197,919)	(393,944)	(234,117)	—	**(1,132,821)**	(948,875)
Depreciation for the year	(36,869)	(10,277)	(11,714)	(1,392)	(55,923)	(83,815)	(59,245)	—	**(259,235)**	(220,401)
Acquisition of subsidiaries and jointly controlled entities	(6,992)	—	—	—	(12,759)	(19,842)	(3,047)	—	**(42,640)**	(58,405)
Disposals	569	—	1,013	27	4,537	40,877	18,814	—	**65,837**	94,846
Reversal of impairment losses for the year	—	—	—	—	—	7	—	—	**7**	14
At end of year	(243,859)	(52,427)	(56,929)	(19,261)	(262,064)	(456,717)	(277,595)	—	**(1,368,852)**	(1,132,821)
Net book value										
At end of year	952,356	49,859	91,723	3,766	479,902	392,511	209,483	346,102	**2,525,702**	1,896,728
At beginning of year	685,754	32,054	47,680	5,446	333,092	308,696	186,603	297,403	**1,896,728**	1,402,871

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture and office equipment RMB'000	Assets under construction RMB'000	**2005 Total RMB'000**	2004 Total RMB'000
Cost							
At beginning of year	—	7,966	4,615	43,027	5,750	**61,358**	43,561
Additions	1,317	328	877	2,150	28,338	**33,010**	18,037
Disposals	—	—	—	—	—	**—**	(240)
Transfer upon completion	1,089	457	—	23,293	(24,839)	**—**	—
At end of year	2,406	8,751	5,492	68,470	9,249	**94,368**	61,358
Accumulated depreciation							
At beginning of year	—	(2,149)	(835)	(13,896)	—	**(16,880)**	(7,442)
Depreciation for the year	(227)	(1,462)	(762)	(8,913)	—	**(11,364)**	(9,499)
Disposals	—	—	—	—	—	**—**	61
At end of year	(227)	(3,611)	(1,597)	(22,809)	—	**(28,244)**	(16,880)
Net book value							
At end of year	2,179	5,140	3,895	45,661	9,249	**66,124**	44,478
At beginning of year	—	5,817	3,780	29,131	5,750	**44,478**	36,119

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

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

	The Group	
	2005 RMB'000	2004 RMB'000
Net book value of property, plant and equipment pledged	**44,504**	43,458
Corresponding borrowings	**13,700**	18,499

16 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	
	2005	2004
	RMB'000	RMB'000
At beginning of year	**283,711**	187,922
Additions	**120,610**	31,234
Acquisition of subsidiaries and jointly controlled entities	**30,680**	72,370
Charged to income statement	**(11,184)**	(7,815)
At end of year	**423,817**	283,711

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Net book value of land use rights pledged	**70,527**	77,362
Corresponding borrowings	**15,887**	57,496

17 INTANGIBLE ASSETS

	The Group			
			2005	2004
	Software	Goodwill	**Total**	Total
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
At beginning of year as previously reported	87,716	22,384	**110,100**	79,424
Opening adjustment for the adoption of IFRS 3	—	(1,389)	**(1,389)**	—
At beginning of year as restated	87,716	20,995	**108,711**	79,424
Additions	17,387	8,086	**25,473**	15,744
Acquisition of subsidiaries and jointly controlled entities	44	—	**44**	14,156
Disposals	(460)	—	**(460)**	776
At end of year	104,687	29,081	**133,768**	110,100
Accumulated amortisation				
At beginning of year as previously reported	(44,269)	(3,566)	**(47,835)**	(29,903)
Opening adjustment for the adoption of IFRS3	—	3,566	**3,566**	—
At beginning of year as restated	(44,269)	—	**(44,269)**	(29,903)
Amortisation for the year	(17,046)	—	**(17,046)**	(17,710)
Disposals	444	—	**444**	(222)
At end of year	(60,871)	—	**(60,871)**	(47,835)
Net book value				
At end of year	43,816	29,081	**72,897**	62,265
At beginning of year	43,447	20,995	**64,442**	49,521

17 INTANGIBLE ASSETS (Continued)

For the purposes of impairment testing, goodwill have been allocated to 11 individual cash generating unit ("CGU") which comprises of 11 subsidiaries. The carrying amount of goodwill (net of accumulated amortisation) as at 31 December 2005 which is allocated to the significant CGU in comparison with the Group's total carrying amount of goodwill was RMB14,658,000 in respect of Trade Sky International Limited ("Trade Sky"). None of the goodwill of other CGUs is significant in comparison with the Group's total carrying amount of goodwill.

During the year ended 31 December 2005, management of the Group determines that there is no impairment of any of its CGU containing goodwill.

The recoverable amount of Trade Sky was determined based on value-in-use calculations. The recoverable amount is based on certain similar key assumptions. Value in use calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period, and a discount rate of 12%. Cash flows projections during the forecast period for the CGU are based on the expected gross margins during the forecast period. Forecast gross margins have been determined based on past performance and management's expectations for the market development.

	The Company	
	2005	2004
	Software	Software
	RMB'000	RMB'000
Cost		
At beginning of year	**43,430**	33,976
Additions	**11,309**	9,454
At end of year	**54,739**	43,430
Accumulated amortisation		
At beginning of year	**(19,139)**	(10,059)
Amortisation for the year	**(8,019)**	(9,080)
At end of year	**(27,158)**	(19,139)
Net book value		
At end of year	**27,581**	24,291
At beginning of year	**24,291**	23,917

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB'000	RMB'000
		(Restated)
Investments at cost:		
Unlisted equity interests	**2,146,542**	1,857,367
Shares in a listed company in the PRC	**1,278,378**	1,278,378
	3,424,920	3,135,745

Shares in a listed company in the PRC represent 70.36% equity interest in Sinoair, a company listed on the Shanghai Stock Exchange.

The following is a list of the principal subsidiaries at 31 December 2005:

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
Sinotrans Network Technology Company Limited	Beijing, the PRC 11 December 2001 Limited liability company	RMB5,000,000	60%	88.14%	Information technology services

18 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	Equity interest held by the Group	Principal activities
Sinotrans Eastern Company Limited	Shanghai, the PRC 29 November 2002 Limited liability company	RMB1,120,503,439	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	RMB10,000,000	10%	100%	Freight forwarding
Sinotrans Container Lines Company Limited	Shanghai, the PRC 24 April 1998 Limited liability company	RMB100,000,000	10%	100%	Marine transportation
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
Trade Sky International Limited	Hong Kong, the PRC 10 October 2003 Limited liability company	HK$161,100,000	75%	75%	Investment activities

18 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
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 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 Tianjin Company Limited	Tianjin, the PRC 3 December 2002 Limited liability company	RMB57,363,906	90%	100%	Freight forwarding, shipping agency and express services
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

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.

19 INTERESTS IN JOINTLY CONTROLLED ENTITIES

The following is a list of the principal jointly controlled entities at 31 December 2005, 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 Company	Group	Principal activities
Ningbo Southeast International Freight Company Limited	Ningbo, the PRC 25 September 1992 Sino-foreign equity joint venture	US$1,120,000	—	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 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
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$2,2540,000	—	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
Exel-Sinotrans Freight Forwarding Co., Ltd.	Beijing, the PRC 15 May 1996 Sino-foreign equity joint venture	US$2,440,000	—	35.18%	Air freight forwarding

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.

19 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The aggregate amounts of assets, liabilities, revenues and expenses attributable to the Group's interests in the jointly controlled entities are summarised as follows:

	2005 RMB'000	2004 RMB'000
Non-current assets	**486,680**	317,662
Current assets	**1,414,321**	1,080,573
Non-current liabilities	**2,490**	145
Current liabilities	**956,701**	623,095
Revenues	**5,677,268**	4,346,441
Expenses	**(5,200,575)**	(3,978,387)

There are no significant commitments and contingent liabilities related to the Group's interests in the jointly controlled entities.

20 INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2005 **RMB'000**	2004 RMB'000 (Restated)	**2005** **RMB'000**	2004 RMB'000 (Restated)
At beginning of year	**165,078**	68,992	**73,750**	—
Addition	**20,895**	98,941	**—**	73,750
Share of associates' results			**—**	—
— profit before taxation	**17,731**	13,960	**—**	—
— taxation	**(4,984)**	(3,055)	**—**	—
	12,747	10,905	**—**	—
Disposal	**(24,926)**	(11,960)	**—**	—
Dividends received	**(7,586)**	(1,800)	**—**	—
At end of year	**166,208**	165,078	**73,750**	73,750

20 INVESTMENTS IN ASSOCIATES (Continued)

Investment in associates at 31 December 2005 include goodwill of RMB4,411,000 (2004: Nil).

The following is a list of the principal associates at 31 December 2005:

Name	Country/place of operation & incorporation/date of incorporation/ legal status	Issued share/paid up capital	Equity interest held by the Company	Equity interest held by the Group	Principal activities
AMS Global Transportation Co., Ltd.	Beijing, the PRC 29 June 1991 Sino-foreign equity joint venture	US$1,980,000	—	14.07%	Air freight forwarding
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
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
* Shanghai Haihui International Container Repair Co., Ltd	Shanghai, the PRC 6 June 1989 Sino-foreign equity joint venture	US$1,420,000	—	35%	International container pile and storage, container repair
* Changshu Nissin Sinotrans Transportation Co., Ltd	Jiangsu, the PRC 13 Feb 1995 Sino-foreign equity joint venture	US$1,200,000	—	30%	Freight forwarding

* Associates acquired or established in 2005.

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.

21 PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Prepayments on behalf of customers	**285,407**	304,727	**15,754**	—
Prepaid expenses	**49,829**	51,102	**3,404**	2,027
Others	**5,182**	17,979	**—**	595
Due from related parties	**17,365**	7,263	**2,362**	—
	357,783	381,071	**21,520**	2,622

22 INVENTORIES

Inventories mainly comprise supplies, consumables and spare parts. As at 31 December 2005, the inventories of the Group stated at net realisable value amounted to RMB709,000 (2004: RMB740,000).

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade receivables	**4,274,071**	3,569,536	**32,361**	7,258
Bills receivable	**37,797**	31,867	**—**	1,000
Other receivables	**216,614**	171,214	**6,487**	4,458
Due from related parties	**245,530**	300,972	**1,067,404**	884,330
	4,774,012	4,073,589	**1,106,252**	897,046

The carrying amounts of trade and other receivables approximate their fair values.

23 TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Trade receivables	**4,389,037**	3,642,899	**32,361**	7,258
Less: Provision for impairment of receivables	**(114,966)**	(73,363)	**—**	—
	4,274,071	3,569,536	**32,361**	7,258

Aging analysis of the above trade receivables at the respective balance sheet dates is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 6 months	**4,233,254**	3,483,378	**30,975**	7,154
Between 6 and 12 months	**64,555**	77,348	**1,348**	17
Between 1 and 2 years	**41,998**	47,970	**35**	87
Between 2 and 3 years	**24,672**	11,198	**3**	—
Over 3 years	**24,558**	23,005	**—**	—
	4,389,037	3,642,899	**32,361**	7,258

The credit period of the Group's trade receivables generally ranges from 1 to 6 months.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, both locally and internationally dispersed.

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

23 TRADE AND OTHER RECEIVABLES (Continued)

(c) Other receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Deposits receivable	**169,255**	124,880	**2,633**	372
Dividend and investment income receivables	**—**	10,839	**—**	46
Interest receivable	**2,863**	3,114	**2,863**	3,034
Others	**61,380**	42,501	**991**	1,006
	233,498	181,334	**6,487**	4,458
Less: Provision for impairment of receivables	**(16,884)**	(10,120)	**—**	—
	216,614	171,214	**6,487**	4,458

23 TRADE AND OTHER RECEIVABLES (Continued)

(d) Due from related parties

The amounts due from related parties are analysed as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade receivables:				
Ultimate holding company and fellow subsidiaries	**148,081**	194,373	**2,236**	674
Jointly controlled entities	**20,352**	16,781	**—**	—
Associates	**89**	5,016	**—**	—
Other state-owned enterprises	**47,277**	32,657	**13,222**	—
	215,799	248,827	**15,458**	674
Less: Provision for impairment of receivables	**(3,351)**	(4,477)	**—**	—
	212,448	244,350	**15,458**	674
Other receivables:				
Ultimate holding company and fellow subsidiaries	**14,084**	12,255	**1,045,350**	877,060
Jointly controlled entities	**15,546**	49,551	**6,596**	6,596
Associates	**2,870**	2,318	**—**	—
Other state-owned enterprises	**582**	1,046	**—**	—
	33,082	65,170	**1,051,946**	883,656
Less: Provision for impairment of receivables	**—**	(8,548)	**—**	—
	33,082	56,622	**1,051,946**	883,656
	245,530	300,972	**1,067,404**	884,330

23 TRADE AND OTHER RECEIVABLES (Continued)

(d) Due from related parties (Continued)

The credit period of the Group's trade receivables due from related parties generally ranges from 1 to 6 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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 6 months	**208,189**	146,411	**14,648**	541
Between 6 and 12 months	**4,499**	93,311	**769**	83
Between 1 and 2 years	**1,250**	5,540	**41**	50
Between 2 and 3 years	**1,543**	314	**—**	—
Over 3 years	**318**	3,251	**—**	—
	215,799	248,827	**15,458**	674

Other receivables from related parties are generally unsecured, non-interest bearing and repayable on demand.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD-TO-MATURITY INVESTMENTS

		The Group		The Company	
		2005	2004	**2005**	2004
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Financial assets at fair value through profit or loss	(i)	**671**	542	**—**	—
Held-to-maturity investments	(ii)	**64,562**	66,212	**64,562**	66,212

(i) Financial assets at fair value through profit or loss, comprising principally marketable equity securities listed outside Hong Kong, 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 2005 represented term deposits denominated in the US dollar at a bank with maturities of 10 years from 2004. The interest rates are variable with reference to US dollar London InterBank Offered Rate and the weighted average effective interest rate as at 31 December 2005 was 4.35%. 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.

25 RESTRICTED CASH

	The Group	
	2005	2004
	RMB'000	RMB'000
Deposits restricted for bank borrowings and business purposes	**12,339**	97,430

26 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

(a) As at 31 December 2005, RMB784,484,000 (2004: RMB722,885,000) and RMB170,415,000 (2004: RMB112,250,000) 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 2005, RMB43,169,000 (US$5,349,250) (2004: RMB201,984,000 (US$24,404,000)) and RMBNil (US$Nil) (2004: RMB148,977,000 (US$18,000,000)) 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 rates on term deposits with initial term of over three months of the Group and the Company were 2.27% (2004: 1.88%) and 2.07% (2004: 1.90%) respectively as at 31 December 2005.

27 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**3,465,185**	3,217,097	**76,099**	126,869
Short-term bank deposits	**1,664,930**	1,505,605	**534,759**	1,013,252
	5,130,115	4,722,702	**610,858**	1,140,121

(a) As at 31 December 2005, RMB3,614,017,000 (2004: RMB2,774,077,000) and RMB525,310,000 (2004: RMB528,886,000) 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 1.76% (2004: 1.89%) and 2.01% (2004: 1.97%) as at 31 December 2005.

28 TRADE PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Trade payables	**3,500,696**	2,942,036	**23,187**	3,508
Due to related parties	**118,975**	132,521	**6,729**	1,742
	3,619,671	3,074,557	**29,916**	5,250

The carrying amounts of trade payables approximate their fair values.

(a) Trade payables

The normal credit period for trade payables generally ranges from 1 to 3 months. Aging analysis of trade payables at the respective balance sheet dates is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 6 months	**3,136,545**	2,643,604	**21,417**	2,949
Between 6 and 12 months	**206,440**	123,893	**1,672**	496
Between 1 and 2 years	**84,399**	137,916	**52**	63
Between 2 and 3 years	**54,733**	14,021	**46**	—
Over 3 years	**18,579**	22,602	**—**	—
	3,500,696	2,942,036	**23,187**	3,508

28 TRADE PAYABLES (Continued)

(b) Due to related parties

The amounts due to related parties, which are trading in nature, are analysed as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Ultimate holding company and fellow subsidiaries	**64,745**	82,243	**6,729**	1,742
Jointly controlled entities	**4,729**	6,584	**—**	—
Associates	**184**	1,886	**—**	—
Other state-owned enterprises	**49,317**	41,808	**—**	—
	118,975	132,521	**6,729**	1,742

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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 6 months	**100,356**	78,948	**6,383**	1,602
Between 6 and 12 months	**12,764**	7,102	**307**	99
Between 1 and 2 years	**1,819**	43,931	**1**	35
Between 2 and 3 years	**1,773**	1,722	**33**	6
Over 3 years	**2,263**	818	**5**	—
	118,975	132,521	**6,729**	1,742

29 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Other payables and accruals	**400,118**	350,793	**23,761**	46,041
Due to related parties	**155,580**	372,839	**98,713**	279,059
	555,698	723,632	**122,474**	325,100

(a) Other payables and accruals

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Payable for property, plant and equipment	**20,150**	21,928	**—**	—
Customers' deposits	**231,856**	168,012	**1,106**	688
Accrued expenses	**59,417**	47,026	**14,442**	13,176
Dividends payable to minority shareholders of subsidiaries	**6,973**	5,886	**—**	—
Advances from other entities	**33,948**	30,669	**7,644**	1,434
Others	**47,774**	77,272	**569**	30,743
	400,118	350,793	**23,761**	46,041

29 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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Ultimate holding company and fellow subsidiaries	**152,872**	348,877	**98,713**	279,059
Jointly controlled entities	**1,666**	14,398	**—**	—
Associates	**59**	8,010	**—**	—
Other state-owned enterprises	**983**	1,554	**—**	—
	155,580	372,839	**98,713**	279,059

Prior to the Reorganisation, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. Sinotrans Group 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. 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 installments on 31 December 2003, 2004 and 2005. As at 31 December 2005, The Group has paid out the whole amount to Sinotrans Group Company for such obligations (as at 31 December 2004: RMB165,858,000 was outstanding).

Other than those disclosed above, the amounts due to related parties are generally unsecured, non-interest bearing and have no fixed repayment terms.

30 BORROWINGS

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Current		
Bank borrowings denominated in RMB	**49,330**	75,526
Bank borrowings denominated in US$	**22,365**	111,164
Current portion of non-current borrowings denominated in RMB	**—**	7,850
	71,695	194,540
Non-current		
Bank borrowings denominated in RMB	**9,200**	13,750
Total borrowings	**80,895**	208,290
Borrowings		
Unsecured	**16,045**	24,066
Secured or guaranteed	**64,850**	184,224
	80,895	208,290

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 2005 were repayable between 1 to 5 years. (31 December 2004: 1 to 5 years)

30 BORROWINGS (Continued)

(c) Securities and guarantees

	The Group	
	2005	2004
	RMB'000	RMB'000
Term deposits with initial term of over three months pledged	**—**	97,430
Net book value of property, plant and equipment pledged	**44,504**	43,458
Net book value of land use rights pledged	**70,527**	77,362
Guarantees provided by companies within the Group	**32,863**	18,279
Guarantees provided by third parties	**2,400**	8,000
Corresponding borrowings	**64,850**	184,224

(d) The weighted average effective interest rates of the borrowings were 5.33% for bank borrowings denominated in RMB and 4.07% for bank borrowings denominated in US$ (2004: 5.06% for bank borrowings denominated in RMB and 2.64% for bank borrowings denominated in US$) as at 31 December 2005.

31 PROVISIONS

	The Group			
	One-off cash housing subsidies	Guarantees	Outstanding claims	Total
	RMB'000	RMB'000	RMB'000	RMB'000
			Note 36	
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
As at 1 January 2005	**45,015**	**8,178**	**7,390**	**60,583**
Additional provision	**—**	**—**	**15,435**	**15,435**
Utilised during the year	**(1,295)**	**—**	**(15,085)**	**(16,380)**
As at 31 December 2005	**43,720**	**8,178**	**7,740**	**59,638**

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.

32 SHARE CAPITAL

	The Company	
	2005	2004
	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.

33 CASH-SETTLED SHARE-BASED PAYMENT

The Group had cash-settled share-based payment arrangements, also known as Share Appreciation Rights plan ("SAR plan") with key employees and directors.

The SAR Plan entitles persons who are granted such rights to receive cash payments when the Company's share price rises above the exercise price specified in the SAR plan in a certain predetermined period, subject to certain terms and conditions of the SAR Plan. Upon exercise of the SAR, the grantee will receive payment, subject to any withholding tax, equal to the product of the number of SAR exercised and the difference between the exercise price and market price of H Shares at the time of exercise.

The eligible grantees under the SAR Plan are members of the Board of Directors of the Company and the supervisory committee (excluding independent directors and independent supervisors), the president, vice president, company secretary, assistant to the president, chief financial officer, heads of departments and managers and assistant managers of departments, branches and subsidiaries and special talented personnel. Special talented personnel are those key personnel who make important contributions to the Group's development or operations and include senior technical experts and market development personnel who make remarkable contributions to the Group.

33 CASH-SETTLED SHARE-BASED PAYMENT (Continued)

The number of SAR to be granted to the eligible grantees under the SAR Plan and any other share option scheme of the Company will not exceed 10% of the total number of issued share capital of the Company.

All SAR have an exercise period of 10 years. A person granted SAR may not exercise his or her rights in the first year after the date of grant. In each of the second, third and fourth year after the date of grant, the rights that may be vested shall not in aggregate exceed one third of the total number of SAR granted to him or her in a particular year. A person can exercise vested SAR before the expiration of the exercise period.

As at balance sheet date, the Company has granted SAR to a total of 5 directors, 1 supervisor and 124 senior employees of the Group. The directors and the supervisor have received 2,740,000 SAR. 124 senior employees of the Group have received 25,030,000 SAR.

Information on outstanding SAR is summarised as follows:

(a) Determination of fair values

				The Group	
	Date of grant	Expiry date	Exercise price in HK$ per share	**31 December 2005 (Thousands)**	31 December 2004 (Thousands)
Tranche I	20 January 2003 (Note (a))	20 January 2013	2.19	**23,710**	23,710
Tranche II	24 June 2003 (Note (b))	24 June 2013	2.18	**4,060**	4,060
				27,770	27,770

(i) The fair value of SAR granted under Tranche I as at 31 December 2005 determined using the Black-Scholes valuation model was HK$1.14 (31 December 2004: HK$0.64). The significant inputs into the model were share price of HK$3.15 (31 December 2004: HK$2.28), exercise price shown above, expected life of SAR of 3.05 years (2004: 4.05 years), expected dividend rate of 2.73% (2004: 2.05%) and risk-free interest rate ranging from 4.01% to 4.05% (2004: ranging from 2.21% to 2.66%). The expected volatility is estimated based on historical daily share price of comparable companies listed in Hong Kong.

33 CASH-SETTLED SHARE-BASED PAYMENT (Continued)

(a) Determination of fair values (Continued)

(ii) The fair value of SAR granted under Tranche II as at 31 December 2005 determined using the Black-Scholes valuation model was HK$1.18 (31 December 2004: HK$0.67). The significant inputs into the model were share price of HK$3.15 (31 December 2004: HK$2.28), exercise price shown above, expected life of SAR of 3.48 years (2004: 4.48 years), expected dividend rate of 2.73% (2004: 2.05%) and risk-free interest rate ranging from 4.03% to 4.07% (2004: ranging from 2.21% to 2.66%). The expected volatility is estimated based on historical daily share price of comparable companies listed in Hong Kong.

(b) Movements in the number of SAR outstanding and their related weighted average exercise prices

	2005		2004	
	Average exercise price in HK$ per share	**SAR (thousands)**	Average exercise price in HK$ per share	SAR (thousands)
At 1 January	**2.19**	**27,770**	2.19	27,770
Granted	**—**	**—**	—	—
Forfeited	**—**	**—**	—	—
Exercised	**—**	**—**	—	—
Lapsed	**—**	**—**	—	—
At 31 December	**2.19**	**27,770**	2.19	27,770

Out of the 27,770,000 outstanding SAR (31 December 2004: 27,770,000 SAR), 26,416,667 SAR (31 December 2004: 9,257,000 SAR) were exercisable. No SAR were exercised since the date of grant.

(c) The amounts recognised in the financial statements (before taxes) for SAR

	The Group	
	2005 RMB'000	2004 RMB'000
Staff costs charged/(credited)	**14,573**	(5,846)

	The Group	
	31 December 2005 RMB'000	31 December 2004 RMB'000
Salary and welfare payable	**32,922**	16,273

33 CASH-SETTLED SHARE-BASED PAYMENT (Continued)

(c) The amounts recognised in the financial statements (before taxes) for SAR (Continued)

The intrinsic value of SAR vested at 31 December 2005 is HK$0.96 per share for Tranche I and HK$0.97 per share for Tranche II respectively.

34 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 2005, the Board of Directors proposed appropriations of 10% and 5% of profit after tax (2004: 10% and 5%) respectively determined under the PRC accounting standards, of RMB80,597,000 and RMB40,298,000 (2004: RMB75,971,000 and RMB37,985,000) respectively to the statutory surplus reserve fund and the statutory public welfare fund.

In accordance with the Articles of Association of the Company, retained earnings 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 2005, the amount of retained earnings available for distribution was approximately RMB 1,230,860,000 (2004: RMB866,292,000), being the amount determined in accordance with the PRC accounting standards.

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	The Group	
	2005 RMB'000	2004 RMB'000 (Restated)
Profit for the year	1,044,627	981,846
Interest income	(79,405)	(73,755)
Interest expenses	9,640	5,152
Exchange loss on held-to-maturity investments	1,650	—
(Gain)/loss on disposal of property, plant and equipment	(7,974)	3,770
Gain on disposal of held-to-maturity investments	—	(469)
Provision for impairment of receivables and bad debts written off	45,691	16,784
Gain on disposal of a subsidiary	(1,368)	—
Fair value gains on financial assets at fair value through profit and loss	(129)	—
Depreciation of property, plant and equipment	259,235	220,401
Reversal of impairment of property, plant and equipment	(7)	(14)
Amortisation of intangible assets	17,046	17,710
Operating lease charges on prepaid land use rights	11,184	7,815
Share of profit of associates, net of taxation	(12,747)	(10,905)
Excess of interest in the net fair value of identifiable net asset over cost of acquiring subsidiaries, jointly controlled entities and associates.	(8,191)	—
Operating profit before working capital changes	1,279,252	1,168,335
(Increase)/decrease in deferred tax assets	(3,042)	13,894
Decrease/(increase) in prepayments, deposits and other current assets	27,127	(112,460)
(Increase)/decrease in inventories	(4,486)	2,293
Increase in trade and other receivables	(629,092)	(506,711)
Increase/(decrease) in deferred tax liabilities	25,311	(77)
Decrease in long-term payable to ultimate holding company	—	(165,858)
Decrease in other liabilities	(20,984)	(7,356)
Decrease in provisions	(945)	(15,286)
Increase in trade payables	485,578	94,428
(Decrease)/increase in other payables, accruals and other current liabilities	(222,242)	37,892
Increase in receipts in advance from customers	188,968	77,570
Increase in income and other taxes liabilities	407,855	326,572
Increase in salary and welfare payable	77,697	66,089
Increase in deferred income arising from discontinued operations	354,021	—
Cash generated from operations	1,965,018	979,325

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries and jointly controlled entities

For the year ended 31 December 2005

(i) On 29 January 2005, the Group acquired certain equity interests in five companies from Sinotrans Group Company for a cash consideration of RMB60,757,000. The acquisition is accounted for using the purchase method of accounting. The name of the companies and the percentage of interest acquired are listed as follows:

Company name	Percentage of interest
Subsidiary:	
China Taicang Marine Shipping Agency Co., Ltd. ("CTMSA")	100%
Jointly controlled entities:	
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%

The acquired business contributed turnover of RMB93,316,000 and profit for the year of RMB7,674,000 to the Group for the period from 29 January 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, Group's turnover would have been RMB28,889,804,000 and profit for the year would have been RMB1,053,306,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary and jointly controlled entities to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and land use rights had applied from 1 January 2005, together with the consequential tax effects.

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries and jointly controlled entities (Continued)

Details of the assets and liabilities acquired are as follows:

	Fair value	Acquirees' carrying amount
Assets/liabilities acquired (at 100% interest for CTMSA and at respective proportionate interests in jointly controlled entities)		
Property, plant and equipment	62,223	54,026
Land use rights	30,680	16,040
Intangible assets	44	44
Other non-current assets	203	203
Prepayments, deposits and other current assets	1,606	1,606
Inventories	142	142
Trade and other receivables	10,687	10,687
Cash and cash equivalents	17,468	17,468
Deferred tax liabilities	(6,671)	—
Other liabilities	(15,089)	(15,089)
Trade payables	(13,453)	(13,453)
Other payables, accruals and other current liabilities	(13,699)	(13,699)
Receipts in advance from customers	(856)	(856)
Borrowings	(11,600)	(11,600)
Current tax liabilities	(268)	(268)
Salary and welfare payable	(798)	(798)
Minority interests	(327)	(327)
Net assets acquired	60,292	44,126
Fair value of net assets acquired	60,292	
Goodwill on acquisition	2,050	
Excess of interest in the net fair value of identifiable net asset over purchase consideration	(1,585)	
Total purchase consideration — cash paid	60,757	

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise after the acquisition. The excess of Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over purchase consideration is attributable to a bargain deal.

Net cash outflow in respect of the acquisition is analysed as follows:

Cash and cash equivalents in subsidiary and jointly controlled entities acquired	17,468
Purchase consideration settled in cash	(60,757)
Cash outflow on acquisition	(43,289)

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries and jointly controlled entities (Continued)

(ii) On 1 July 2005, the Group acquired a 50% equity interest in Xiamen Greating-Container Services Co., Ltd. ("Xiamen Greating") for a cash consideration of RMB5,000,000. The acquisition is accounted for by the purchase method of accounting.

The acquired business contributed turnover of RMB167,168,000 and profit for the year of RMB869,000 to the Group for the period from 1 July 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group's turnover would have been RMB29,134,508,000, and profit for the year would have been RMB1,047,384,000. Details of the assets and liabilities acquired are as follows:

	Fair value	Acquiree's carrying amount
Assets/liabilities acquired (at 50% interest)		
Property, plant and equipment	7,438	7,438
Other non-current assets	5,107	5,107
Prepayments, deposits and other current assets	2,045	2,045
Inventories	35	35
Trade and other receivables	75,933	77,821
Cash and cash equivalents	10,259	10,259
Other liabilities	(4,585)	(4,585)
Trade payables	(44,657)	(44,657)
Other payables, accruals and other current liabilities	(37,302)	(37,302)
Receipts in advance from customers	(1,728)	(1,728)
Current tax liabilities	(391)	(391)
Salary and welfare payable	(1,325)	(1,325)
Net assets acquired	10,829	12,717
Fair value of net assets acquired	10,829	
Excess of interest in the net fair value of identifiable net asset over purchase consideration*	(5,829)	
Total purchase consideration — cash paid	5,000	

* The excess of Group's interest in the net fair value of Xiamen Greating's identifiable assets, liabilities and contingent liabilities over purchase consideration is attributable to a bargain deal.

Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents in the subsidiary acquired	10,259
Purchase consideration settled in cash	(5,000)
Cash inflow on acquisition	5,259

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries and jointly controlled entities (Continued)

(iii) On 30 November 2005, the Group acquired a 50% equity interest in Shanghai Jiaoyun International Freight & Transportation Co., Ltd ("SJIFTC") for a purchase consideration of RMB25,000,000. The acquired business contributed turnover of RMB2,328,000 and profit for the year of RMB92,000 to the Group for the period from 30 November 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group's turnover would have been RMB28,806,534,000 and profit for the year would have been RMB1,044,807,000. The acquisition is accounted for by the purchase method of accounting. Details of the assets and liabilities acquired are as follows:

	Fair value	Acquiree's carrying amount
Assets/liabilities acquired (at 50% interest)		
Property, plant and equipment	11,999	11,999
Prepayments, deposits and other current assets	188	188
Trade and other receivables	11,554	11,554
Cash and cash equivalents	6,128	6,128
Trade payables	(1,426)	(1,426)
Other payables, accruals and other current liabilities	(744)	(744)
Borrowings	(4,750)	(4,750)
Current tax liabilities	(54)	(54)
Salary and welfare payable	(121)	(121)
Minority interests	(726)	(726)
Net assets acquired	22,048	22,048
Fair value of net assets acquired	22,048	
Goodwill on acquisition	2,952	
	25,000	
Total purchase consideration		
— Cash paid	20,623	
— Fair value of property, plant and equipment transferred to SJIFTC	4,377	
	25,000	

The goodwill is attributable to the synergies expected to arise after the acquisition.

Net cash outflow in respect of the acquisition is analysed as follows:	
Cash and cash equivalents in the jointly controlled entity acquired	6,128
Purchase consideration settled in cash	(20,623)
Cash outflow on acquisition	(14,495)

35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries and jointly controlled entities (Continued)

For the year ended 31 December 2004

(i) On 31 December 2004, the Group acquired a 75% equity interest in Trade Sky International Limited ("Trade Sky") 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
Fair value of net assets acquired	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)
Cash outflow on acquisition	(47,699)

36 CONTINGENT LIABILITIES

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Guarantees provided by the Group for the benefit of jointly controlled entities	**25,500**	29,100
Guarantees provided by the Group for the benefit of joint venture partner	**—**	8,800

The Group has been named in a number of lawsuits arising in its ordinary course of business. Where management can reasonably estimate the outcome of the lawsuits taking into account the legal advice, provisions have been made for the probable losses which are included in note 31. Where management cannot reasonably estimate the outcome of the lawsuits or believe the probability of loss is remote, no provision has been made. As at 31 December 2005, such lawsuits amounted to approximately RMB22,886,000 (2004: RMB21,282,000).

In addition, in its 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. Certain of these guarantees have been extended for periods up to 2009.

37 CAPITAL COMMITMENTS

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Authorised and contracted for but not provided for	**146,300**	264,300
Authorised but not contracted for	**569,047**	196,752
	715,347	461,052
An analysis of the above capital commitments by nature is as follows:		
Acquisition of property, plant and equipment	**46,390**	56,456
Construction commitments	**275,935**	272,696
Purchase of software	**28,802**	4,000
Investment in subsidiaries/jointly controlled entities/associates	**364,220**	127,900
	715,347	461,052

38 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	
	2005	2004
	RMB'000	RMB'000
Land and buildings		
— Not later than one year	**172,259**	255,055
— Later than one year but not later than five years	**150,329**	128,663
— Later than five years	**152,760**	133,008
Vessels, containers and other property, plant and equipment		
— Not later than one year	**1,102,469**	528,792
— Later than one year but not later than five years	**2,416,346**	243,698
— Later than five years	**291,696**	3,486
	4,285,859	1,292,702

38 OPERATING LEASE COMMITMENTS (Continued)

(b) The Group as lessor

The Group has contracted with customers for the following future minimum lease receivables under non-cancellable operating leases as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Land and buildings		
— Not later than one year	**10,156**	10,237
— Later than one year but not later than five years	**10,421**	11,191
— Later than five years	**7,887**	5,736
Plant and machinery		
— Not later than one year	**747**	—
	29,211	27,164

39 SIGNIFICANT RELATED PARTY TRANSACTIONS

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.

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their immediate ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's services provided are of a retail nature to end users, which include transactions with the employees of state-owned enterprises on corporate business, their key management personnel and close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the vast volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from provision of services disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions:

(a) Transactions with related parties

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with ultimate holding company and fellow subsidiaries		
Revenue:		
Revenue from provision of transportation and logistics services	**504,157**	388,914
Revenue from provision of information technology services	**960**	960
Expenses:		
Service fees	**(255,950)**	(192,641)
Rental expenses for office buildings, warehouses and depots	**(48,232)**	(45,835)
Rental expenses for containers	**(49,553)**	(48,079)
Rental expenses for vessels	**(69,538)**	(48,361)
Rental expenses for motor vehicles	**(4,367)**	(2,353)
Transactions with associates of the Group		
Revenue:		
Revenue from provision of services	**1,423**	10,744
Expenses:		
Service fees	**(1,210)**	(2,562)

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 (b)) 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 31).

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities)		
Revenue:		
Revenue from provision of services	**153,271**	105,008
Rental income from buildings leased out	**5,526**	5,480
Expenses:		
Service fees	**(62,724)**	(52,046)

As at 31 December 2005, the Group provided RMB25,500,000 guarantees for certain jointly controlled entities (31 December 2004: RMB29,100,000). In addition, in its 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. Certain of these guarantees have been extended for periods up to 2009 (Note 36).

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with other state-owned enterprises		
Revenue:		
Revenue from provision of services	**368,884**	253,443
Interest income from bank deposits	**67,746**	71,968
Expenses:		
Service fees	**(935,246)**	(712,366)

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

	The Group	
	2005	2004
	RMB'000	RMB'000
		(Restated)
Balances with the ultimate holding company and fellow subsidiaries		
Trade and other receivables	**162,165**	206,628
Provision for impairment of receivables	**(1,112)**	(11,402)
Prepayment, deposit and other current assets	**13,415**	—
Trade payables	**(64,745)**	(82,243)
Other payables, accruals and other liabilities	**(152,872)**	(348,877)
Receipts in advance from customers	**(5,304)**	—
Balances with jointly controlled entities		
Trade and other receivables	**35,898**	66,332
Provision for impairment of receivables	**(742)**	(775)
Prepayment, deposit and other current assets	**924**	—
Trade payables	**(4,729)**	(6,584)
Other payables, accruals and other liabilities	**(1,666)**	(14,398)
Receipts in advance from customers	**(293)**	—
Balances with associates of the Group		
Trade and other receivables	**2,959**	7,334
Trade payables	**(184)**	(1,886)
Other payables, accruals and other liabilities	**(59)**	(8,010)
Balances with other state-owned enterprises		
Held-to-maturity investments	**64,562**	66,212
Restricted cash	**12,339**	97,430
Term deposits with initial term of over three months	**686,604**	924,869
Cash and cash equivalents	**4,383,465**	4,581,877
Trade and other receivables	**47,859**	33,703
Provision for impairment of receivables	**(1,497)**	(848)
Prepayment, deposit and other current assets	**3,026**	7,263
Trade payables	**(49,317)**	(41,808)
Other payables, accruals and other current liabilities	**(983)**	(1,554)

Amounts due from related parties and amounts due to related parties have repayment terms as disclosed in Note 23, Note 28 and Note 29 respectively. For the year ended 31 December 2005, the Group reversed RMB9,674,000 of provision for impairment of receivables from related parties (2004: charged RMB2,620,000 to income statement).

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Purchase of property, plant and equipment

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**24,134**	—
Transactions with other state-owned enterprises	**224,856**	136,284

(d) Purchase of land use rights

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**106,316**	—

(e) Loans

	The Group	
	2005	2004
	RMB'000	RMB'000
Loans from state-owned banks		
At beginning of the year	**208,290**	89,333
Proceeds from loans	**319,906**	364,128
Repayment of loans	**(449,701)**	(322,471)
Acquisition of subsidiaries	**—**	77,300
At end of the year	**78,495**	208,290
Interest charged	**9,640**	5,152
Interest paid	**(9,640)**	(5,152)

The weighted average effective interest rate of the loans were 4.64% as at 31 December 2005 (31 December 2004: 3.34%).

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(f) Key management compensation

	The Group	
	2005	2004
	RMB'000	RMB'000
		(Restated)
Basic salaries, housing allowances and other allowances and benefits in kind	**3,363**	3,122
Discretionary bonuses	**4,737**	4,405
Change of fair value on SAR	**804**	(491)
Contributions to pension plans	**177**	157
Long term bonus plan	**2,860**	2,860

(g) Acquisition of a subsidiary, jointly controlled entities and associates

	The Group	
	2005	2004
	RMB'000	RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**80,545**	—

40 SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2005:

(a) At the Board of Directors' meeting held on 28 March 2006, the directors proposed a final dividend of RMB0.038 per ordinary share for the year ended 31 December 2005.

(b) On 20 March 2005, Sinoair entered into acquisition agreement with Chengdu High-tech Investment Group Co., Ltd. to acquire 50% equity interests in Chengdu Bonded Logistics Investment Co., Ltd. by additional capital injection. The consideration for the acquisition amounting to RMB50,000,000 is payable in cash.

41 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.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 28 March 2006.