

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		For the six months ended 30 June	
	Note	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited) (Note 24)
<b>Continuing operations</b>			
Turnover	3	14,781,121	13,205,796
Other revenues		61,132	46,926
		<b>14,842,253</b>	13,252,722
Business tax and other surcharges		(141,259)	(131,821)
Transportation and related charges		(11,462,208)	(9,969,126)
Staff costs		(906,536)	(802,802)
Depreciation and amortisation		(158,603)	(128,982)
Repairs and maintenance		(57,377)	(55,477)
Fuel		(432,555)	(332,695)
Travel and promotional expenses		(142,064)	(144,916)
Office and communication expenses		(85,625)	(80,718)
Rental expenses		(772,059)	(734,453)
Other operating expenses		(193,417)	(217,450)
Operating profit	4	<b>490,550</b>	654,282
Finance income, net	5	<b>24,847</b>	12,596
		<b>515,397</b>	666,878
Share of profit of associates		<b>8,380</b>	6,565
Profit before taxation		<b>523,777</b>	673,443
Taxation	6	<b>(183,377)</b>	(176,084)
Profit for the period from continuing operations		<b>340,400</b>	497,359
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	17	<b>73,547</b>	104,302
<b>Profit for the period</b>		<b>413,947</b>	601,661
Attributable to:			
Equity holders of the Company		<b>321,369</b>	498,670
Minority interests		<b>92,578</b>	102,991
Declared interim dividend	7(b)	<b>(127,470)</b>	(161,462)
Earnings per share for continuing operations, basic and diluted	8	<b>RMB0.063</b>	RMB0.100
Earnings per share for discontinued operations, basic and diluted	8	<b>RMB0.013</b>	RMB0.017

The notes on pages 9 to 40 form an integral part of these unaudited condensed consolidated interim financial statements.

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	9	2,778,284	2,525,702
Prepayments for acquisition of land use rights		180,537	77,040
Land use rights		506,888	423,817
Intangible assets		82,249	72,897
Investments in associates		177,840	166,208
Held-to-maturity investments	10	63,965	64,562
Other non-current assets		29,588	16,834
Deferred tax assets	6	267,803	254,683
		<b>4,087,154</b>	3,601,743
Current assets			
Prepayments, deposits and other current assets		362,529	357,783
Inventories		22,813	22,757
Trade and other receivables	11	5,195,565	4,774,012
Financial assets at fair value through profit or loss		942	671
Restricted cash		11,841	12,339
Term deposits with initial term of over three months		1,227,328	827,653
Cash and cash equivalents		4,435,760	5,130,115
		<b>11,256,778</b>	11,125,330
Non-current assets classified as held for sale	17	9,024	9,024
Total assets		<b>15,352,956</b>	14,736,097

The notes on pages 9 to 40 form an integral part of these unaudited condensed consolidated interim financial statements

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2006

	Note	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,249,002	4,249,002
Reserves		3,102,943	2,909,044
Dividend declared/proposed		127,470	161,462
Equity holders' equity		7,479,415	7,319,508
Minority interests		1,244,357	1,193,478
Total equity		8,723,772	8,512,986
Non-current liabilities			
Borrowings	13	9,000	9,200
Deferred tax liabilities		43,005	33,508
Provisions	14	77,671	59,638
Deferred income arising from discontinued operations	17	67,583	175,227
Other liabilities		6,337	7,411
		203,596	284,984
Current liabilities			
Trade payables	12	3,999,069	3,619,671
Other payables, accruals and other current liabilities		546,554	555,698
Receipts in advance from customers		905,437	789,820
Deferred income arising from discontinued operations	17	178,794	178,794
Current tax liabilities		190,621	235,088
Borrowings	13	90,113	71,695
Salary and welfare payable		515,000	487,361
		6,425,588	5,938,127
Total liabilities		6,629,184	6,223,111
Total equity and liabilities		15,352,956	14,736,097

The notes on pages 9 to 40 form an integral part of these unaudited condensed consolidated interim financial statements.

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Note	For the six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Continuing operations</b>			
Net cash inflow from operating activities		<b>349,600</b>	367,349
Net cash used in investing activities	18(a)	<b>(843,982)</b>	(488,156)
Net cash used in financing activities	18(b)	<b>(245,510)</b>	(164,978)
Net decrease in cash and cash equivalents		<b>(739,892)</b>	(285,785)
<b>Discontinued operations</b>			
Net cash inflow from operating activities		<b>45,537</b>	59,853
Net cash from investing activities		—	3,432
Net cash inflow from transfer of business and provision of related and transition services		—	462,330
Net increase in cash and cash equivalents		<b>45,537</b>	525,615
<b>Total net (decrease)/increase in cash and cash equivalents</b>		<b>(694,355)</b>	239,830
<b>Cash and cash equivalents at 1 January</b>		<b>5,130,115</b>	4,722,702
<b>Cash and cash equivalents at 30 June</b>		<b>4,435,760</b>	4,962,532

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# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	For the six months ended 30 June 2006 (unaudited)						
	Attributable to equity holders of the Company						
	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	4,249,002	1,295,248	225,503	112,751	1,437,004	1,193,478	8,512,986
Profit for the period	—	—	—	—	321,369	92,578	413,947
2005 final dividend	—	—	—	—	(161,462)	—	(161,462)
Acquisition of a subsidiary	—	—	—	—	—	21,465	21,465
Dividends declared to minority shareholders	—	—	—	—	—	(63,164)	(63,164)
Transfer to statutory surplus reserve (Note 7(a))	—	—	142,408	(112,751)	(29,657)	—	—
As at 30 June 2006	4,249,002	1,295,248	367,911	—	1,567,254	1,244,357	8,723,772
Representing:							
Share capital and reserves	4,249,002	1,295,248	367,911	—	1,439,784	1,244,357	8,596,302
2006 proposed interim dividend	—	—	—	—	127,470	—	127,470
As at 30 June 2006	4,249,002	1,295,248	367,911	—	1,567,254	1,244,357	8,723,772

The notes on pages 9 to 40 form an integral part of these unaudited condensed consolidated interim financial statements.

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2006

For the six months ended 30 June 2005 (unaudited)							
Attributable to equity holders of the Company							
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2005	4,249,002	1,295,248	144,906	72,453	1,006,914	1,035,106	7,803,629
Profit for the period	—	—	—	—	498,670	102,991	601,661
2004 final dividend	—	—	—	—	(144,466)	—	(144,466)
Capital injection from minority shareholders of subsidiaries	—	—	—	—	—	44,100	44,100
Partial disposal of interest in a subsidiary	—	—	—	—	—	5,132	5,132
Acquisition of subsidiaries	—	—	—	—	—	9,722	9,722
Dividends declared to minority shareholders	—	—	—	—	—	(82,596)	(82,596)
Transfer to statutory reserves ( <i>Note 7(a)</i> )	—	—	47,612	23,806	(71,418)	—	—
As at 30 June 2005	4,249,002	1,295,248	192,518	96,259	1,289,700	1,114,455	8,237,182
Representing:							
Share capital and reserves	4,249,002	1,295,248	192,518	96,259	1,128,238	1,114,455	8,075,720
2005 proposed interim dividend	—	—	—	—	161,462	—	161,462
As at 30 June 2005	4,249,002	1,295,248	192,518	96,259	1,289,700	1,114,455	8,237,182

The notes on pages 9 to 40 form an integral part of these unaudited condensed consolidated interim financial statements.

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. GROUP REORGANISATION AND PRINCIPAL ACTIVITIES

Sinotrans Limited (the "Company") was established in the People's Republic of China ("PRC") on 20 November 2002 as a joint stock company with limited liability as a result of a group reorganisation of China National Foreign Trade Transportation (Group) Corporation ("Sinotrans Group Company") in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"). The initial registered capital of the Company is RMB2,624,087,200, consisting of 2,624,087,200 shares of par value of RMB1.00 per share. The Company and its subsidiaries are hereinafter referred to as the "Group".

In February 2003, the Company completed its global initial public offering ("Global offering"). 1,787,406,000 H shares were offered to the public which comprise 1,624,915,000 new shares issued by the Company and 162,491,000 shares offered by Sinotrans Group Company. As a result, the issued share capital of the Company increased from 2,624,087,200 shares to 4,249,002,200 shares, comprising 2,461,596,200 domestic shares and 1,787,406,000 H shares, representing 57.9% and 42.1% of the issued capital respectively.

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

This unaudited condensed consolidated interim financial statements was approved by Board of Directors for issue on 29 August 2006.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. As described in the annual financial statements for the year ended 31 December 2005, the following amendments to standards and interpretations are mandatory for financial year ending 31 December 2006 and applicable to the Group:

- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment has no material impact to the Group; and
- IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. This interpretation has no material impact to the Group.

*For the six months ended 30 June 2006*

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC Interpretation 7, 'Applying the Restatement Approach under IFRS 29', effective for annual periods beginning on or after 1 March 2006;
- IFRIC Interpretation 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006;
- IFRIC Interpretation 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006; and
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007.

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

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

The Group has five main business segments: freight forwarding, shipping agency, express services, marine transportation and storage and terminal services. Other operations of the Group mainly comprise trucking and other related supporting services. None of them is of a sufficient size to be reported separately.

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# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 3. TURNOVER AND SEGMENT INFORMATION (Continued)

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

For the six months ended 30 June 2005 (unaudited) (note 24)								
	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
<b>Continuing operations</b>								
Turnover — external	9,550,667	269,776	1,100,322	1,762,737	395,365	126,929	—	13,205,796
Turnover — inter-segment	33,751	13,950	2,067	147,679	53,565	29,852	(280,864)	—
	9,584,418	283,726	1,102,389	1,910,416	448,930	156,781	(280,864)	13,205,796
Segment results	204,947	124,617	172,768	124,627	97,787	4,035	—	728,781
Unallocated costs								(74,499)
Operating profit								654,282
Finance income, net								12,596
								666,878
Share of profit of associates								6,565
Profit before taxation								673,443
Taxation								(176,084)
Profit for the period from continuing operations								497,359
<b>Discontinued operations</b>								
Profit for the period from discontinued operations			104,302					104,302
Profit for the period								601,661

Other segment information is as follows:

For the six months ended 30 June 2006 (unaudited)									
	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	Discontinued operations RMB'000	Unallocated RMB'000	Group RMB'000
Other information									
Capital expenditures	157,143	6,554	80,113	4,864	181,166	70,559	—	12,219	512,618
Depreciation	55,135	4,805	39,344	2,893	34,519	6,940	—	7,118	150,754
Amortisation	792	—	2,610	—	—	—	—	4,447	7,849
Reversal of impairment loss on properly, plant and equipment	(308)	—	—	—	—	—	—	—	(308)
Provision for/(reversal of) impairment loss of receivables and bad debts written off	6,224	1,211	63	158	(1,125)	802	(15,579)	—	(8,246)

*For the six months ended 30 June 2006*

### 3. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	For the six months ended 30 June 2005 (unaudited)								
	Freight forwarding	Shipping agency	Express services	Marine transportation	Storage and terminal services	Other	Discontinued operations	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other information									
Capital expenditures	102,106	2,324	68,503	5,046	178,349	8,304	—	16,965	381,597
Depreciation	47,921	2,693	33,051	3,110	24,450	4,102	5,426	5,456	126,209
Amortisation	943	—	3,543	—	—	—	—	3,703	8,189
Provision for/(reversal of) impairment									
loss of receivables and bad debts written off	10,819	669	1,226	(223)	246	95	16,966	—	29,798

The segment assets and liabilities as at 30 June 2006 and 31 December 2005 are as follows:

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# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 3. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	As at 31 December 2005 (audited)							Group RMB'000
	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	
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

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

The Group's businesses operate in four main geographical areas within the PRC:

- (i) Northern China — Including core strategic locations in Liaoning, Tianjin as well as the operations of Sinotrans Air Transportation Development Co., Ltd. ("Sinoair"), a subsidiary of the Company, in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Henan.
- (ii) Eastern China — Including core strategic locations in Jiangsu, Shanghai, Zhejiang, Fujian and Shandong, as well as the operations of Sinoair in Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong.
- (iii) Southern China — Including core strategic locations in Guangdong and Hubei, as well as the operations of Sinoair in Hubei, Hunan, Guangdong, Guangxi, Hainan, Guizhou and Yunnan.
- (iv) Other locations — Including primarily the air freight forwarding and express services operated by Sinoair and certain of the jointly controlled entities of the Group in locations other than the above.

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 3. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	For the six months ended 30 June 2006 (unaudited)				
	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000	Capital expenditure RMB'000
<b>Continuing operations</b>					
Northern China	1,725,949	5,104	1,731,053	33,976	90,150
Eastern China	10,706,625	46,894	10,753,519	304,723	259,286
Southern China	2,134,671	16,539	2,151,210	199,185	148,520
Other locations	213,876	—	213,876	(2,150)	14,662
Inter-segment elimination	—	(68,537)	(68,537)	—	—
	14,781,121	—	14,781,121	535,734	512,618
Unallocated costs				(45,184)	
Operating profit				490,550	
<b>Discontinued operations</b>					
Northern China	—	—	—	819	
Eastern China	—	—	—	13,004	
Southern China	—	—	—	1,756	
Other locations	—	—	—	—	
	—	—	—	15,579	
Unallocated costs				—	
Operating profit				15,579	

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 3. TURNOVER AND SEGMENT INFORMATION (Continued)

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

For the six months ended 30 June 2005 (unaudited) (note 24)					
	Turnover — external RMB'000	Turnover — Inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000	Capital expenditure RMB'000
<b>Continuing operations</b>					
Northern China	1,367,008	2,183	1,369,191	63,562	90,636
Eastern China	9,779,931	50,172	9,830,103	562,199	120,941
Southern China	1,740,078	19,018	1,759,096	94,957	147,045
Other locations	318,779	6,131	324,910	8,063	22,975
Inter-segment elimination	—	(77,504)	(77,504)	—	—
	13,205,796	—	13,205,796	728,781	381,597
Unallocated costs				(74,499)	
Operating profit				654,282	
<b>Discontinued operations</b>					
Northern China	6,858	—	6,858	2,953	
Eastern China	105,783	—	105,783	45,553	
Southern China	60,179	—	60,179	25,915	
Other locations	5,539	—	5,539	2,386	
	178,359	—	178,359	76,807	
Unallocated costs				—	
Operating profit				76,807	

The segment assets as at 30 June 2006 and 31 December 2005 are as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Northern China	3,397,848	3,315,302
Eastern China	8,364,862	7,963,417
Southern China	2,200,084	1,980,204
Other locations	216,570	202,975
Inter-segment elimination	(64,612)	(110,661)
	14,114,752	13,351,237
Investments in associates	177,840	166,208
Non-current assets classified as held for sale	9,024	9,024
Unallocated assets	1,051,340	1,209,628
Total assets	15,352,956	14,736,097

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Crediting</b>		
Rental income from		
— land and buildings	8,761	6,290
— plant and machinery	845	849
Gain on disposal of property, plant and equipment	9,478	1,995
<b>Charging</b>		
Depreciation		
— owned property, plant and equipment	146,394	116,967
— owned property, plant and equipment leased out under operating leases	4,360	3,826
Loss on disposal of property, plant and equipment	4,544	536
Provision for impairment of receivables and bad debts written off	7,333	12,832
Operating leases		
— land use rights	4,951	3,355
— buildings	94,774	80,098
— plant and equipment	672,334	651,000
Amortisation of intangible assets	7,849	8,189

## 5. FINANCE INCOME, NET

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Interest income on bank balances	42,058	33,948
Interest income on held-to-maturity investments	—	1,920
Interest expenses on bank loans	(2,590)	(5,886)
Exchange losses, net	(10,059)	(9,902)
Bank charges	(4,562)	(4,052)
	<b>24,847</b>	<b>16,028</b>
Representing:		
Finance income, net, from continuing operations	24,847	12,596
Finance income, net, from discontinued operations	—	3,432

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 6. TAXATION

Taxation in the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
PRC income tax		
— current	209,030	229,505
— deferred taxation charge	(3,623)	(9,632)
	<b>205,407</b>	219,873
Representing:		
PRC income tax from continuing operations	183,377	176,084
PRC income tax from discontinued operations	22,030	43,789

No provision for Hong Kong profits tax has been made as there were no estimated Hong Kong assessable profits for the periods ended 30 June 2006 and 30 June 2005.

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

The Group provides for enterprise income tax on the basis of its profit for financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for enterprise income tax purposes.

The provision for PRC current income tax is based on the statutory rate of 33% (2005: 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% (2005: 0% to 30%) based on the relevant PRC tax laws and regulations.

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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 approximately RMB839,800,000, arising from the Reorganisation, which was recorded by the Group in the financial statements prepared under PRC accounting standards, is deductible for enterprise income tax purposes. Since the Group did not recognise the above asset revaluation surplus in its financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), a deferred tax asset of RMB221,678,000 was recognised and credited into capital reserve in 2003. Such deferred tax asset is charged to taxation during each period based on the depreciation and amortisation on the asset revaluation surplus.

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### 7. PROFIT APPROPRIATIONS

#### (a) Statutory surplus reserve and statutory public welfare fund

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.

Until 31 December 2005, 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.

Pursuant to the revised PRC regulations which is effective from 1 January 2006 and a circular issued by the Ministry of Finance ("MOF") (Cai Qi [2006] No. 67), the Company shall cease to provide for statutory public welfare fund out of appropriation of profit after taxation. The balance of statutory public welfare fund as at 31 December 2005 is converted into statutory surplus reserve.

For the six months ended 30 June 2006, approximately RMB29,657,000 (corresponding period in 2005: RMB47,612,000), representing 10% of profit after tax (corresponding period in 2005: 10%) respectively determined under the PRC accounting standards, have been appropriated to the statutory surplus reserve 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 30 June 2006, the amount of retained earnings available for distribution was approximately RMB1,336,307,000 (30 June 2005: RMB1,126,523,000), being the amount determined in accordance with the PRC accounting standards.

#### (b) Dividend

At the Board of Directors' meeting held on 29 August 2006, the Board of Directors declared an interim dividend of RMB0.030 per ordinary share for the six months ended 30 June 2006. The total dividend declared is approximately RMB127,470,000 for 4,249,002,200 shares, being the number of ordinary shares issued and outstanding on 30 June 2006. This declared dividend is not reflected as a dividend payable in these unaudited condensed consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.



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## 8. 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 six months period.

	For the six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
<b>Continuing operations</b>		
Profit attributable to equity holders of the Company (RMB'000)	265,182	425,288
Number of ordinary shares in issue (thousands)	4,249,002	4,249,002
Basic and diluted earnings per share (RMB per share)	0.063	0.100
<b>Discontinued operations</b>		
Profit attributable to equity holders of the Company (RMB'000)	56,187	73,382
Number of ordinary shares in issue (thousands)	4,249,002	4,249,002
Basic and diluted earnings per share (RMB per share)	0.013	0.017

As there are no potentially dilutive securities, there is no difference between basic and diluted earnings per share.

## 9. PROPERTY, PLANT AND EQUIPMENT

	For the Six Months Ended 30 June 2006 (unaudited)								
	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	Total RMB'000
<b>Cost</b>									
At beginning of the period	1,196,215	102,286	148,652	23,027	741,966	849,228	487,078	346,102	3,894,554
Additions	43,748	5,662	516	606	72,905	32,979	38,228	141,313	335,957
Acquisition of subsidiaries and a jointly controlled entity	46,267	—	—	—	12,425	5,128	1,254	24,216	89,290
Disposals	(4,765)	—	—	—	(15,344)	(32,558)	(10,272)	—	(62,939)
Transfer upon completion	161,465	—	49,878	—	54,927	12,242	2,721	(281,233)	—
At end of the period	1,442,930	107,948	199,046	23,633	866,879	867,019	519,009	230,398	4,256,862
<b>Accumulated depreciation and impairment losses</b>									
At beginning of the period	(243,859)	(52,427)	(56,929)	(19,261)	(262,064)	(456,717)	(277,595)	—	(1,368,852)
Depreciation for the period	(23,101)	(11,414)	(6,834)	(712)	(31,771)	(44,168)	(32,754)	—	(150,754)
Acquisition of subsidiaries and a jointly controlled entity	(3,856)	—	—	—	(6,756)	(1,828)	(521)	—	(12,961)
Disposals	3,615	—	—	—	14,306	26,758	9,002	—	53,681
Reversal of impairment losses for the period	—	—	—	—	—	308	—	—	308
At end of the period	(267,201)	(63,841)	(63,763)	(19,973)	(286,285)	(475,647)	(301,868)	—	(1,478,578)
<b>Net book value</b>									
At end of the period	1,175,729	44,107	135,283	3,660	580,594	391,372	217,141	230,398	2,778,284
At beginning of the period	952,356	49,859	91,723	3,766	479,902	392,511	209,483	346,102	2,525,702

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## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

For the Six Months Ended 30 June 2005 (unaudited)									
	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	Total RMB'000
<b>Cost</b>									
At beginning of the period	886,321	74,204	93,908	23,342	531,011	702,640	420,720	297,403	3,029,549
Additions	12,403	7,502	—	147	32,612	45,824	23,083	246,345	367,916
Acquisition of a subsidiary and jointly controlled entities	48,089	—	—	—	13,796	10,117	1,701	3,087	76,790
Disposals	(766)	—	—	—	(4,391)	(15,667)	(6,649)	—	(27,473)
Transfer upon completion	78,973	—	38,830	—	85,202	5,462	1,161	(209,628)	—
At end of the period	1,025,020	81,706	132,738	23,489	658,230	748,376	440,016	337,207	3,446,782
<b>Accumulated depreciation and impairment losses</b>									
At beginning of the period	(200,567)	(42,150)	(46,228)	(17,896)	(197,919)	(393,944)	(234,117)	—	(1,132,821)
Depreciation for the period	(21,612)	(4,181)	(3,697)	(772)	(25,476)	(40,651)	(29,820)	—	(126,209)
Acquisition of a subsidiary and jointly controlled entities	(6,992)	—	—	—	(2,640)	(4,369)	(566)	—	(14,567)
Disposals	569	—	—	—	3,890	13,805	6,561	—	24,825
At end of the period	(228,602)	(46,331)	(49,925)	(18,668)	(222,145)	(425,159)	(257,942)	—	(1,248,772)
<b>Net book value</b>									
At end of the period	796,418	35,375	82,813	4,821	436,085	323,217	182,074	337,207	2,198,010
At beginning of the period	685,754	32,054	47,680	5,446	333,092	308,696	186,603	297,403	1,896,728

## 10. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments as at 30 June 2006 represented term deposits denominated in the US dollar at a bank with maturity 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 30 June 2006 was nil (31 December 2005: 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.

## 11. TRADE AND OTHER RECEIVABLES

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Trade receivables, net	4,732,123	4,274,071
Bills receivable	33,231	37,797
Other receivables, net	268,972	216,614
Due from related parties	161,239	245,530
	<b>5,195,565</b>	4,774,012

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## 11. TRADE AND OTHER RECEIVABLES (Continued)

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Trade receivables	4,842,770	4,389,037
Less: Provision for impairment of receivables	(110,647)	(114,966)
Trade receivables, net	4,732,123	4,274,071

As at 30 June 2006 and 31 December 2005, the aging analysis of trade receivables were as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 6 months	4,593,466	4,233,254
Between 6 and 12 months	135,597	64,555
Between 1 and 2 years	60,632	41,998
Between 2 and 3 years	22,851	24,672
Over 3 years	30,224	24,558
	4,842,770	4,389,037

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Other receivables	279,838	233,498
Less: Provision for impairment of receivables	(10,866)	(16,884)
Other receivables, net	268,972	216,614

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## 12. 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 were as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 6 months	3,290,747	3,236,901
Between 6 and 12 months	416,986	219,204
Between 1 and 2 years	181,345	86,218
Between 2 and 3 years	84,646	56,506
Over 3 years	25,345	20,842
	<b>3,999,069</b>	<b>3,619,671</b>

## 13. BORROWINGS

(a) Borrowings represent bank borrowings which are analysed as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Current:		
Bank borrowings	85,713	71,695
Current portion of non-current borrowings	4,400	—
	<b>90,113</b>	<b>71,695</b>
Non-current:		
Bank borrowings	9,000	9,200
	<b>99,113</b>	<b>80,895</b>
Total borrowings		
	<b>99,113</b>	<b>80,895</b>
Borrowings:		
Unsecured	68,543	16,045
Secured and guaranteed	30,570	64,850
	<b>99,113</b>	<b>80,895</b>

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## 13. BORROWINGS (Continued)

### (a) Borrowings represent bank borrowings which are analysed as follows: (Continued)

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30 June 2005	
As at 1 January 2005	208,290
Acquisition of jointly controlled entities	11,600
Proceeds from loans	176,935
Repayments of borrowings	(255,526)
As at 30 June 2005	141,299
Six months ended 30 June 2006	
As at 1 January 2006	<b>80,895</b>
Acquisition of subsidiaries	<b>39,600</b>
Proceeds from loans	<b>98,770</b>
Repayments of borrowings	<b>(120,152)</b>
As at 30 June 2006	<b>99,113</b>

### (b) The non-current bank borrowings as at 30 June 2006 were repayable within 3 years.

### (c) Securities and guarantees

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Net book value of property, plant and equipment pledged	<b>49,627</b>	44,504
Net book value of land use rights pledged	<b>23,199</b>	70,527
Guarantees provided by companies within the Group	<b>15,000</b>	32,863
Guarantees provided by third parties	—	2,400
Corresponding borrowings	<b>30,570</b>	64,850

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## 14. PROVISIONS

	One-off cash housing subsidies RMB'000 (Unaudited)	Guarantees RMB'000 (Unaudited)	Outstanding claims RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 1 January 2005	45,015	8,178	7,390	60,583
Additional provision	—	—	18,349	18,349
Utilised during the period	(543)	—	—	(543)
As at 30 June 2005	44,472	8,178	25,739	78,389
As at 1 January 2006	<b>43,720</b>	<b>8,178</b>	<b>7,740</b>	<b>59,638</b>
Additional provision	—	—	<b>18,940</b>	<b>18,940</b>
Utilised during the period	<b>(907)</b>	—	—	<b>(907)</b>
As at 30 June 2006	<b>42,813</b>	<b>8,178</b>	<b>26,680</b>	<b>77,671</b>

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.

## 15. 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.

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 supervisors have received 2,740,000 SAR (31 December 2005: 2,740,000 SAR). 124 senior employees of the Group have received 25,030,000 SAR (31 December 2005: 25,030,000 SAR).

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## 15. CASH-SETTLED SHARE-BASED PAYMENT (Continued)

Information on outstanding SAR is summarised as follows:

### (a) Determination of fair values

	Date of grant	Expiry date	Exercise price in HK\$ per share	30 June 2006 (Thousands)	31 December 2005 (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

- (a) The fair value of SAR granted under Tranche I as at 30 June 2006 determined using the Black-Scholes valuation model was HK\$0.77 (31 December 2005: HK\$1.14). The significant inputs into the model were share price of HK\$2.45 (31 December 2005: HK\$3.15), exercise price shown above, expected life of SAR of 3.28 years (2005: 3.05 years), expected dividend rate of 2.72% (2005: 2.73%) and risk-free interest rate ranging from 4.63% to 4.63% (2005: ranging from 4.01% to 4.05%). The expected volatility is estimated based on historical daily share price of the Company.
- (b) The fair value of SAR granted under Tranche II as at 30 June 2006 determined using the Black-Scholes valuation model was HK\$0.79 (31 December 2005: HK\$1.18). The significant inputs into the model were share price of HK\$2.45 (31 December 2005: HK\$3.15), exercise price shown above, expected life of SAR of 3.49 years (2005: 3.48 years), expected dividend rate of 2.72% (2005: 2.73%) and risk-free interest rate ranging from 4.64% to 4.64% (2005: ranging from 4.03% to 4.07%). The expected volatility is estimated based on historical daily share price of the Company.

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

	2006		2005	
	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 30 June	2.19	27,770	2.19	27,770

Out of the 27,770,000 outstanding SAR (30 June 2005: 27,770,000 SAR), 27,770,000 SAR (30 June 2005: 18,513,000 SAR) were exercisable. No SAR were exercised since the date of grant.

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## 15. CASH-SETTLED SHARE-BASED PAYMENT (Continued)

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

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Staff costs (credited)/charged	(10,847)	2,076
	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Salary and welfare payable	22,075	32,922

The intrinsic value of SAR vested at 30 June 2006 is HK\$0.26 per share (31 December 2005: HK\$0.96 per share) for Tranche I and HK\$0.27 per share (31 December 2005: HK\$0.97 per share) for Tranche II respectively.

## 16. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 30 June 2006, the net current assets of the Group amounted to RMB4,831,190,000 (31 December 2005: RMB5,187,203,000), and the total assets less current liabilities of the Group were RMB8,927,368,000 (31 December 2005: RMB8,797,970,000).

## 17. 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.



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## 17. DISCONTINUED OPERATIONS (Continued)

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

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.

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 period from discontinued operations were as follows:

		For the six months ended 30 June	
	Note	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited) (Note 24)
<b>Discontinued operations</b>			
<b>Income statement</b>			
Turnover		—	178,359
Reversal of provision for impairment of receivables/(Operating expenses)		15,579	(101,552)
Operating profit		15,579	76,807
Finance income, net	5	—	3,432
Profit before taxation		15,579	80,239
Taxation	6	(3,106)	(21,397)
		12,473	58,842
Income from transfer of business and provision of related and transition services		107,644	98,359
Expenses occurred		(27,646)	(30,507)
Tax thereon	6	(18,924)	(22,392)
After-tax income from transfer of business and provision of related and transition services		61,074	45,460
<b>Profit for the period from discontinued operations</b>	3(a)	73,547	104,302

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## 17. DISCONTINUED OPERATIONS (Continued)

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>Balance sheet</b>		
Non-current assets classified as held for sale	9,024	9,024
Deferred income arising from discontinued operations		
— current	178,794	178,794
— non-current	67,583	175,227

## 18. SUPPLEMENTARY INFORMATION TO UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

### Continuing operations

#### (a) Major investing activities:

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Interest income received	42,058	28,530
Proceeds from disposal of property, plant and equipment	14,192	—
Increase in term deposits with initial term of over three months	(399,675)	(88,771)
Purchase of property, plant and equipment	(303,845)	(367,916)
Prepayments for acquisition of land use rights	(105,532)	(4,078)
Purchase of land use rights	(47,185)	—
Net cash outflow in acquisition of a subsidiary and jointly controlled entities	(18,706)	(43,289)
Purchase of intangible assets	(9,283)	(9,603)
Acquisition of associates	(6,580)	(17,795)

#### (b) Major financing activities:

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
New bank borrowings	98,770	176,935
Payment of dividends	(161,462)	(60,772)
Repayments of bank borrowings	(120,152)	(255,526)
Dividends to minority shareholders in subsidiaries	(63,164)	(77,682)
Capital injection from minority shareholders of subsidiaries	—	44,100

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## 18. SUPPLEMENTARY INFORMATION TO UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Acquisition of subsidiaries and a jointly controlled entity

For the six months ended 30 June 2006

- (i) On 25 January 2006, the Group acquired a 100% equity interest in Man Shun Shipping Company Limited ("Man Shun Shipping") for a cash consideration of RMB32,433,000. The acquisition is accounted for by the purchase method of accounting.

The acquired business contributed turnover of RMB3,900,000 and profit for the period of RMB798,000 to the Group for the period from 25 January 2006 to 30 June 2006. If the acquisition had occurred on 1 January 2006, Group's turnover would have been RMB14,781,499,000, and profit for the period would have been RMB414,005,000. Details of the assets and liabilities acquired are as follows:

	Fair value RMB'000 (Unaudited)	Acquiree's carrying amount RMB'000 (Unaudited)
Assets /liabilities acquired		
Property, plant and equipment	28,413	15,968
Trade and other receivables	961	961
Cash and cash equivalents	445	445
Other current assets	212	212
Other liabilities	(2,173)	(2,173)
Deferred tax liability	(2,135)	—
Current tax liabilities	(500)	(500)
Salary and welfare payable	(326)	(326)
Net identifiable assets acquired	24,897	14,587
Fair value of net identifiable assets acquired	24,897	
Goodwill on acquisition	7,536	
Cash consideration payable	32,433	
Cash consideration paid	25,933	
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 subsidiary acquired	445	
Cash paid	(25,933)	
Cash outflow on acquisition	(25,488)	

# Unaudited Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2006

## 18. SUPPLEMENTARY INFORMATION TO UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Acquisition of subsidiaries and a jointly controlled entity (Continued)

- (ii) On 28 February 2006, the Group acquired a 47.08% equity interest in Sinotrans Foshan Warehouse & Terminal Co., LTD in which 40% was held by through Man Shun Shipping. For the rest of 7.08% equity interest, the cash consideration was RMB2,301,000. The acquisition is accounted for by the purchase method of accounting.

The acquired business contributed turnover of RMB5,880,000 and profit for the period of RMB1,281,000 to the Group for the period from 28 February 2006 to 30 June 2006. If the acquisition had occurred on 1 January 2006, Group's turnover would have been RMB14,782,542,000, and profit for the period would have been RMB414,127,000. Details of the assets and liabilities acquired are as follows:

	Fair value RMB'000 (Unaudited)	Acquiree's carrying amount RMB'000 (Unaudited)
Assets /liabilities acquired (at 7.08% interest)		
Property, plant and equipment	2,337	1,374
Trade and other receivables	207	207
Cash and cash equivalents	79	79
Other liabilities	(385)	(385)
Deferred tax liability	(173)	—
Current tax liabilities	(88)	(88)
Salary and welfare payable	(58)	(58)
Net identifiable assets acquired	1,919	1,129
Fair value of net identifiable assets acquired	1,919	
Goodwill on acquisition	382	
Cash consideration payable	2,301	
Cash consideration paid	2,301	
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 joint controlled entity acquired	79	
Cash paid	(2,301)	
Cash outflow on acquisition	(2,222)	

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## 18. SUPPLEMENTARY INFORMATION TO UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Acquisition of subsidiaries and a jointly controlled entity (Continued)

- (iii) On 1 January 2006, the Group via a wholly-owned subsidiary, Sinotrans Eastern Company Limited has obtained control of Shanghai Sinotrans Chemical International Logistics Co., LTD ("Shanghai Chemical") as a result of the changes to the composition of the Board of Directors. The Group is now represented by 6 directors out of 9 directors in the Board (as at 31 December 2005, 5 directors out of 8 directors). Accordingly, the Group has the power to govern the financial and operating policies of Shanghai Chemical as the Group has more than two-thirds of the voting rights in Shanghai Chemical.

With effect from 1 January 2006, the Group has accounted for the results of operations and the share attributable to minority interest of Shanghai Chemical in the consolidated financial statements. Previously, the results of Shanghai Chemical was accounted for by proportionate consolidation.

For the six months ended 30 June 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
<b>Subsidiary:</b>	
China Taicang Marine Shipping Agency Co., Ltd. ("CTMSA")	100%
<b>Jointly controlled entities:</b>	
Jiangsu Nissin Sinotrans International Transportation Co., Ltd.	50%
Ningbo Dagang Container Co., Ltd.	50%
Xuzhou Sinotrans Maruzen Transportation Co., Ltd.	50%
Sinotrans Hi-Tech Logistics (Suzhou) Co., Ltd.	30%

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## 18. SUPPLEMENTARY INFORMATION TO UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Acquisition of subsidiaries and a jointly controlled entity (Continued)

Details of the assets and liabilities acquired are as follows:

	Fair value RMB'000 (Unaudited)	Acquiree's carrying amount RMB'000 (Unaudited)
Assets/liabilities acquired (at 100% interest for CTMSA and at respective proportionate interest in jointly controlled entities)		
Total assets	123,053	100,216
Total liabilities	(62,434)	(55,763)
Minority interests	(327)	(327)
Net assets acquired	60,292	44,126
Fair value of net assets acquired	60,292	
Goodwill on acquisition	465	
Total purchase consideration	60,757	
Net cash outflow in respect of the acquisition is analysed as follows:		
Cash and cash equivalents	17,468	
Purchase consideration settled in cash	(60,757)	
Cash outflow on acquisition	(43,289)	

## 19. CONTINGENT LIABILITIES

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Guarantees provided by the Group for the benefit of jointly controlled entities	32,500	25,500

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 14. 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 30 June 2006, such lawsuits amounted to approximately RMB19,311,000 (31 December 2005: RMB22,886,000).

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For the six months ended 30 June 2006

## 19. CONTINGENT LIABILITIES (Continued)

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 period up to 2009, while certain other guarantees have no expiry dates.

## 20. CAPITAL COMMITMENTS

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Authorised and contracted for but not provided for	279,424	146,300
Authorised but not contracted for	627,429	569,047
	906,853	715,347

An analysis of the above capital commitments by nature is as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Acquisition of property, plant and equipment	352,450	46,390
Construction commitments	209,849	275,935
Purchase of software	—	28,802
Investment in subsidiaries, jointly controlled entities	344,554	364,220
	906,853	715,347

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## 21. OPERATING LEASES COMMITMENTS

### (a) The Group as lessee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Land and buildings		
— not later than one year	130,247	172,259
— later than one year but not later than five years	176,992	150,329
— later than five years	193,116	152,760
Vessels, containers and other property, plant and equipment		
— not later than one year	853,642	1,102,469
— later than one year but not later than five years	1,821,099	2,416,346
— later than five years	71,444	291,696
	<b>3,246,540</b>	<b>4,285,859</b>

### (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:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Land and buildings		
— not later than one year	19,232	10,156
— later than one year but not later than five years	12,313	10,421
— later than five years	7,249	7,887
Plant and machinery		
— not later than one year	—	747
	<b>38,794</b>	<b>29,211</b>



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### 22. SIGNIFICANT RELATED PARTY TRANSACTIONS

On 26 January 2006, the Group renewed the business service agreement signed on 14 January 2003 with Sinotrans Group Company. The business service agreement regulates the provision of transportation and logistics services and ancillary services by members of our Group to Sinotrans Group Company (including its subsidiaries and associates) and vice versa. The business service agreement contemplates that the relevant members of the Group and Sinotrans Group 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

In addition on 26 January 2006, 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 3 years.

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.

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## 22. 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

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Transactions with Sinotrans Group Company and fellow subsidiaries</b>		
<i>Revenue</i>		
Revenue from provision of services	239,141	255,514
<i>Expenses</i>		
Service fees	(84,018)	(117,415)
Rental expenses for office buildings	(18,647)	(14,932)
Rental expenses for containers	(24,215)	(24,541)
Rental expenses for vessels	(38,341)	(33,546)
Rental expenses for motor vehicles	—	(433)

In addition to the above, the Sinotrans Group Company has assumed the Group's obligations to make benefits payments to certain of the Group's former employees and retirees 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 (Note 14).

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Transactions with associates of the Group</b>		
<i>Revenue</i>		
Revenue from provision of services	840	200
<i>Expenses</i>		
Service fees	(476)	(1,037)
<b>Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities)</b>		
<i>Revenue</i>		
Revenue from provision of services	54,176	50,303
<i>Expenses</i>		
Service fees	(27,440)	(20,194)

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For the six months ended 30 June 2006

## 22. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions with related parties (Continued)

As at 30 June 2006, the Group provided RMB32,500,000 guarantees for certain jointly controlled entities (31 December 2005: RMB25,500,000). In addition, in the ordinary course of business, Sinoair has issued various performance and liability guarantees of unspecified amounts to the General Administration of Civil Aviation of China for the benefit of certain jointly controlled entities to enable those entities to obtain the required air freight forwarding operating licenses (Note 19).

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Transactions with other state-owned enterprises</b>		
<i>Revenue</i>		
Revenue from provision of services	177,994	102,663
Interest income from bank deposits	40,845	33,948
<i>Expenses</i>		
Service fees	(371,157)	(227,144)

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## 22. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

### (b) Balances with related parties

As at 30 June 2006 and 31 December 2005, balances with related parties comprised:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>Balances with Sinotrans Group Company and fellow subsidiaries</b>		
Trade and other receivables	88,954	162,165
Provision for impairment of receivables	(628)	(1,112)
Prepayment, deposits, and other current assets	9,776	13,415
Trade payables	(59,748)	(64,745)
Other payables, accruals and other current liabilities	(143,177)	(152,872)
Receipt in advance from customers	(30,142)	(5,304)
<b>Balances with jointly controlled entities</b>		
Trade and other receivables	35,419	35,898
Provision for impairment of receivables	(171)	(742)
Prepayment, deposits, and other current assets	2,019	924
Trade payables	(5,233)	(4,729)
Other payables, accruals and other current liabilities	(3,263)	(1,666)
Receipt in advance from customers	(1,028)	(293)
<b>Balances with associates of the Group</b>		
Trade and other receivables	3,177	2,959
Trade payables	(507)	(184)
Other payables, accruals and other current liabilities	—	(59)
<b>Balances with other state-owned enterprises</b>		
Held-to-maturity investments	63,965	64,562
Restricted cash	6,221	12,339
Term deposits with initial term of over three months	1,020,374	686,604
Cash and cash equivalents	3,289,331	4,383,465
Trade and other receivables	38,112	47,859
Provision for impairment of receivables	(3,624)	(1,497)
Prepayments, deposits and other current assets	5,430	3,026
Trade payables	(50,421)	(49,317)
Other payables, accruals and other current liabilities	(1,157)	(983)

The credit period of the trade receivables due from related parties generally ranges from 1 to 6 months. The normal credit period for trade payable and amounts due to related parties generally ranges from 1 to 3 months. Other receivables from related parties are generally unsecured, non-interest bearing and repayable on demand. Other payables due to related parties are generally unsecured, non-interest bearing and have no fixed repayment terms. For the six months ended 30 June 2006, the expense recognised in respect of bad or doubtful debts due from related parties were approximately RMB3,624,000 (corresponding period in 2005: RMB3,889,000).

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## 22. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

### (c) Purchase of property, plant and equipment

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Transactions with other state-owned enterprises	41,226	62,554

### (d) Loans

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Loans from state-owned banks</b>		
At beginning of the period	78,495	208,290
Acquisition of a subsidiary	39,600	—
Proceeds from loans	98,770	154,350
Repayment of loans	(117,752)	(237,895)
Interest charged	2,590	5,629
Interest paid	(2,590)	(5,629)
At end of the period	99,113	124,745

The weighted average effective interest rate of the borrowings was 5.01% for the six months ended 30 June 2006(corresponding period in 2005: 4.68%).

### (e) Key management personnel compensation

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Basic salaries, housing allowances and other allowances and benefits in kind	1,623	1,640
Discretionary bonuses	1,233	1,429
Change of fair value on SAR	(1,781)	303
Contributions to pension plans	90	85
Long-term bonus plan	—	1,430

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### 23. SUBSEQUENT EVENT

- (a) At the Board of Directors' meeting held on 29 August 2006, the directors declared an interim dividend of RMB0.030 per ordinary share for the six months ended 30 June 2006.
- (b) On 5 July 2006, the Group entered into a Strategic Cooperation Agreement with Shandong Lishen Derrick Transport Co., Ltd. ("Shandong Lishen"), Jinan Dayun Labour Union ("Dayun Labour Union") and Jinan Dayun Logistics Co., Ltd ("Dayun Logistics") as well as a Share Transfer Agreement with Dayun Labour Union and Dayun Logistics respectively. In accordance with the terms of these agreements, the Group will purchase a total of 65.97% in Shandong Lishen for a consideration of RMB29.87 million. 47.99% and 17.98% of such equity interests were previously held by Dayun Labour Union and Dayun Logistics respectively. Immediately after the transfer of these shares, the Group further increased its investment in Shandong Lishen from 65.97% to 80% through an additional contribution of RMB24.36 million. Upon the capital injection, the Group and Dayun Logistics will hold 80% and 20% of the equity interest in Shandong Lishen respectively. On 12 July 2006 and 16 August 2006, the Group paid RMB11.95 million and RMB36.30 million respectively of the total payments of RMB54.23 million required under these agreements and capital contribution (Note 20).
- (c) At the Board of Directors' meeting held on 25 July 2006, the directors of the Company passed a share reform proposal ("Revised Proposal") for the conversion of all the unlisted shares in its subsidiary, Sinoair (a company listed on the Shanghai Stock Exchange), to listed shares. Under the Revised Proposal, the Company proposed to offer 2.9 unlisted shares in Sinoair for every 10 listed shares in consideration for such holders of listed shares to agree that all the Sinoair unlisted shares be converted into listed shares. The Company will transfer a total of 62,427,204 unlisted shares in Sinoair to such shareholders, representing approximately 6.9% of the total issued shares of Sinoair and approximately 9.8% of the Company's unlisted shares in Sinoair. Immediately after the implementation of the Revised Proposal, the Company will hold 574,637,796 listed shares in Sinoair, representing approximately 63.46% of its issued shares (all of which will be listed). Sinoair will continue to remain as a subsidiary of the Company.
- (d) In August 2006, Sinoair subscribed for 80 million shares (representing 0.72% interest) in China International Aviation Holdings Company Limited upon its initial public offering of its A shares for a cash consideration of RMB224,000,000. This subscription is subject to a lock-up arrangement of 18 months.

### 24. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative figures have been reclassified to conform to the current presentation.