

Management Discussion and Analysis of Results of Operations and Financial Position

REVIEW OF OPERATING RESULTS

The overall macroeconomic environment of PRC in the first half of the year has been favorable. As compared with the corresponding period last year, gross domestic product increased by 10.9%, foreign import and export increased by 23.4% and containers throughput of scaled ports increased by 22.4%. Meanwhile, the unfavorable factors of the market have been obvious. In the first half of the year, the growth in foreign export of the PRC experienced an apparent slowdown with a decrease of 7.5%. Due to the worsening imbalance between supply and demand, freight rates in the shipping market decreased substantially. The continual increase in fuel cost and cost of chartering in vessels exerted pressure on the Group's operations in the first half of the year by challenging our traditional operating mode and existing cost structure.

For the six months ended 30 June 2006, the number of containers handled in sea freight forwarding services increased by 11.9%; the business volume handled by air freight forwarding services rose by 23.2%; the business volume handled by continuing express services increased by 35.1%; the number of containers handled in shipping agency business increased by 6.9%; the shipping volume by marine transportation increased by 14.9%. Storage and terminal services and trucking business experienced a significant growth. The number of containers handled in terminal throughput increased by 50.5%, the business volume of containers handled by warehouses increased by 38.1% and the number of containers handled in trucking business increased by 68.8%.

For the six months ended 30 June 2006, the Group achieved turnover of approximately RMB14,781.1 million, representing an increase of 10.4% as compared with the corresponding period in 2005. Profit attributable to equity holders of the Company amounted to RMB321.4 million, representing a decrease of 35.6% as compared to the corresponding period in 2005. Earnings per share was RMB0.076 (corresponding period in 2005: RMB0.117).

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OPERATING STATISTICS

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

	For the six months ended 30 June	
	2006	2005
Freight forwarding		
Sea freight forwarding		
Bulk cargo (in millions of tonnes)	3.8	2.3
Container cargo (in ten thousands of TEUs)	245	219
Air freight forwarding (in millions of kilograms)	190.2	154.4
Rail freight forwarding		
Bulk cargo (in millions of tonnes)	0.3	0.2
Container cargo (in ten thousands of TEUs)	1.6	1.2
Road freight forwarding		
Bulk cargo (in millions of tonnes)	0.04	0.04
Container cargo (in ten thousands of TEUs)	1.4	1.3
Express services		
Packages — continuing operations packages (in millions of units)	7.24	5.36
Shipping agency		
Net registered tonnes (in millions of tonnes)	191.1	153.8
Vessel calls (number of times)	32,017	31,331
Containers (in millions of TEUs)	4.63	4.33
Storage and terminal services		
Warehouses operating volume		
Bulk cargo (in millions of tonnes)	4.0	3.8
Containers (in millions of TEUs)	2.9	2.1
Terminal throughput		
Bulk cargo (in millions of tonnes)	1.3	1.2
Containers (in ten thousands of TEUs)	98.1	65.2
Marine transportation		
TEUs (number of units)	731,715	636,800
Other services		
Trucking of bulk cargo (in ten thousands of tonnes)	50.2	29.1
Trucking of containers (in ten thousands of TEUs)	42.2	25.0

To accurately reflect the Group's business operations, the scope of calculation of the statistics of following business operations have been adjusted. The adjustments do not affect the historical operating statistics:

1. The statistics on rail freight forwarding and road freight forwarding businesses are accounted for on business line basis and have not taken into consideration of the business volume of rail freight forwarding and road freight forwarding businesses already included in sea freight forwarding. In our interim report last year, the statistics on rail freight forwarding and road freight forwarding businesses were accounted for on the basis of business segments and their business volume were included under the sea freight forwarding business;
2. The bulk cargo information under the trucking business includes the business volume of trucking capacity from temporary leasing, the business volume of trucking capacity from temporary leasing was not included in the bulk cargo information of the interim report last year.

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COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Continuing Operations

Turnover

For the six months ended 30 June 2006, the Group's turnover amounted to RMB14,781.1 million, up by 11.9% from RMB13,205.8 million for the corresponding period in 2005. The increase was primarily attributable to the Group's vigorous efforts in restructuring business resources and developing new products, centralising marketing activities and developing service networks, as well as taking advantages of economies of scale achieved through proactive market development strategies. However, the decrease in international marine freight rates slowed down the growth in the Group's turnover.

Freight forwarding

For the six months ended 30 June 2006, turnover from our freight forwarding services amounted to RMB10,715.0 million, grew 11.8% from RMB9,584.4 million for the corresponding period in 2005.

Turnover from freight forwarding mainly comprised revenues from containers sea freight forwarding services and air freight forwarding services. The number of containers handled in sea freight forwarding services increased by 11.9% to 2.45 million TEUs in the first half of 2006 from 2.19 million TEUs in the first half of 2005; while the amount of cargo handled by air freight forwarding services rose by 23.2% to 190,200 tonnes in the first half of 2006 from 154,400 tonnes in the first half of 2005.

Revenue growth in freight forwarding in the first half of 2006 was primarily driven by the Group's ability to maintain a relatively fast business development pace during the time of economic growth.

Express Services

For the six months ended 30 June 2006, the continuing operations of the Group's express services achieved a turnover of RMB1,446.2 million, representing an increase of 31.2% from RMB1,102.4 million for the corresponding period in 2005.

Number of documents and packages handled by the continuing operations of the Group's express services in the first half of 2006 were 7.24 million pieces, representing an increase of 35.1% compared with 5.36 million pieces for the corresponding period in 2005.

The growth was mainly attributable to our rapid business development during the time of economic growth through enhanced marketing efforts and expansion of our service network.

Shipping agency

For the six months ended 30 June 2006, turnover from our shipping agency services reached RMB299.0 million, representing an increase of 5.4% from RMB283.7 million for the corresponding period in 2005.

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In the first half of 2006, number of containers handled in shipping agency business was 4.63 million TEUs, an increase of 6.9% from 4.33 million TEUs for the corresponding period in 2005. Net registered tonnage of vessels handled by the shipping agency services reached 191.10 million tonnes, a 24.3% increase from 153.80 million tonnes for the corresponding period in 2005. Number of vessel calls managed also grew 2.2% to 32,017, compared with 31,331 for the corresponding period in 2005.

The Group continued to record turnover and volume growth for shipping agency services due to enhanced customer service and marketing efforts.

Storage and terminal services

For the six months ended 30 June 2006, the aggregate turnover from storage and terminal services amounted to RMB536.4 million, representing a 19.5% growth from RMB448.9 million in the corresponding period of 2005.

In the first half of 2006, the Group's warehouses handled 4.0 million tonnes of bulk cargo, representing a 5.3% increase from 3.8 million tonnes for the corresponding period in 2005; containers handled grew to 2.9 million TEUs from 2.1 million TEUs for the corresponding period in 2005, an increase of 38.1%; containers handled in terminals grew to 981,000 TEUs from 652,000 TEUs for the corresponding period in 2005, an increase of 50.5%. The volume of bulk cargo handled at terminals grew to 1.3 million tonnes from 1.2 million tonnes for the corresponding period in 2005, an increase of 8.3%.

Turnover and business volume growth of storage and terminal services was mainly attributable to the enhancement of overall operating capability through the addition and expansion of some container yards and terminals by the Group.

Marine transportation

For the six months ended 30 June 2006, turnover from the Group's marine transportation services decreased by 5.6% to RMB1,803.6 million from RMB1,910.4 million for the corresponding period in 2005.

In the first half of 2006, the number of containers shipped by the Group rose to 731,715 TEUs, up by 14.9% from 636,800 TEUs for the corresponding period in 2005.

Such growth was primarily attributable to the steady growth in transport volume backed by the Group's efforts to enhance utilisation of its own vessel space while improving undercapacity for certain routes by entering into swap arrangements with other shipping companies. However, the increase in overall revenues is not comparable to the increase of transport volume, which is attributed to the decrease in freight rates of international marine transportation.

Other services

For the six months ended 30 June 2006, the Group's turnover from other services, mainly trucking services, rose by 71.0% to RMB268.2 million from RMB156.8 million for the corresponding period in 2005.

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The bulk cargo trucking volume of the Group in the first half of 2006 was 502,000 tonnes, a 72.5% increase from 291,000 tonnes for the corresponding period in 2005; container volume increased from 250,000 TEUs for the corresponding period in 2005 to 422,000 TEUs, achieving a growth of 68.8%.

The growth was mainly due to the increase in container volume capacity.

Transportation and related charges

For the six months ended 30 June 2006, transportation and related charges grew by 14.98% to RMB11,462.2 million, compared with RMB9,969.1 million for the corresponding period in 2005. The increase in transportation and related charges was mainly attributed to the growth in business volume.

Depreciation and Amortisation

For the six months ended 30 June 2006, depreciation and amortisation amounted to RMB158.6 million, representing an increase of 22.9% from RMB129.0 million for the corresponding period in 2005, primarily as a result of increases in the Group's property, plant and equipment due to network and business expansion.

Operating costs (excluding depreciation and amortisation)

For the six months ended 30 June 2006, the Group's operating costs (excluding depreciation and amortisation) were RMB2,589.6 million, a 9.3% increase from RMB2,368.5 million for the corresponding period in 2005.

The increase in operating costs (excluding depreciation and amortisation) was primarily due to rising staff costs, rental expenses and fuel expenses.

The increase in staff costs was primarily due to the increase in headcount for business expansion. The increase in rental expenses was mainly attributed to the Group's increased shipping capacity. The increased investment in shipping capacity and the rise in international crude oil prices resulted in fuel costs increase of 30.0% in the first half of 2006.

Operating profit

For the six months ended 30 June 2006, the Group's operating profit was RMB490.6 million, representing a decrease of 25.02% from RMB654.3 million for the corresponding period in 2005, mainly as a result of the operating losses in marine transportation. For the six months ended 30 June 2006, operating profit as a percentage of total revenue decreased to 3.31% from 4.94% for the six months ended 30 June 2005. For the six months ended 30 June 2006, operating profit as a percentage of net revenue (total revenue less transportation and related charges) decreased to 14.51% from 19.93% for the six months ended 30 June 2005, primarily as a result of the increase in the Group's transportation and related charges and various operating expenses.

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Taxation

For the six months ended 30 June 2006, taxation of the Group amounted to RMB183.4 million, representing an increase of 4.1% from RMB176.1 million for the corresponding period in 2005, primarily as a result of the income tax arising from the income tax rate differences in respect of the net profit of the Company's subsidiaries and jointly controlled entities owing to the changes in the tax regulations. Taxation as a percentage of profit before taxation increased to 35.0% from 26.1% for the six months ended 30 June 2005.

Discontinued Operations

Turnover of discontinued operations of the Group (UPS related express business) for the six months ended 30 June 2006 was nil (corresponding period of 2005: RMB178.4 million). Operating profit was RMB15.58 million (corresponding period of 2005: RMB76.81 million), representing a decrease of 79.7%. Income from transferring the UPS related express business and the provision of related and transition services for the six months ended 30 June 2006 was RMB107.64 million (corresponding period of 2005: RMB98.36 million).

Minority Interests

Minority interests for the six months ended 30 June 2006 amounted to RMB92.6 million, down by 10.1% from RMB103.0 million for the same period in 2005, which was primarily as a result of the decrease in profit of Sinoair, a non-wholly owned subsidiary of the Group.

Profit Attributable to Equity Holders of the Company

Profit after taxation from the Group's continuing operations for the six months ended 30 June 2006 amounted to RMB340.4 million, representing a decrease of 31.6% from RMB497.4 million for the same period in 2005.

Profit after taxation from the Group's discontinued operations for the six months ended 30 June 2006 amounted to RMB73.5 million, representing a decrease of 29.5% from RMB104.3 million for same period in 2005.

Profit attributable to equity holders of the Company of the Group for the six months ended 30 June 2006 amounted to RMB321.4 million, representing a decrease of 35.6% from RMB498.7 million for the same period in 2005.

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Liquidity and Capital Resources

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

	For the six months ended 30 June	
	2006 RMB in millions (Unaudited)	2005 RMB in millions (Unaudited)
Continuing Operations		
Net cash inflow from operating activities	349.6	367.3
Net cash used in from investing activities	(844.0)	(488.1)
Net cash used in financing activities	(245.5)	(165.0)
Net decrease in cash and cash equivalents	(739.9)	(285.8)
Discontinued Operations		
Net cash inflow from operating activities	45.5	59.9
Net cash generated from investing activities	—	3.4
Net cash from transfer of business and provision of related and transition services	—	462.3
Net increase in cash and cash equivalents	45.5	525.6
Net (decrease)/increase in cash and cash equivalents	(694.4)	239.8
Cash and cash equivalents at the end of the period	4,435.8	4,962.5

ANALYSIS OF CASH FLOW OF CONTINUING OPERATIONS

Operating activities

Net cash from operating activities for the six months ended 30 June 2006 amounted to RMB349.6 million, down by 4.8% compared with RMB367.3 million for the corresponding period in 2005. The net cash from operating activities was primarily as a result of the profit attributable to equity holders of the Company for the six months ended 30 June 2006 of RMB265.2 million (corresponding period in 2005: RMB425.3 million) as well as an increase of RMB401.4 million in trade receivables for the six months ended 30 June 2006 (corresponding period in 2005: increase of RMB946.9 million), which were partially offset by an increase of RMB351.0 million in trade payables for the six months ended 30 June 2006 (corresponding period in 2005: increase of RMB802.2 million) and an increase of RMB115.6 million in receipts in advance from customers (corresponding period in 2005: increase of RMB14.0 million).

The average turnover days of trade receivables for the six months ended 30 June 2006 and 2005 were 61 days and 63 days respectively.

Investing activities

For six months ended 30 June 2006, net cash used in investing activities of RMB844.0 million primarily comprised net cash outflow of RMB303.8 million for the addition of property, plant and equipment, RMB399.7 million for the acquisition of term deposits over three months, RMB162.0 million for the acquisition of land use rights and intangible assets and RMB25.29 million for the acquisition of subsidiaries, jointly controlled entities and associated companies. For the six months ended 30 June 2005, net cash used

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in investing activities of RMB488.1 million primarily comprised net cash outflow of RMB367.9 million for the addition of property, plant and equipment, RMB88.77 million for the acquisition of term deposits over three months, RMB13.68 million for the acquisition of land use rights and intangible assets and RMB61.08 million for the acquisition of subsidiaries, jointly controlled entities and associated companies.

Financing activities

Net cash used in the Group's financing activities amounted to RMB245.5 million for the six months ended 30 June 2006, compared with net cash outflow from financing activities of RMB165.0 million for the corresponding period in 2005. Bank loan repayments for the six months ended 30 June 2006 amounted to RMB120.2 million, compared to RMB255.5 million for the same period in 2005, dividends paid amounted to RMB224.6 million compared to RMB138.5 million for the corresponding period in 2005, which were offset by new bank loans secured during the six months ended 30 June 2006 amounting to RMB98.8 million (corresponding period in 2005: increase of RMB176.9 million).

Capital expenditure

For the six months ended 30 June 2006, the Group's capital expenditure amounted to RMB512.6 million, consisting of RMB335.9 million for fixed assets and RMB176.7 million for the acquisition of intangible assets and land use rights, among which RMB308.7 million was used for the renovation and construction of terminals, warehouses, logistics centres and container yards, RMB105.9 million for the purchase of vehicles, vessels, machineries and equipments and RMB47.51 million for IT investment and refurbishment and purchase of office equipment.

CONTINGENCIES AND GUARANTEES

As at 30 June 2006, the contingent liabilities of the Group amounted to approximately RMB51.81 million, comprising mainly RMB19.31 million in relation to pending litigations. Guarantees provided by the Group in favor of its jointly controlled entities amounted to RMB32.5 million.

GEARING RATIO

As at 30 June 2006, the gearing ratio of the Group was 51.3% (as at 31 December 2005: 50.3%), which was arrived at by dividing the sum of liabilities and minority interests by total assets as at 30 June 2006.

FOREIGN EXCHANGE RATE RISKS

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

CREDIT RISK

The extent of our credit exposure is represented by an aggregated balance of trade receivables and other receivables, financial assets at fair value through profit or loss, held-to-maturity investments, restricted term deposits and deposits with an original maturity of over three months. The maximum credit exposure in the event of counterparties' default on obligations under these financial instruments was approximately RMB6,499.6 million and RMB5,679.2 million as at 30 June 2006 and 31 December 2005, respectively. In addition, the Group made certain prepayments, prepaid expenses and deposits on behalf of customers, the aggregate amounts of which were RMB362.5 million and RMB357.8 million as at 30 June 2006 and 31 December 2005, respectively.

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EMPLOYEES

As at June 30 2006, the number of employees of the Group (the Company and its subsidiaries) is 17,876 and information on remuneration, remuneration policy and employee's development are substantially the same as disclosed in the annual report of 2005 and there was no material change.

OUTLOOK AND PROSPECTS

The overall economic outlook of this year will continue to be favorable. However, uncertainties such as persistently high oil prices, fluctuations in exchange rates, rising interest rates and geopolitical issues, may affect global economic development.

There are certain major concerns over the PRC economy, including huge trade surplus and excessive fixed asset investment and credit growth. It is anticipated that the Country will introduce a series of economic austerity measures in the second half of the year to ensure a stable and healthy development of the economy.

As a result, the Company will operate in a more complicated environment, which represents both challenges and opportunities, in the second half of the year:

With the continuous growth in the aggregated economic value worldwide and international trade, the sustained development of the national economy and external trade as well as further investments in relevant infrastructures such as ports, the market in which the Group operates its core businesses has been expanding. However, market liberalization and the lower entry barrier will intensify market competition. In addition, the possible economic austerity measures adopted by the Government in the second half of the year, RMB appreciation, rising interest rates, further tax rebate reduction on the export of certain goods, bitter trade disputes, the cyclical fluctuation in the shipping market will affect the market for the Group's core businesses.

To face these challenges, the Group will continue its efforts in optimising resources allocation by promoting integration of business resources, extending our services chain and improving the quality of operation by reinforcing the integration and optimisation of our traditional core businesses, enhancing our market competitiveness by increasing our investment in core operating assets and professional areas such as projects, engineering and exhibitions and expanding our source of profit, as well as strengthening market development, expanding market share and actively promoting the resources consolidation of the PRC's logistics and transportation sector.

The Group believes that by leveraging on its strong capability and resources, adhering to and improving the established development strategies, as well as grasping the opportunities arising from the rapid growth of the PRC economy, its businesses will sustain a stable and healthy development and will maximize the return for shareholders.

Zhao Huxiang

Chairman

Beijing, 29 August 2006