

Report of the Directors

The board of directors (the "Board") is pleased to present its report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

BUSINESS OPERATIONS AND GEOGRAPHICAL ANALYSIS OF THE GROUP

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

An analysis of the Group's operating results for the year by business and geographical segments is set out in Note 6 to the financial statements.

SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

Particulars of the subsidiaries, jointly-controlled entities and associated companies of the Company are set out in Notes 20, 21 and 22 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the financial statements on page 50 to 51. The summary of results and assets and liabilities of the Group for the previous five years is set out on page 3.

DIVIDENDS

The Company paid an interim dividend of RMB0.030 per share (2005: an interim dividend of RMB0.038 per share paid) on 1 November 2006.

The Board recommended the payment of a final dividend of RMB0.020 per share, subject to passing of the resolution in respect of the recommendation, declaration and payment of the final dividend for 2006 by the shareholders at the Annual General Meeting to be held on Monday, 11 June 2007. Please refer to the "Notice of the Annual General Meeting" for further details.

It is expected that the final dividend will be paid on or before Friday, 29 June 2007 to shareholders whose names appear on the register of members on Friday, 11 May 2007. The register of members of the Company will be closed from Friday, 11 May 2007 to Monday, 11 June 2007 (both days inclusive), during which no transfers will be registered.

In order to qualify for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with relevant share certificates to the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 10 May 2007, for registration.

Pursuant to the Articles of Association of the Company, dividends payable to the holders of Domestic Shares will be paid in Renminbi, while dividends payable to the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividends to be paid in Hong Kong dollars is the mean average exchange rate of Renminbi to Hong Kong dollar published by the People's Bank of China during the calendar week (21 March 2007 to 27 March 2007) prior to the date of declaration of the dividend. During the period, the average exchange rate of Renminbi to Hong Kong Dollar ("HK\$") was HK\$1 = RMB0.990166. Accordingly, the amount of final dividend for each H Share of the Company is HK\$0.020199.

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BANK LOANS

Details of the bank loans of the Group are set out in Note 32 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In 2006, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively.

For the year ended 31 December 2006, none of the directors, supervisors, their respective associates and any shareholder (who to the knowledge of the Board owns more than 5% of the share capital of the Company) of the Company had any interest in the five largest customers or the five largest suppliers of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2006 are disclosed in Note 44 to the financial statements.

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

Revenue/(expenses)	Note	2006 RMB'000
Transactions with Sinotrans Group Company and its subsidiaries	1	
Provision of transportation and logistics services		415,475
Receipt of transportation and logistics services		(203,070)
Vessel chartering fees		(57,261)
Container leasing fees		(48,736)
Vehicle rental		(3,417)
Property leasing expenses		(40,137)
Transactions with connected joint venture partners	2	
Provision of services		112,967
Receipt of services		(53,134)
Transactions with connected non wholly-owned subsidiaries and connected persons of the Company	3	
Provision of services		239,338
Receipt of services		(108,129)

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

Note 2: Transactions with connected joint venture partners are considered as connected transactions as these joint venture partners are either substantial shareholders of the Company's subsidiaries or their associates.

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

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As stated in the Company's prospectus dated 29 January 2003, the Company has obtained waivers in relation to the continuing connected transactions of the Group described in Notes 1 to 3 above from the Stock Exchange. These waivers expired on 31 December 2005. In order to comply with the relevant requirements of the Listing Rules, these transactions together with the respective annual caps of connected transactions for each year of 2006, 2007 and 2008 have obtained approval at the Annual General Meeting held on 24 April 2006. In light of the business growth of the Group, as stated in the announcements in relation to certain continuing connected transactions made by the Company on 19 January 2007 and 27 March 2007, the Group has entered into the Supplemental Master Services Agreements with each of the Connected Joint Venture Partners and Connected Non Wholly-Owned Subsidiaries to adjust the expected annual transaction value of the Continuing Connected Transactions for the years 2006, 2007 and 2008 under each Master Services Agreement.

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

- (a) entered into by members of the Group in the ordinary and usual course of its business; and
- (b)
 - (i) on normal commercial terms; or
 - (ii) on terms no less favourable to the Company than those available to (or from) independent third parties; or
- (c) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with International Standard on Related Services 4400 "Engagements to perform Agreed-Upon Procedures Regarding Financial Information" issued by the International Accounting Standards Board. The auditors have reported their factual findings to the Board.

Based on the work performed, the external auditors of the Company have reported that the aforesaid continuing connected transactions (a) have been approved by the Board of the Company; and (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions, based on the sample selected.

ACQUISITIONS AND DISPOSALS

Details of the acquisitions and disposals of the Group during the year ended 31 December 2006 are set out in page 8 to 20 of the management discussion and analysis.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

TAXATION

Details of taxation of the Group as at 31 December 2006 are set out in Note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Group during the year are set out in the financial statements on page 59 of and Note 38 to the financial statements. The decrease in the reserves of the Company during the year is mainly due to the share reform proposal in Sinoair (Note 20).

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2006 amounted to approximately RMB1,469,306,000 (2005: RMB1,230,860,000).

SHARE CAPITAL

For the year ended 31 December 2006, there was no change in the shareholding structure of the Company. Shareholding structure of the Company as at 31 December 2006 was as follows:

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

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as was known to the directors of the Company, the interests or short positions of the following persons (other than directors or supervisors) in the shares of the Company which were required to be disclosed to the Company pursuant to the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or the interests or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Corporate Interests	Short Position	Class of Shares	As a % of total issued share capital	As a % of total issued H share capital
China National Foreign Trade Transportation (Group) Corporation	2,461,596,200	—	Domestic Shares	57.93%	—
Deutsche Post AG	237,468,000	—	H Shares	5.59%	13.29%
UPS Air Couriers of America Limited	124,657,000	—	H Shares	2.93%	6.97%
DWS Invest SICAV	97,932,000	—	H Shares	2.30%	5.48%
Oppenheimer Developing Markets Fund	91,900,000	—	H Shares	2.16%	5.14%

Save as disclosed above, as at 31 December 2006, so far as was known to the directors of the Company, no person (other than directors or supervisors) had any interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

So far as was known to the directors of the Company, there was no purchase, sale or redemption of any H Shares by any member of the Group during the year ended 31 December 2006.

DIRECTORS AND SUPERVISORS

As of 31 December 2006, the directors and supervisors of the Company are as follows:

Executive directors:

Zhao Huxiang	(appointed on 3 March 2006)
Zhang Jianwei	(re-appointed on 24 October 2005)
Tao Suyun	(re-appointed on 24 October 2005)
Li Jianzhan	(re-appointed on 29 May 2006)

Non-executive directors:

Yang Yuntao	(re-appointed on 24 October 2005)
Liu Jinghua	(re-appointed on 29 May 2006)
Jerry Hsu	(re-appointed on 29 May 2006)
Ken Torok	(re-appointed on 29 May 2006)
Peter Landsiedel	(appointed on 29 May 2006)

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Independent non-executive directors:

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

Supervisors:

Su Yi	(re-appointed on 29 May 2006)
Wang Xiaozheng	(re-appointed on 24 October 2005)

Independent Supervisors:

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

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

Mr. Peter Landsiedel was appointed as a non-executive director of the Company on 29 May 2006.

Mr. Li Jianzhang, an executive director of the Company, Ms. Liu Jinghua, Mr. Jerry Hsu and Mr. Ken Torok, the non-executive directors of the Company and Ms. Su Yi, a supervisor of the Company were reelected on 29 May 2006 respectively.

Mr. Ouyang Pu was appointed as the vice president of the Company on 25 September 2006.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set out on pages 29 to 34.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

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

The remuneration of the directors and the details of the five highest-paid individuals of the Company are set out in Note 7 to the financial statements.

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DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2006, none of the directors, supervisors or their associates had any interest in any shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register kept by the Company referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the twelve-month period ended 31 December 2006, none of the directors or supervisors had any material interest in any contract of significance the Company to which the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries was a party.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the twelve-month period ended 31 December 2006 was the Company, its subsidiaries, its ultimate holding company or its fellow subsidiaries a party to any arrangement which would enable the Company's directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

MATERIAL CONTRACTS WITH SINOTRANS GROUP COMPANY

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

Reorganisation Agreement

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

Business Services Agreement

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

In order to comply with the relevant requirements of the Listing Rules, the Company entered into another business agreement with Sinotrans Group Company on 26 January 2006 on substantially the same terms as the one signed before except for the extension of its contract period to 31 December 2008. The Business Services Agreement was approved at the Extraordinary General Meeting of the Company held on 24 April 2006.

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Master Lease Agreement

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

Trademarks Licence Agreement and Registered User Agreement

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

Computer Software Licence Agreement and IT Services Agreement

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

MANAGEMENT CONTRACTS

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

MATERIAL LITIGATION AND CONTINGENT LIABILITIES

Details of the Group's litigation and contingent liabilities as at 31 December 2006 are set out in Note 40 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2006 are set out in Notes 3(r) and 9 to the financial statements.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

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SIGNIFICANT EVENTS

1. On 10 January 2006, the Board of the Company announced that Mr. Zhang Bin had resigned from the position of executive director and chairman of the Company.
2. On 3 March 2006, the appointment of Mr. Zhao Huxiang as an executive director and the chairman of the Company was approved at the Extraordinary General Meeting of the Company.
3. On 27 March 2006, the Board of the Company announced that Mr. Lee Chong Kwee had resigned from the position of non-executive director of the Company.
4. On 29 May 2006, the appointment of Mr. Peter Landsiedel as a non-executive director of the Company, re-appointment of Mr. Li Jianzhang as an executive director of the Company, re-appointment of Ms. Liu Jinghua, Mr. Jerry Hsu and Mr. Ken Torok as non-executive directors of the Company and Ms. Su Yi as a supervisor of the Company were approved at the Annual General Meeting of the Company.
5. On 17 July 2006, the Company put forward a share reform proposal for conversion of all the unlisted shares in Sinotrans Air Transportation Development Company Limited ("Sinoair"), a subsidiary of the Company whose shares are listed on the Shanghai Stock Exchange, into listed A shares. On 26 July 2006, the Company made an announcement to revise such proposal. Under the revised proposal, the Company proposed to offer 2.9 unlisted shares in Sinoair to each A Shareholder for every 10 listed A shares held, in exchange for such A Shareholders to agree that all the Sinoair unlisted shares be converted into listed A shares. The Company will transfer a total of 62,427,204 unlisted shares of Sinoair to the A Shareholders, representing approximately 6.9% of the total issued shares of Sinoair and approximately 9.8% of the unlisted shares in Sinoair held by the Company. Upon 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. The proposal has been approved at the Extraordinary General Meeting of the Company held on 18 October 2006.
6. On 31 July 2006, the Company made an announcement that the board of directors of Sinoair had passed the resolution in relation to the "Proposal regarding a strategic subscription in China International Aviation Holdings Company Limited (中國國際航空股份有限公司) in the Initial Public Offering of its A Shares". It was proposed that 80,000,000 shares, which were subject to a lock-up arrangement of 18 months, would be subscribed at the initial public offering price of A shares.
7. On 19 September 2006, the Company made an announcement that the board of directors of Sinoair had approved the entering into by Sinoair of the JV Contract in relation to the establishment of International Air Cargo Transportation Company on 15 September 2006. According to such contract, Sinoair will contribute US\$33,150,000 to the joint venture for 51% interests in the latter.
8. On 25 September 2006, the Board of the Company appointed Mr. Ouyang Pu as the vice president of the Company.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE AND THE MODEL CODE

The Company has considered the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules (the "CG Code") and has adopted it as the general rules to the Company's corporate governance, details of which are set out on page 21 to 28, Report on Corporate Governance in this annual report.

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors and supervisors of the Company, it is confirmed that they have complied with the Model Code and its code of conduct regarding directors' securities transactions during the reporting period.

As of 31 December 2006, Mr. Sun Shuyi, Mr. Lu Zhengfei and Mr. Miao Yuexin were the independent non-executive directors of the Company. The Company has received the annual confirmation from each of the independent non-executive directors in respect of their independence and considered that the above independent non-executive directors are independent.

SIGNIFICANT POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in Note 45 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee and prescribed its written terms of reference in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The principal functions of the audit committee include the appointment of external auditors, the review and supervision of the Group's financial reporting process and internal controls as well as the offer of advice and recommendations to the Board. As of 31 December 2006, the audit committee comprised one non-executive director and three independent non-executive directors, namely Mr. Sun Shuyi, Mr. Lu Zhengfei, Mr. Miao Yuexin and Ms. Liu Jinghua with Mr. Sun Shuyi as the chairman of the audit committee.

On 10 January 2006, the Company appointed Mr. Miao Yuexin as an additional member of the audit committee.

The audit committee has reviewed the 2006 annual results of the Company.

AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were the international and PRC auditors of the Company respectively for the year ended 31 December 2006. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors of the Company will be proposed at the forthcoming Annual General Meeting by the board of Directors. The Company has never changed its auditors for the past four financial years.

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PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

- (i) by the chairman of such meeting; or
- (ii) by at least two shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a shareholder or shareholders present in person or by proxy for the time being entitled to vote at the meeting and representing one-tenth or more of the total voting rights of all shareholders having the right to vote at the meeting.

By Order of the Board
Zhao Huxiang
Chairman

Beijing
27 March 2007