Notes to the Financial Statements

1 GROUP REORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (''IFRS''), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets as disclosed in the summary of significant accounting policies in Note 3.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(a) Amendments and interpretations to published standards effective in 2006

In 2006, the Group adopted the following amendments and interpretations to published standards below, which are relevant to its operations.

IAS 39 (Amendment), The Fair Value Option, is mandatory for accounting 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.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts, are mandatory for accounting periods beginning on or after 1 January 2006. These amendments have no material impact to the Group.

2 **BASIS OF PREPARATION (Continued)**

(a) **Amendments and interpretations to published standards effective in 2006 (Continued)**

IFRIC Interpretation 4, Determining whether an Arrangement contains a Lease, is mandatory for accounting periods beginning on or after 1 January 2006. The interpretation has no material impact to the Group.

(b) **Standards, amendments and interpretations effective in 2006 but not relevant**

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

(c) **Standards, amendments and interpretations to existing standards that are not yet effective**

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods. The Group is assessing the impact and applicability of the standards, interpretations and amendments below to the Group's operations:

- Amendment to IAS 1, Presentation of Financial Statements — Capital Disclosures, effective for accounting periods beginning on or after 1 January 2007;
- IFRS 7, Financial instruments — Disclosure, effective for accounting periods beginning on or after 1 January 2007;
- IFRS 8, Operating Segments, effective for accounting periods beginning on or after 1 January 2009;
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period;

Notes to the Financial Statements

2 BASIS OF PREPARATION (Continued)

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

- IFRIC 8, Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of IFRS 2; and

- IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The results of operations of subsidiaries and the share attributable to minority interests are accounted for in the consolidated income statement. The results of operations of jointly controlled entities are accounted for by proportionate consolidation as described in Note 3(c).

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, share issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (See Note 3(h)(i) for the accounting policy on goodwill). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

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

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries (Continued)

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating ventures and whereby the Group together with the other ventures undertake an economic activity which is subject to joint control and none of the ventures has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 3(h)(i)).

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Gains and losses on disposals of investments in associates are determined by comparing proceeds with carrying amount and are included in operating profit.

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

(e) Revenue recognition

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

(i) *Freight forwarding*

Revenue is recognised when the freight forwarding services are rendered, which generally coincides with the date of departure for outward freight and the date of arrival for inward freight. Where the Group effectively acts as a principal in arranging transportation of goods for customers, revenue recognised generally includes the carrier's charges to the Group. Where the Group effectively acts as an agent for the customers, revenue recognised comprises fees for services provided by the Group.

(ii) *Shipping agency*

Revenue from shipping agency services is recognised upon completion of services, which generally coincides with the date of departure of the relevant vessel from port.

(iii) *Express services*

Revenue from express services is recognised upon delivery of the relevant document or package.

(iv) *Marine transportation*

Freight revenues from the operation of the international shipping business are recognised on a percentage of completion basis, which are determined on the time proportion method of each individual vessel voyage. Revenue from feeder services is recognised upon completion of services.

(v) *Storage and terminal services*

Revenue from the provision of storage and terminal services is recognised when the services are rendered.

(vi) *Trucking*

Revenue from the provision of trucking services is recognised when the services are rendered.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(vii) *Rental income*

Rental income under operating leases of warehouse and depots is recognised on a straight-line basis over the lease term.

(viii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(ix) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

Advance payments and deposits received from customers prior to the provision of services and recognition of the related revenues are presented as current liabilities.

(f) Land use rights

Land use rights are the rights to use the land on which various warehouses, container storage areas and buildings are situated for periods varying from 10 to 50 years. The upfront prepayments made for the land use rights are expensed in the consolidated income statement on a straight line basis over the period of the land or when there is impairment, the impairment is expensed in the consolidated income statement.

(g) Property, plant and equipment

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

Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Depreciation is calculated on a straight-line basis to write off the cost of assets to their residual values over their estimated useful lives as follows:

Buildings	20–50 years
Leasehold improvements	Over the shorter of the remaining term of the leases or the estimated useful lives
Port and rail facilities	20–40 years
Containers	8–15 years
Plant and machinery	5–10 years
Motor vehicles and vessels	5–10 years
Furniture and office equipment	3–6 years

Assets under construction represent buildings under construction and plant and equipment pending installation, and are stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction or installation and testing. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use and net selling price.

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

(h) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition. Goodwill on acquisition of associates is included in ''investments in associates''. Goodwill on acquisition of jointly controlled entities is included in ''interests in jointly controlled entities''. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets (Continued)

(i) *Goodwill (Continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. If the cost of acquisition is less than the net fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised immediately in the consolidated income statement.

(ii) *Computer software development costs*

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

Generally, costs associated with developing or maintaining computer software programmes are expensed as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

(i) Impairment of non-financial assets

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

(j) Financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

(b) *Held-to-maturity financial assets*

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

(c) *Loans and receivables*

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

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ''financial assets at fair value through profit or loss'' category are presented in the consolidated income statement within other income/(expenses), in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(k) Operating leases

(i) *A group company is the lessee*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(ii) *A group company is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(l) Inventories

Supplies, consumables and spare parts are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement within ''other operating expenses''.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. On the balance sheet, bank overdrafts are included in borrowings in current liabilities.

(o) Borrowings

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

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

(p) Borrowing costs

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

(q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from asset revaluation surplus during Reorganisation deductible for enterprise income tax purposes, gain on deemed disposal of interest in a subsidiary, provision for one-off cash housing subsidies, depreciation on property, plant and equipment, provision for impairment of receivables, provision for litigation claims, tax rate differential payable on distribution of earnings from subsidiaries and jointly controlled entities, salary payable which are not deductible for current income tax and tax value of losses carried forward. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits

(i) *Pension obligations*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

In addition, the Group also provided supplementary pension subsidies to employees who retired prior to the Reorganisation. Sinotrans Group Company agreed to bear any further early retirement, termination and supplementary pension benefits to these retirees and former employees in the excess of the amount of RMB497,574,000 provided by the Group as at 30 June 2002. Employees who retire after the date of Reorganisation are not entitled to such supplementary pension subsidies.

(ii) *Termination and early retirement benefits*

Employee termination and early retirement benefits are recognised in the period in which the Group entered into an agreement with the employee specifying the terms of redundancy, or after the individual employee has been advised of the specific terms.

(iii) *Housing benefits*

The Group sold staff quarters to its employees, subject to a number of eligibility requirements, at preferential prices. When staff quarters were identified as being subject to sale under these arrangements, the carrying value of the staff quarters was written down to the net recoverable amount. Upon sale, any difference between sales proceeds and the carrying amount of the staff quarters was charged to the consolidated income statement.

The above discounted quarters allocation plans have been phased out in accordance with the policies of the PRC Government. In 1998, the State Council of the PRC issued a circular which stipulated that the sale of quarters to employees at preferential prices should be withdrawn. In 2000, the State Council further issued a circular stating that cash subsidies should be made to the employees following the withdrawal of allocation of staff quarters. However, the specific timetable and procedures of implementation of these policies are to be determined by the individual provincial or municipal government based on the particular situation of the province or municipality.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iii) *Housing benefits (Continued)*

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters at all or who had not been allocated with quarters up to the prescribed standards before the discounted quarters sale plans were terminated, the Group is required to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. These cash housing subsidies were charged to the consolidated income statement in the year in which it was determined that the payment of such subsidies is probable and the amounts can be reasonably estimated. In respect of certain entities which have not adopted any cash housing subsidiary plans, based on the available information and its best estimate, the Group estimated the required provision for these cash housing subsidies when the State Council circular in respect of cash subsidies was issued.

Pursuant to the Reorganisation, the ultimate holding company agreed to bear any further one-off cash housing subsidies in excess of the amount provided for in the consolidated financial statements of the Group of RMB74,560,000 at the time of the Reorganisation. Employees joining the Group after the incorporation of the Company are not entitled to any one-off cash housing subsidies.

In addition, all full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(iv) *Long term bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) *Cash-settled share-based payment*

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

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

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Provisions (Continued)

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

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

(t) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

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

(iii) *Group companies*

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

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

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

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

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency translation (Continued)

(iii) *Group companies (Continued)*

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

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

(u) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(v) Profit distributions and dividends

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

Profit distributions and dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet date event and are not recognised as a liability at the balance sheet date.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting (Continued)

Unallocated costs mainly represent corporate administrative expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, operating receivables and cash, and mainly exclude deferred tax assets and investments in associates. Segment liabilities mainly comprise operating liabilities and exclude items such as current and deferred tax liabilities. Capital expenditures mainly comprise additions to property, plant and equipment and intangible assets.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment are included as unallocated costs.

In respect of geographical segment, turnover is based on the geographical locations in which the business operations are located. Total assets and capital expenditures are where the assets are located.

(x) Related party transactions

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

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

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

(y) Insurance Contracts

The Group assesses the liabilities under its insurance contracts using current estimates of future cash flows at each balance sheet date. Changes in carrying amounts of those insurance liabilities are recognised in the consolidated income statement.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and credit risk.

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

— *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar (''US$''). The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign currency risk. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

— *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 31 December 2006 and 2005, substantially all of its borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

— *Credit risk*

The extent of the Group's credit exposure is represented by aggregated balances of trade receivables and other receivables, financial assets at fair value through profit and loss, held-to-maturity financial assets, available-for-sale financial assets, restricted cash and term deposits with initial terms of over three months. The maximum credit risk exposure in the event that other parties fail to perform their obligation under these financial instruments is at their carrying values.

(b) Loan guarantees

The Group had acted as the guarantor for various external borrowings by certain fellow subsidiaries under the ultimate holding company and certain third party entities. These loan guarantees were provided to assist those entities in obtaining the necessary funding for their business development and working capital requirements. Pursuant to the Reorganisation, all guarantees given by the Group for the benefit of the ultimate holding company and fellow subsidiaries have been released or withdrawn prior to the listing of the Company's shares in 2003.

The Group periodically reviews its exposure under loan guarantees and has laid down policies specifying the required approvals prior to the provision of guarantees.

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation

The fair value of publicly traded trading securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term borrowings. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

Additional information is disclosed in Note 8.

(b) Recognition of revenue and cost of marine transportation

Freight revenues and the related cost from the operation of the international marine transportation business are recognised on a percentage of completion basis, which are determined on the time proportion method of each individual vessel voyage. Estimates of revenue and cost are required in respect of voyages not completed at balance sheet date or for which the final invoices are not yet available.

Notes to the Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Estimated impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables in accordance with the accounting policy stated in Note 3(m). Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. Management reassesses the provision by each balance sheet date.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3(h)(i). The recoverable amount of a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimations and details of which are disclosed in Note 19.

6 TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format — business segments

The Group is organised in 5 main business segments:

(i) *Freight forwarding*

The Group's freight forwarding services primarily involve, at the instruction of its customers, arranging transportation of goods to designated consignees at other locations within specified time limits. Other ancillary services include arranging for customs declaration and clearance, preparation of the documentation, consolidation and distribution, drayage and warehousing.

(ii) *Shipping agency*

The Group provides shipping agency services to shipping companies which include:

- attending to the formalities for a vessel's entry into or departure from ports;
- arranging piloting, berthing, loading and discharging of vessels;
- arranging cargo space booking and shipping documentation on behalf of carriers;
- signing bills of lading;
- arranging shipments and transshipment of cargoes and containers;
- managing container control; and
- collecting freight and settling payment on behalf of carriers.

(iii) *Express services*

The Group's express services comprise express delivery of documents, packages and heavy weight freight, as well as small parcel shipments with guaranteed delivery times.

Notes to the Financial Statements

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

(iv) *Marine transportation*

The Group's marine transportation services primarily comprise liner services to and from the West Coast of North America, within Asia, as well as coastal and river feeder services in the Yangtze River Area and Pearl River Delta in the PRC.

(v) *Storage and terminal services*

The Group's storage and terminal services comprise the following operations:

- warehousing — providing cargo handling and storage services;
- container yards — providing container handling and space management services;
- container freight stations — providing services in connection with storage and vanning/devanning of containers; and
- terminals — providing berthing, loading/unloading and warehousing services.

Other operations of the Group mainly comprise trucking and other related support services. None of them is of a sufficient size to be reported separately.

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

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2006

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Continuing operations								
Turnover — external	24,046,956	505,425	3,034,527	3,084,842	1,048,815	500,295	—	32,220,860
Turnover — inter-segment	71,746	53,055	3,547	295,098	141,430	86,097	(650,973)	—
	24,118,702	558,480	3,038,074	3,379,940	1,190,245	586,392	(650,973)	32,220,860
Segment results	466,670	249,059	451,422	(250,630)	238,286	10,249	—	1,165,056
Unallocated costs								(180,231)
Operating profit								984,825
Finance income, net								11,321
								996,146
Share of profit of associates								22,267
Profit before taxation								1,018,413
Taxation								(414,989)
Profit for the year from continuing operations								603,424
Discontinued operations								
Profit for the year from discontinued operations			259,839					259,839
Profit for the year								863,263
Assets								
Segment assets	7,448,603	1,277,642	2,602,441	1,232,291	2,003,028	397,948	(805,886)	14,156,067
Investments in associates								202,093
Non-current assets classified as held for sale								9,024
Available-for-sale financial assets								412,000
Unallocated assets								1,173,713
Total assets								15,952,897
Liabilities								
Segment liabilities	3,855,672	860,049	963,198	1,026,742	291,842	108,033	(805,886)	6,299,650
Unallocated liabilities								433,794
Total liabilities								6,733,444

Notes to the Financial Statements

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2005

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Continuing operations								
Turnover — external	20,760,386	549,311	2,454,287	3,664,320	848,370	300,142	—	28,576,816
Turnover — inter-segment	64,632	18,465	5,623	286,242	88,631	43,301	(506,894)	—
	20,825,018	567,776	2,459,910	3,950,562	937,001	343,443	(506,894)	28,576,816
Segment results	360,598	253,796	349,154	182,194	208,468	2,295	—	1,356,505
Unallocated costs								(131,614)
Operating profit								1,224,891
Finance expenses, net								(33,186)
								1,191,705
Share of profit of associates								12,747
Profit before taxation								1,204,452
Taxation								(376,717)
Profit for the year from continuing operations								827,735
Discontinued operations								
Profit for the year from discontinued operations			216,892					216,892
Profit for the year								1,044,627
Assets								
Segment assets	7,071,764	1,321,219	2,155,054	1,458,677	1,777,812	367,111	(800,400)	13,351,237
Investments in associates								166,208
Non-current assets classified as held for sale								9,024
Unallocated assets								1,209,628
Total assets								14,736,097
Liabilities								
Segment liabilities	3,796,201	911,968	930,615	765,999	216,481	80,941	(800,400)	5,901,805
Unallocated liabilities								321,306
Total liabilities								6,223,111

Notes to the Financial Statements

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2006

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Discontinued operations RMB'000	Unallocated RMB'000	Group RMB'000
Other information									
Capital expenditure	371,973	10,720	175,594	46,427	354,593	83,565	—	23,175	1,066,047
Depreciation	109,872	9,451	71,435	15,137	67,546	22,568	—	13,808	309,817
Amortisation	1,556	—	3,974	—	367	527	—	8,769	15,193
Operating lease charge on land use rights	5,612	331	—	462	4,918	2,471	—	—	13,794
Reversal of impairment loss on property, plant and equipment	(276)	—	—	—	—	—	—	—	(276)
Provision for/(reversal of) impairment loss of receivables and bad debts written off	13,088	1,609	1,288	161	81	1,107	(24,707)	—	(7,373)

As at and for the year ended 31 December 2005 (Note 48)

	Freight forwarding RMB'000	Shipping agency RMB'000	Express services RMB'000	Marine transportation RMB'000	Storage and terminal services RMB'000	Others RMB'000	Discontinued operations RMB'000	Unallocated RMB'000	Group RMB'000
Other information									
Capital expenditure	225,205	8,542	206,953	31,015	398,789	12,539	—	69,337	952,380
Depreciation	86,403	8,248	82,218	7,853	54,501	8,648	—	11,364	259,235
Amortisation	5,313	163	1,270	43	3,042	2,373	—	4,842	17,046
Operating lease charge on land use rights	3,486	135	834	—	1,996	1,556	—	3,177	11,184
Reversal of impairment loss on property, plant and equipment	(7)	—	—	—	—	—	—	—	(7)
Provision for/(reversal of) impairment loss of receivables and bad debts written off	18,442	(799)	2,526	(422)	25	(202)	26,121	—	45,691

Notes to the Financial Statements

6 TURNOVER AND SEGMENT INFORMATION (Continued)

(b) Secondary reporting format — geographical segments

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

(i) Northern China — Including core strategic locations in Liaoning, Tianjin as well as the operations of Sinotrans Air Transportation Development Company Limited (''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; and

(iv) Other locations — Including primarily the air freight forwarding and express services operated by Sinoair and certain jointly controlled entities of the Group in locations other than the above.

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

	As at and for the year ended 31 December 2006					
Continuing operations	**Turnover — external RMB'000**	**Turnover — inter-segment RMB'000**	**Total turnover RMB'000**	**Segment results RMB'000**	**Total assets RMB'000**	**Capital expenditures RMB'000**
Northern China	4,052,233	7,072	4,059,305	64,156	3,805,404	190,522
Eastern China	23,199,111	76,504	23,275,615	700,989	7,992,609	502,492
Southern China	4,407,355	27,844	4,435,199	395,464	2,108,485	253,657
Other locations	562,161	—	562,161	4,447	361,164	119,376
Inter-segment elimination	—	(111,420)	(111,420)	—	(111,595)	—
	32,220,860	—	32,220,860	1,165,056	14,156,067	1,066,047
Unallocated costs				(180,231)		
Operating profit				984,825		
Investments in associates					202,093	
Non-current assets classified as held for sale					9,024	
Available-for-sale financial assets					412,000	
Unallocated assets					1,173,713	
Total assets					15,952,897	

	As at and for the year ended 31 December 2006			
Discontinued operations	**Turnover — external RMB'000**	**Turnover — inter-segment RMB'000**	**Total turnover RMB'000**	**Segment results RMB'000**
Northern China	—	—	—	943
Eastern China	—	—	—	18,276
Southern China	—	—	—	5,488
	—	—	—	24,707
Unallocated costs				—
Operating profit				24,707

Notes to the Financial Statements

6 TURNOVER AND SEGMENT INFORMATION (Continued)

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

As at and for the year ended 31 December 2005

Continuing operations	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000	Total assets RMB'000	Capital expenditures RMB'000
Northern China	3,242,265	4,077	3,246,342	30,383	3,315,302	290,800
Eastern China	20,982,867	89,067	21,071,934	1,012,159	7,963,417	340,741
Southern China	3,856,136	27,851	3,883,987	332,270	1,980,204	246,613
Other locations	495,548	6,961	502,509	(18,307)	202,975	74,226
Inter-segment elimination	—	(127,956)	(127,956)	—	(110,661)	—
	28,576,816	—	28,576,816	1,356,505	13,351,237	952,380
Unallocated costs				(131,614)		
Operating profit				1,224,891		
Investments in associates					166,208	
Non-current assets classified as held for sale					9,024	
Unallocated assets					1,209,628	
Total assets					14,736,097	

As at and for the year ended 31 December 2005 (Note 48)

Discontinued operations	Turnover — external RMB'000	Turnover — inter-segment RMB'000	Total turnover RMB'000	Segment results RMB'000
Northern China	12,969	—	12,969	6,333
Eastern China	134,074	—	134,074	65,481
Southern China	51,787	—	51,787	25,292
Other locations	13,414	—	13,414	6,553
	212,244	—	212,244	103,659
Unallocated costs				3,302
Operating profit				106,961

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Emolument of Directors and Supervisors

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

	2006 **RMB'000**	2005 RMB'000
Directors:		
Fees	**411**	411
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	**577**	974
— Discretionary bonuses	**1,218**	1,860
— Contributions to pension plans	**38**	48
— Change of fair value on share appreciation rights ("SAR")	**(284)**	286
— Long term bonus plan	**—**	1,111
Supervisors:		
Fees	**63**	63
Other emoluments		
— Basic salaries, housing allowances, other allowances and benefits in kind	**144**	150
— Discretionary bonuses	**217**	178
— Contributions to pension plans	**19**	16
— Change of fair value on SAR	**(50)**	35
— Long term bonus plan	**—**	91

Directors' fees disclosed above include RMB411,000 paid to independent non-executive directors (2005: RMB411,000).

Notes to the Financial Statements

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

(a) Emolument of Directors and Supervisors (Continued)

The emoluments of the directors and supervisors are as follows:

	2006					
	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonuses RMB'000	Contributions to pension plans RMB'000	Change of fair value on SAR RMB'000	Long term bonus plan RMB'000
Name of director						
Zhang Jianwei	**—**	**301**	**620**	**19**	**(154)**	**—**
Tao Suyun	**—**	**276**	**598**	**19**	**(130)**	**—**
Sun Shuyi	**137**	**—**	**—**	**—**	**—**	**—**
Lu Zhengfei	**137**	**—**	**—**	**—**	**—**	**—**
Miao Yuexin	**137**	**—**	**—**	**—**	**—**	**—**
Name of supervisor						
Zhang Junkuo	**63**	**—**	**—**	**—**	**—**	**—**
Wang Xiaozheng	**—**	**144**	**217**	**19**	**(50)**	**—**

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

No directors and supervisors of the Company waived any remuneration in 2006 (2005: Nil).

Notes to the Financial Statements

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

(b) Five highest paid individuals

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

	Number of individuals	
	2006	2005
Directors	**2**	3
Senior management	**3**	2

The five individuals whose emoluments were the highest in the Group during the year include two (2005: three) directors whose emoluments are reflected in the analysis presented in Note 7(a). Details of remuneration of members of senior management amongst the five highest paid individuals are as follows:

	2006 **RMB'000**	2005 RMB'000
Basic salaries, housing allowances and other allowances and benefits in kind	**1,454**	1,088
Discretionary bonuses	**1,125**	598
Contributions to pension plans	**55**	32
Change of fair value on SAR	**(301)**	148
Long term bonus plan	**—**	572

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

	Number of individuals	
	2006	2005
Nil–HK$ (''HK$'') 1,000,000	**2**	—
HK$1,000,001–HK$1,500,000	**1**	2
	3	2

Notes to the Financial Statements

8 DISCONTINUED OPERATIONS

A distinguishable component of the Group's express services business was conducted by the Group under 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 their 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; and
- Transfer of locations and other assets and rights related to the UPS Express Business to UPS.

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. In 2006, the Group has received another US$42,903,000 out of the base consideration. 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.

Notes to the Financial Statements

8 DISCONTINUED OPERATIONS (Continued)

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

	Note	2006 RMB'000	2005 RMB'000 (Note 48)
Discontinued operations			
Income statement			
Turnover	6	—	212,244
Reversal of provision for impairment of receivables		**24,707**	—
Operating expenses		—	(105,283)
Operating profit		**24,707**	106,961
Finance expenses, net	11	—	(4,871)
Profit before taxation		**24,707**	102,090
Taxation	12	**(4,941)**	(17,362)
		19,766	84,728
Income from transfer of business and provision of related and transition services		**371,951**	226,583
Expenses incurred		**(66,169)**	(65,408)
Tax thereon	12	**(65,709)**	(29,011)
After-tax income from transfer of business and provision of related and transition services		**240,073**	132,164
Profit for the year from discontinued operations		**259,839**	216,892
Balance sheet			
Non-current assets classified as held for sale		**9,024**	9,024
Deferred income arising from discontinued operations			
— Current		**316,329**	178,794
— Non-current		—	175,227
Cash flow statement			
Net cash inflow from operating activities		—	44,489
Net cash inflow from transfer of business and provision of related and transition services		**334,258**	580,604

Notes to the Financial Statements

9 STAFF COSTS

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

	Note	**2006 RMB'000**	2005 RMB'000
Wages and salaries		**1,377,313**	1,254,817
Change of fair value on SAR	37	**(6,913)**	14,573
Housing benefits	(a)	**88,960**	73,597
Contributions to pension plans	(b)	**155,072**	134,060
Termination benefits and early retirement benefits	(c)	**10,391**	8,762
Welfare and other expenses		**308,672**	306,326
		1,933,495	1,792,135
Representing:			
Staff costs from continuing operations		**1,895,308**	1,731,546
Staff costs from discontinued operations		**38,187**	60,589

(a) These include the Group's contributions to government sponsored housing funds (at rates ranging from 5% to 25% of the employees' basic salary) and cash housing subsidies paid and payable to its employees.

(b) The employees of the Group participate in various pension plans organised by the relevant municipal and provincial governments under which the Group was required to make monthly defined contributions to these plans at rates ranging from 5% to 29%, dependent upon the applicable local regulations, of the employees' basic salaries for the year.

(c) Certain employees of the Group were directed to retire early or their employment services were terminated. Employee termination and early retirement benefits are recognised in the consolidated income statement in the year in which the Group entered into an agreement specifying the terms of redundancy, or after the individual employee has been advised of the specific terms. These specific terms vary among the terminated or early retired employees depending on various factors including position, length of service and district of the employee concerned.

As at 31 December 2006, the Group (representing the Company and its subsidiaries) had 18,641 (2005: 17,687) employees.

Notes to the Financial Statements

10 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2006 **RMB'000**	2005 RMB'000
Crediting		
Rental income from		
— Buildings	**18,879**	11,195
— Plant and machinery	**34,215**	1,181
Gains on disposal of property, plant and equipment	**10,485**	13,457
Excess of interest in the fair value of net identifiable asset over cost of acquiring subsidiaries, jointly controlled entities and associates	**—**	8,191
Fair value gains on other financial assets at fair value through profit and loss	**311**	129
Reversal of provision for impairment of property, plant and equipment	**276**	7
Reversal of provision for impairment of inventories	**268**	—
Charging		
Depreciation		
— owned property, plant and equipment	**300,547**	246,630
— owned property, plant and equipment leased out under operating leases	**9,270**	6,704
Losses on disposal of property, plant and equipment	**7,560**	5,483
Auditors' remuneration		
— Audit fee	**10,285**	9,795
— Audit-related and other services fee	**6,660**	5,800
Provision for impairment of receivables and bad debts written off	**17,334**	19,570
Operating leases		
— Land use rights	**13,794**	11,184
— Buildings	**232,581**	157,299
— Plant and equipment	**1,469,343**	1,548,100
Amortisation of intangible assets	**15,193**	17,046

Notes to the Financial Statements

11 FINANCE INCOME/(EXPENSES), NET

	2006 RMB'000	2005 RMB'000
Interest income on bank balances	**84,380**	79,405
Interest expenses on bank loans and overdrafts	**(5,774)**	(9,640)
Exchange losses, net	**(57,451)**	(99,387)
Bank charges	**(9,834)**	(8,435)
	11,321	(38,057)
Representing:		
Finance income/(expenses), net, from continuing operations	**11,321**	(33,186)
Finance expenses, net, from discontinued operations	**—**	(4,871)

12 TAXATION

Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Provision for PRC income tax		
— Current	**430,824**	400,821
— Deferred	**54,815**	22,269
	485,639	423,090
Representing:		
Provision for PRC income tax, from continuing operations	**414,989**	376,717
Provision for PRC income tax, from discontinued operations	**70,650**	46,373

No provision for Hong Kong profits tax has been made as there were no estimated Hong Kong assessable profits for the years ended 31 December 2006 and 2005.

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

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.

Notes to the Financial Statements

12 TAXATION (Continued)

(a) The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of 33% in the PRC is as follows:

	2006 **RMB'000**	2005 RMB'000 (Note 48)
Profit before taxation from continuing operations	**1,018,413**	1,204,452
Profit before taxation from discontinued operations	**330,489**	263,265
Profit before taxation	**1,348,902**	1,467,717
Less: Share of profit of associates	**(22,267)**	(12,747)
	1,326,635	1,454,970
Tax calculated at the statutory tax rate of 33%	**437,790**	480,140
Utilisation of prior year unrecognised tax losses	**(7,814)**	(9,835)
Tax losses for which deferred tax assets were not recognised	**73,270**	6,919
Non-taxable income	**(23,686)**	(19,303)
Expenses not deductible for tax purposes	**54,645**	52,064
Preferential tax rates on the income of certain subsidiaries/ jointly controlled entities	**(48,566)**	(86,895)
Tax charge	**485,639**	423,090

(b) Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates which are enacted or substantively enacted by the balance sheet dates.

Notes to the Financial Statements

12 TAXATION (Continued)

Deferred tax assets

	The Group	
	2006 RMB'000	2005 RMB'000 (Note 48)
At beginning of year	**254,683**	251,641
(Charged)/credited to consolidated income statement	**(11,470)**	3,042
At end of year	**243,213**	254,683
Provided for in respect of:		
Asset revaluation surplus during Reorganisation deductible for enterprise income tax purposes (Note (i))	**176,866**	185,656
Provision for impairment of receivables	**20,327**	27,149
Provision for one-off cash housing subsidies	**11,238**	11,601
Salary payable which is not deductible for income tax purposes	**20,992**	15,587
Provision for claims	**2,523**	1,108
Depreciation on property, plant and equipment	**2,077**	3,928
Tax losses	**5,404**	6,190
Other temporary differences	**3,786**	3,464
	243,213	254,683

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Temporary differences for which deferred tax assets were not recognised:				
Amortisation on intangible asset and non-current asset	**5,723**	5,212	**5,723**	5,212
Depreciation on property, plant and equipment	**430**	1,175	**430**	1,175
Tax losses	**304,184**	12,976	**—**	—
	310,337	19,363	**6,153**	6,387

Notes to the Financial Statements

12 TAXATION (Continued)

Deferred tax assets (Continued)

(i) On 31 March 2003, the Group obtained an approval from the Ministry of Finance and the State Administration of Taxation of the PRC that the additional depreciation and amortisation on the asset revaluation surplus of RMB839,800,000, arising from the Reorganisation, which was recorded by the Group in the consolidated financial statements prepared under the PRC accounting standards, is deductible for the PRC enterprise income tax purposes. Since the Group did not recognise the above asset revaluation surplus in its consolidated financial statements prepared in accordance with IFRS, a deferred tax asset of RMB221,678,000 was recognised and credited to capital reserve in 2003. Such deferred tax asset is charged to taxation during each year based on the depreciation and amortisation charges on the asset revaluation surplus.

Deferred tax liabilities

	The Group	
	2006 RMB'000	2005 RMB'000
At beginning of year	**33,508**	1,526
Charged to consolidated income statement	**43,345**	25,311
Charged directly to equity	**62,040**	—
Acquisition of subsidiaries and jointly controlled entities	**4,011**	6,671
At end of year	**142,904**	33,508
Provided for in respect of:		
Tax rate differential payable on distribution of earnings from jointly controlled entities	**68,986**	25,589
Fair value of available-for-sale financial assets	**62,040**	—
Prepaid operating leases for land use rights	**5,772**	4,204
Depreciation on property, plant and equipment	**2,168**	3,417
Other temporary differences	**3,938**	298
	142,904	33,508

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Deferred tax assets to be recovered after more than 12 months	**213,431**	227,305	**—**	—
Deferred tax liabilities to be recovered after more than 12 months	**86,182**	20,653	**—**	—

Notes to the Financial Statements

12 TAXATION (Continued)

Deferred tax liabilities (Continued)

The temporary differences associated with the Group's underlying investments in subsidiaries, jointly controlled entities and associates amounted to RMB1,073,037,000 (2005: RMB929,100,000) as at 31 December 2006 for which deferred tax liabilities have not been recognised. Within the above amounts was a gain of RMB543,944,000 (2005: RMB603,087,000) arising from deemed disposal of the Company's share of net assets of Sinoair after the issuance of shares by the latter in connection with its initial public offering on the Shanghai Stock Exchange in the year ended 31 December 2000, as well as the undistributed earnings amounting to RMB521,977,000 (2005: RMB318,897,000).

(c) Current tax liabilities represent:

	The Group	
	2006	2005
	RMB'000	RMB'000
Enterprise income tax	**187,507**	175,264
Business tax	**42,919**	41,483
Other taxes	**13,125**	18,341
	243,551	235,088

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB140,538,000 (2005: RMB148,582,000).

14 DIVIDENDS

	The Company	
	2006	2005
	RMB'000	RMB'000
Interim, paid, of RMB0.030 (2005: RMB0.038) per ordinary share	**127,470**	161,462
Final, proposed, of RMB0.020 (2005: RMB0.038) per ordinary share	**84,980**	161,462
	212,450	322,924

At the Board of Directors' meeting held on 27 March 2007, the directors proposed a final dividend of RMB0.020 per ordinary share for the year ended 31 December 2006. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

Notes to the Financial Statements

15 EARNINGS PER SHARE

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

	2006	2005
Continuing operations		
Profit attributable to equity holders of the Company (RMB'000)	**428,534**	700,240
Number of ordinary shares in issue (thousands)	**4,249,002**	4,249,002
Basic and diluted earnings per share (RMB per share)	**0.10**	0.16
Discontinued operations		
Profit attributable to equity holders of the Company (RMB'000)	**190,259**	156,673
Number of ordinary shares in issue (thousands)	**4,249,002**	4,249,002
Basic and diluted earnings per share (RMB per share)	**0.05**	0.04

16 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Port and rail facilities RMB'000	Containers RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture and office equipment RMB'000	Assets under construction RMB'000	**2006 Total RMB'000**	2005 Total RMB'000
Cost										
At beginning of year	1,196,215	102,286	148,652	23,027	741,966	849,228	487,078	346,102	**3,894,554**	3,029,549
Additions	74,776	7,123	1,119	776	97,968	109,671	68,961	352,116	**712,510**	827,476
Acquisition of subsidiaries and jointly controlled entities	61,208	—	4,746	173	77,604	34,465	1,736	24,216	**204,148**	124,300
Disposals	(6,127)	(3,510)	—	(155)	(29,375)	(66,655)	(20,838)	—	**(126,660)**	(86,771)
Transfer upon completion	246,730	15,845	97,539	26	64,664	33,767	13,155	(471,726)	**—**	—
At end of year	1,572,802	121,744	252,056	23,847	952,827	960,476	550,092	250,708	**4,684,552**	3,894,554
Accumulated depreciation and impairment losses										
At beginning of year	(243,859)	(52,427)	(56,929)	(19,261)	(262,064)	(456,717)	(277,595)	—	**(1,368,852)**	(1,132,821)
Depreciation for the year	(53,040)	(17,366)	(15,168)	(1,437)	(67,472)	(88,624)	(66,710)	—	**(309,817)**	(259,235)
Acquisition of subsidiaries and jointly controlled entities	(6,608)	—	(1,126)	(46)	(35,488)	(20,862)	(617)	—	**(64,747)**	(42,640)
Disposals	4,477	1,932	—	146	22,277	54,532	17,516	—	**100,880**	65,837
Reversal of impairment losses for the year	—	—	—	—	—	276	—	—	**276**	7
At end of year	(299,030)	(67,861)	(73,223)	(20,598)	(342,747)	(511,395)	(327,406)	—	**(1,642,260)**	(1,368,852)
Net book value										
At end of year	1,273,772	53,883	178,833	3,249	610,080	449,081	222,686	250,708	**3,042,292**	2,525,702
At beginning of year	952,356	49,859	91,723	3,766	479,902	392,511	209,483	346,102	**2,525,702**	1,896,728

Notes to the Financial Statements

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles and vessels RMB'000	Furniture and office equipment RMB'000	Assets under construction RMB'000	**2006 Total RMB'000**	2005 Total RMB'000
Cost							
At beginning of year	2,406	8,751	5,492	68,470	9,249	**94,368**	61,358
Additions	137	1,030	945	6,247	7,665	**16,024**	33,010
Disposals	—	(7,880)	(1,276)	(507)	—	**(9,663)**	—
Transfer upon completion	—	—	—	7,199	(7,199)	**—**	—
At end of year	2,543	1,901	5,161	81,409	9,715	**100,729**	94,368
Accumulated depreciation							
At beginning of year	(227)	(3,611)	(1,597)	(22,809)	—	**(28,244)**	(16,880)
Depreciation for the year	(478)	(338)	(666)	(12,593)	—	**(14,075)**	(11,364)
Disposals	—	3,307	298	255	—	**3,860**	—
At end of year	(705)	(642)	(1,965)	(35,147)	—	**(38,459)**	(28,244)
Net book value							
At end of year	1,838	1,259	3,196	46,262	9,715	**62,270**	66,124
At beginning of year	2,179	5,140	3,895	45,661	9,249	**66,124**	44,478

All of the Group's buildings are located in mainland, the PRC.

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

	The Group 2006 RMB'000	2005 RMB'000
Net book value of property, plant and equipment pledged	**180,784**	44,504
Corresponding borrowings	**71,750**	13,700

Notes to the Financial Statements

17 PREPAYMENTS FOR ACQUISITION OF LAND USE RIGHTS

	The Group	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**77,040**	100,133
Additions	**277,367**	4,495
Transfer to land use rights	**(76,500)**	(27,588)
At end of year	**277,907**	77,040

18 LAND USE RIGHTS

All of the Group's land use rights are located in mainland, the PRC and are held under leases of between 10 to 50 years (2005: 10 to 50 years).

	The Group	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**423,817**	283,711
Additions	**111,305**	93,022
Transfer from prepayments for acquisition of land use rights	**76,500**	27,588
Acquisition of subsidiaries and jointly controlled entities	**33,099**	30,680
Charged to consolidated income statement	**(13,794)**	(11,184)
At end of year	**630,927**	423,817

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Net book value of land use rights pledged	**11,651**	70,527
Corresponding borrowings	**3,560**	15,887

Notes to the Financial Statements

19 INTANGIBLE ASSETS

	The Group			
	Software RMB'000	Goodwill RMB'000	**2006 Total RMB'000**	2005 Total RMB'000
Cost				
At beginning of year	104,687	29,081	**133,768**	108,711
Additions	13,712	17,640	**31,352**	25,473
Acquisition of subsidiaries and jointly controlled entities	20	—	**20**	44
Disposals	—	—	**—**	(460)
At end of year	118,419	46,721	**165,140**	133,768
Accumulated amortisation				
At beginning of year	(60,871)	—	**(60,871)**	(44,269)
Amortisation for the year	(15,193)	—	**(15,193)**	(17,046)
Disposals	—	—	**—**	444
At end of year	(76,064)	—	**(76,064)**	(60,871)
Net book value				
At end of year	42,355	46,721	**89,076**	72,897
At beginning of year	43,816	29,081	**72,897**	64,442

For the purposes of impairment testing, goodwill have been allocated to 15 individual cash generating units (''CGU'') which comprise 13 subsidiaries and 2 jointly controlled entities. The carrying amount of goodwill (net of accumulated amortisation) as at 31 December 2006 which is allocated to the significant CGU in comparison with the Group's total carrying amount of goodwill was RMB14,658,000 (2005: RMB14,658,000) in respect of Trade Sky International Limited (''Trade Sky''). None of the goodwill of other CGUs is significant in comparison with the Group's total carrying amount of goodwill.

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

As at 31 December 2006 and 31 December 2005, management of the Group was of the view that there was no impairment of goodwill.

19 INTANGIBLE ASSETS (Continued)

	The Company	
	2006	2005
	Software	Software
	RMB'000	RMB'000
Cost		
At beginning of year	**54,739**	43,430
Additions	**6,310**	11,309
At end of year	**61,049**	54,739
Accumulated amortisation		
At beginning of year	**(27,158)**	(19,139)
Amortisation for the year	**(8,805)**	(8,019)
At end of year	**(35,963)**	(27,158)
Net book value		
At end of year	**25,086**	27,581
At beginning of year	**27,581**	24,291

20 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Investments at cost:		
Unlisted equity interests	**2,254,438**	2,146,542
Shares in a listed company in the PRC	**1,153,107**	1,278,378
	3,407,545	3,424,920

Shares in a listed company in the PRC represent a 63.46% equity interest in Sinoair, a company listed on the Shanghai Stock Exchange.

Prior to the share reform proposal which was approved by the shareholders of Sinoair on 23 October 2006 and the shareholders of the Company on 18 October 2006 respectively, the Company had a 70.36% equity interest in Sinoair.

Notes to the Financial Statements

20 INVESTMENTS IN SUBSIDIARIES (Continued)

Under the share reform proposal, the Company offered 2.9 unlisted shares in Sinoair for every 10 listed shares held on 31 October 2006 in consideration for such holders of listed shares to agree that all the Sinoair's unlisted shares be converted into listed shares. The Company has transferred 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.

In the Group's consolidated financial statement, the above share reform proposal decreased capital reserve attributable to the equity holders of the Company by RMB224,303,000 and increased minority interests by RMB224,303,000. In the Company's financial statement, investments in subsidiaries has been decreased by RMB125,271,000 and this reduction has been dealt within the income statement.

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the Company	Group	Principal activities
China Marine Shipping Agency Company Limited	Beijing, the PRC 11 December 2002 Limited liability company	RMB30,000,000	90%	100%	Shipping agency
Sinotrans Logistics Development Company Limited	Beijing, the PRC 26 December 2002 Limited liability company	RMB50,000,000	98.93%	100%	Freight forwarding
Sinotrans Air Transportation Development Company Limited	Beijing, the PRC 11 October 1999 Joint stock company with limited liability	RMB905,481,720	63.46%	63.46%	Air freight forwarding and express services
Sinotrans Network Technology Company Limited	Beijing, the PRC 11 December 2001 Limited liability company	RMB5,000,000	60%	88.14%	Information technology services
Sinotrans Eastern Company Limited	Shanghai, the PRC 29 November 2002 Limited liability company	RMB1,120,503,439	95%	100%	Freight forwarding, shipping agency and express services
Sinotrans Jiangsu Company Limited	Nanjing, the PRC 11 December 2002 Limited liability company	RMB100,000,000	10%	100%	Freight forwarding, shipping agency and express services
Sinotrans Zhejiang Company Limited	Ningbo, the PRC 9 December 2002 Limited liability company	RMB100,000,000	10%	100%	Freight forwarding, shipping agency and express services
Sinotrans Hubei Company Limited	Wuhan, the PRC 22 December 1999 Limited liability company	RMB10,000,000	10%	100%	Freight forwarding
Sinotrans Container Lines Company Limited	Shanghai, the PRC 24 April 1998 Limited liability company	RMB100,000,000	10%	100%	Marine transportation

20 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the Company	Group	Principal activities
Sinotrans Fujian Company Limited	Xiamen, the PRC 5 December 2002 Limited liability company	RMB223,257,966	90%	100%	Freight forwarding, shipping agency, express services and non-vessel operating common carrier
Trade Sky International Limited	Hong Kong, the PRC 10 October 2003 Limited liability company	HK$161,100,000	75%	75%	Investment activities
Sinotrans Guangdong Company Limited	Guangzhou, the PRC 11 December 2002 Limited liability company	RMB774,498,932	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Shandong Company Limited	Qingdao, the PRC 9 December 2002 Limited liability company	RMB162,219,942	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Tianjin Company Limited	Tianjin, the PRC 3 December 2002 Limited liability company	RMB57,363,906	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Liaoning Company Limited	Dalian, the PRC 2 December 2002 Limited liability company	RMB48,966,940	90%	100%	Freight forwarding, shipping agency and express services
Sinotrans Landbridge Transportation Company Limited	Lianyungang, the PRC 2 December 2002 Limited liability company	RMB44,382,238	90%	100%	Freight forwarding, shipping agency and express services
*Shandong Sinotrans Lishen Hoisting and Transporting Company Limited	Jinan, the PRC 30 April 2000 Limited liability company	RMB37,600,000	80%	80%	Hoisting and transporting

* A subsidiary acquired in 2006.

The names of certain subsidiaries referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

Notes to the Financial Statements

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

The following is a list of the principal jointly controlled entities at 31 December 2006, which are held by the Company directly and indirectly through its subsidiaries.

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Percentage of interest in ownership/ voting power/ profit sharing held by the Company	Group	Principal activities
Ningbo Southeast International Freight Company Limited	Ningbo, the PRC 25 September 1992 Sino-foreign equity joint venture	US$1,120,000	—	55%	Freight forwarding
Ningbo Taiping International Trade Transportation Company Limited	Ningbo, the PRC 6 July 1992 Sino-foreign equity joint venture	US$3,750,000	—	55%	Freight forwarding, warehousing and trucking
Shanghai Express International Company Limited	Shanghai, the PRC 13 June 1994 Sino-foreign equity joint venture	US$4,000,000	20%	51%	Freight forwarding, warehousing and trucking
DHL-Sinotrans International Air Courier Company Limited	Beijing, the PRC 25 June 1986 Sino-foreign equity joint venture	US$14,500,000	—	31.73%	Express services
Sinotrans-OCS International Express Company Limited	Beijing, the PRC 13 December 1995 Sino-foreign equity joint venture	US$2,540,000	—	31.73%	Express services
Rex International Forwarding Company Limited	Beijing, the PRC 13 July 1994 Sino-foreign equity joint venture	US$2,200,000	—	31.73%	Air freight forwarding
Exel-Sinotrans Freight Forwarding Company Limited	Beijing, the PRC 15 May 1996 Sino-foreign equity joint venture	US$2,440,000	—	31.73%	Air freight forwarding
*Sinoswiss Inspection Company Limited	Beijing, the PRC 8 May 2006 Sino-foreign equity joint venture	RMB15,000,000	51%	51%	Inspection and storage management

* A jointly controlled entity established in 2006.

The names of certain jointly controlled entities referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current assets	**665,740**	486,680	**2,444**	—
Current assets	**1,622,935**	1,414,321	**12,657**	—
Non-current liabilities	**26,290**	2,490	**—**	—
Current liabilities	**941,289**	956,701	**6,324**	—
Revenues	**6,835,898**	5,677,268	**4,680**	—
Expenses	**(6,166,468)**	(5,200,575)	**(2,656)**	—

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

22 INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**166,208**	165,078	**73,750**	73,750
Additions	**21,595**	20,895	**15,000**	—
Share of profit of associates				
— profit before taxation	**28,570**	17,731	**—**	—
— taxation	**(6,303)**	(4,984)	**—**	—
	22,267	12,747	**—**	—
Disposals	**—**	(24,926)	**—**	—
Dividends received	**(7,977)**	(7,586)	**—**	—
At end of year	**202,093**	166,208	**88,750**	73,750

Notes to the Financial Statements

22 INVESTMENTS IN ASSOCIATES (Continued)

Investments in associates as at 31 December 2006 include goodwill of RMB4,411,000 (2005: RMB4,411,000).

The following is a list of the principal associates at 31 December 2006:

Name	Country/place of operation & incorporation/date of incorporation/legal status	Issued share/ paid up capital	Equity interest held by the Company	Equity interest held by the Group	Principal activities
AMS Global Transportation Company Limited	Beijing, the PRC 29 June 1991 Sino-foreign equity joint venture	US$1,980,000	—	12.69%	Air freight forwarding
Sinotrans (HK) Logistics Limited	Hong Kong, the PRC 15 January 2003 Limited liability company	HK$500,000	—	40%	Shipping agency and freight forwarding
Sinotrans Logistics Investment Holding Company Limited	Beijing, the PRC 10 August 2004 Limited liability company	RMB200,000,000	35%	43.79%	Investment activities
New Land Bridge (Lianyungang) Terminal Company Limited	Lianyungang, the PRC 28 September 2004 Sino-foreign equity joint venture	RMB375,000,000	1%	17%	Storage and terminal services
Shanghai Haihui International Container Repair Company Limited	Shanghai, the PRC 6 June 1989 Sino-foreign equity joint venture	US$1,420,000	—	35%	International container piling and storage, container repair
Changshu Nissin Sinotrans Transportation Company Limited	Jiangsu, the PRC 13 February 1995 Sino-foreign equity joint venture	US$1,200,000	—	30%	Freight forwarding
*Ma'anshan Tianshun Port Company Limited	Ma'anshan, the PRC 3 November 2006 Limited liability company	RMB50,000,000	30%	30%	Storage and terminal services

* An associate established in 2006.

The names of certain associates referred to as above represent management's translation of the Chinese names of these companies as no English names have been registered.

23 HELD-TO-MATURITY FINANCIAL ASSETS

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**64,562**	66,212
Foreign exchange losses	**(2,092)**	(1,650)
At end of year	**62,470**	64,562

Held-to-maturity financial assets represented term deposits denominated in the US dollar at a bank with maturities of 10 years from 2004. The interest rates are variable with reference to US dollar London InterBank Offered Rate and the weighted average effective interest rate as at 31 December 2006 was Nil (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.

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2006	2005
	RMB'000	RMB'000
At beginning of year	**—**	—
Additions	**224,000**	—
Changes of fair value	**188,000**	—
At end of year	**412,000**	—

Available-for-sale financial assets represented Sinoair's subscription of 80 million shares (representing 0.72% equity interest) in China International Aviation Holdings Company Limited upon the initial public offering of its A shares at a cash consideration of RMB224,000,000 in August 2006. This subscription is subject to a lock-up arrangement of 18 months and according to the holding purpose, management classified them as available-for-sale financial assets. The market value of these listed securities were RMB412,000,000 as at 31 December 2006. There were no disposals or impairment provisions on available-for-sale financial assets in 2006.

Notes to the Financial Statements

25 PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Prepayments on behalf of customers	**334,009**	285,407	**8,795**	15,754
Prepaid expenses	**40,238**	49,829	**1,279**	3,404
Others	**8,036**	5,182	**1,416**	—
Due from related parties	**18,209**	17,365	**8,084**	2,362
	400,492	357,783	**19,574**	21,520

The amounts due from related parties are generally unsecured and non-interest bearing.

26 INVENTORIES

Inventories mainly comprise supplies, consumables and spare parts. As at 31 December 2006, the inventories of the Group stated at net realisable value amounted to RMB764,000 (2005: RMB709,000).

27 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Trade receivables	**4,710,283**	4,274,071	**102,746**	32,361
Bills receivables	**63,328**	37,797	**—**	—
Other receivables	**240,074**	216,614	**3,290**	6,487
Due from related parties	**166,312**	245,530	**1,703,432**	1,067,404
	5,179,997	4,774,012	**1,809,468**	1,106,252

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

Notes to the Financial Statements

27 TRADE AND OTHER RECEIVABLES (Continued)

The carrying amounts of the Group's and the Company's trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
RMB	**3,453,393**	3,297,854	**1,722,212**	1,078,305
US$	**1,640,228**	1,404,387	**87,156**	26,893
HK$	**83,172**	60,881	**—**	—
Others	**3,204**	10,890	**100**	1,054
	5,179,997	4,774,012	**1,809,468**	1,106,252

(a) Trade receivables

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Trade receivables	**4,786,535**	4,389,037	**105,372**	32,361
Less: Provision for impairment of receivables	**(76,252)**	(114,966)	**(2,626)**	—
	4,710,283	4,274,071	**102,746**	32,361

Aging analysis of the above trade receivables is as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Within 6 months	**4,644,212**	4,233,254	**84,118**	30,975
Between 6 and 12 months	**72,975**	64,555	**21,053**	1,348
Between 1 and 2 years	**38,902**	41,998	**201**	35
Between 2 and 3 years	**15,111**	24,672	**—**	3
Over 3 years	**15,335**	24,558	**—**	—
	4,786,535	4,389,037	**105,372**	32,361

Notes to the Financial Statements

27 TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables (Continued)

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

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

(b) Bills receivables

Bills receivables are bills of exchange with maturity dates of within 6 months.

(c) Other receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits receivable	**189,033**	169,255	**2,231**	2,633
Interest receivable	**—**	2,863	**—**	2,863
Others	**59,906**	61,380	**1,059**	991
	248,939	233,498	**3,290**	6,487
Less: Provision for impairment of receivables	**(8,865)**	(16,884)	**—**	—
	240,074	216,614	**3,290**	6,487

27 TRADE AND OTHER RECEIVABLES (Continued)

(d) Due from related parties

The amounts due from related parties are analysed as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Trade receivables:				
Ultimate holding company and fellow subsidiaries	**68,678**	148,081	**9**	2,236
Jointly controlled entities	**21,238**	20,352	**—**	—
Associates	**1,787**	89	**—**	—
Other state-owned enterprises	**47,094**	47,277	**11,891**	13,222
	138,797	215,799	**11,900**	15,458
Less: Provision for impairment of receivables	**(4,522)**	(3,351)	**(1,888)**	—
	134,275	212,448	**10,012**	15,458
Other receivables:				
Ultimate holding company and fellow subsidiaries	**7,125**	14,084	**1,693,016**	1,045,350
Jointly controlled entities	**19,316**	15,546	**383**	6,596
Associates	**4,522**	2,870	**21**	—
Other state-owned enterprises	**1,106**	582	**—**	—
	32,069	33,082	**1,693,420**	1,051,946
Less: Provision for impairment of receivables	**(32)**	—	**—**	—
	32,037	33,082	**1,693,420**	1,051,946
	166,312	245,530	**1,703,432**	1,067,404

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

Notes to the Financial Statements

27 TRADE AND OTHER RECEIVABLES (Continued)

(d) Due from related parties (Continued)

The aging of these amounts due from ultimate holding company, fellow subsidiaries, jointly controlled entities, associates and other related parties, which are trading in nature, is summarised as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**122,203**	208,189	**6,187**	14,648
Between 6 and 12 months	**11,361**	4,499	**4,843**	769
Between 1 and 2 years	**3,095**	1,250	**870**	41
Between 2 and 3 years	**431**	1,543	**—**	—
Over 3 years	**1,707**	318	**—**	—
	138,797	215,799	**11,900**	15,458

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

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
	344	671	**—**	—

Financial assets at fair value through profit or loss, comprising principally marketable equity securities listed in mainland, the PRC, are stated at fair value at the close of business at year end. Fair value is estimated by reference to the quoted bid prices.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow (Note 39(a)) as it is relating to the operating activities of the Group.

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated income statement (Note 10).

29 RESTRICTED CASH

	The Group	
	2006	2005
	RMB'000	RMB'000
Deposits restricted for bank borrowings and business purposes	**36,336**	12,339

30 TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS

(a) As at 31 December 2006, RMB866,993,000 (2005: RMB784,484,000) and RMB Nil (2005: RMB170,415,000) of the Group's and the Company's term deposits with initial terms of over three months respectively were denominated in RMB and deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(b) As at 31 December 2006, RMB3,150,000 (US$403,000) (2005: RMB43,169,000 (US$5,349,250)) of the Group's term deposits with initial terms of over three months respectively were denominated in the United States Dollar.

(c) As at 31 December 2006, RMB306,000 (HK$304,000) (2005: RMB Nil (HK$ Nil)) of the Group's term deposits with initial terms of over three months respectively were denominated in the Hong Kong Dollar.

(d) The weighted average effective interest rates on term deposits with initial terms of over three months of the Group were 2.32% (2005: 2.27%) per annum.

31 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**3,578,197**	3,465,185	**195,515**	76,099
Short-term bank deposits	**792,771**	1,664,930	**122,059**	534,759
	4,370,968	5,130,115	**317,574**	610,858

(a) As at 31 December 2006, the Group's and the Company's cash and cash equivalents are denominated in the following currencies:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**3,006,187**	3,614,017	**154,020**	525,310
US$	**1,142,175**	1,200,589	**47,617**	85,044
JPY	**153,017**	145,047	**115,898**	9
HK$	**66,119**	168,179	**6**	472
Others	**3,470**	2,283	**33**	23
	4,370,968	5,130,115	**317,574**	610,858

The conversion of the RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

Notes to the Financial Statements

31 CASH AND CASH EQUIVALENTS (Continued)

(b) The weighted average effective interest rates of the Group and the Company on short term bank deposits were 1.75% (2005: 1.76%) and 2.03% (2005: 2.01%) respectively as at 31 December 2006.

32 BORROWINGS

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Current		
Bank borrowings denominated in RMB	**90,323**	49,330
Bank borrowings denominated in US$	**6,910**	22,365
Current portion of non-current borrowings denominated in RMB	**6,000**	—
	103,233	71,695
Non-current		
Bank borrowings denominated in RMB	**9,000**	9,200
Total borrowings	**112,233**	80,895
Borrowings		
Unsecured	**31,923**	16,045
Secured or guaranteed	**80,310**	64,850
	112,233	80,895

The carrying amounts of the borrowings at the respective balance sheet dates approximate their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

(b) The non-current bank borrowings as at 31 December 2006 were repayable as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
1 to 2 years	**9,000**	6,800
2 to 5 years	—	2,400
	9,000	9,200

Notes to the Financial Statements

32 BORROWINGS (Continued)

(c) Securities and guarantees

	The Group	
	2006	2005
	RMB'000	RMB'000
Net book value of property, plant and equipment pledged	**180,784**	44,504
Net book value of land use rights pledged	**11,651**	70,527
Guarantees provided by companies within the Group	**5,000**	32,863
Guarantees provided by third parties	**—**	2,400
Corresponding borrowings	**80,310**	64,850

(d) The weighted average effective interest rates of the borrowings were 5.25% (2005: 5.33%) for bank borrowings denominated in RMB and 6.15% (2005: 4.07%) for bank borrowings denominated in US$ as at 31 December 2006.

33 PROVISIONS

	The Group					
	One-off cash housing subsidies	**Guarantees**	**Outstanding claims**	**Onerous contracts**	**Foreseeable losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005	45,015	8,178	7,390	—	—	60,583
Additional provision	—	—	15,435	—	—	15,435
Utilised during the year	(1,295)	—	(15,085)	—	—	(16,380)
As at 31 December 2005	43,720	8,178	7,740	—	—	59,638
As at 1 January 2006	**43,720**	**8,178**	**7,740**	**—**	**—**	**59,638**
Additional provision	**—**	**—**	**22,101**	**54,919**	**8,176**	**85,196**
Utilised during the year	**(7,696)**	**—**	**(8,886)**	**—**	**—**	**(16,582)**
As at 31 December 2006	**36,024**	**8,178**	**20,955**	**54,919**	**8,176**	**128,252**

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.

34 TRADE PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**3,841,725**	3,500,696	**42,176**	23,187
Due to related parties	**130,043**	118,975	**28,421**	6,729
	3,971,768	3,619,671	**70,597**	29,916

The carrying amounts of the Group's and the Company's trade payables approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,870,942**	2,656,430	**8,808**	10,836
US$	**1,018,432**	887,635	**61,789**	15,780
HK$	**71,865**	59,896	**—**	—
Others	**10,529**	15,710	**—**	3,300
	3,971,768	3,619,671	**70,597**	29,916

(a) Trade payables

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**3,528,163**	3,136,545	**33,739**	21,417
Between 6 and 12 months	**131,373**	206,440	**7,300**	1,672
Between 1 and 2 years	**79,891**	84,399	**1,136**	52
Between 2 and 3 years	**50,154**	54,733	**1**	46
Over 3 years	**52,144**	18,579	**—**	—
	3,841,725	3,500,696	**42,176**	23,187

Notes to the Financial Statements

34 TRADE PAYABLES (Continued)

(b) Due to related parties

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

	The Group		The Company	
	2006 **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Ultimate holding company and fellow subsidiaries	**59,587**	64,745	**28,421**	6,729
Jointly controlled entities	**3,607**	4,729	**—**	—
Associates	**15,824**	184	**—**	—
Other state-owned enterprises	**51,025**	49,317	**—**	—
	130,043	118,975	**28,421**	6,729

The normal credit period for trade payables and amounts due to related parties generally ranges from 1 to 3 months. The aging of these amounts due to the ultimate holding company, fellow subsidiaries, jointly controlled entities, associates and other related parties is summarised as follows:

	The Group		The Company	
	2006 **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Within 6 months	**105,257**	100,356	**24,668**	6,383
Between 6 and 12 months	**8,393**	12,764	**3,424**	307
Between 1 and 2 years	**12,721**	1,819	**275**	1
Between 2 and 3 years	**786**	1,773	**54**	33
Over 3 years	**2,886**	2,263	**—**	5
	130,043	118,975	**28,421**	6,729

35 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	The Group		The Company	
	2006 **RMB'000**	2005 RMB'000	**2006** **RMB'000**	2005 RMB'000
Other payables and accruals	**390,608**	400,118	**25,934**	23,761
Due to related parties	**142,346**	155,580	**667,541**	98,713
	532,954	555,698	**693,475**	122,474

Notes to the Financial Statements

35 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES (Continued)

(a) Other payables and accruals

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Payable for property, plant and equipment	**48,920**	20,150	**—**	—
Customers' deposits	**186,436**	231,856	**48**	1,106
Accrued expenses	**75,690**	59,417	**18,336**	14,442
Dividends payable to minority shareholders of subsidiaries	**10,126**	6,973	**—**	—
Advances from other entities	**34,007**	33,948	**7,550**	7,644
Others	**35,429**	47,774	**—**	569
	390,608	400,118	**25,934**	23,761

(b) Due to related parties

The amounts due to related parties are analysed as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Ultimate holding company and fellow subsidiaries	**138,042**	152,872	**667,541**	98,713
Jointly controlled entities	**3,091**	1,666	**—**	—
Associates	**—**	59	**—**	—
Other state-owned enterprises	**1,213**	983	**—**	—
	142,346	155,580	**667,541**	98,713

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

36 SHARE CAPITAL

	The Company	
	2006	2005
	RMB'000	RMB'000
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	**2,461,596**	2,461,596
H shares of RMB1.00 each	**1,787,406**	1,787,406
	4,249,002	4,249,002

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

All the domestic state-owned ordinary shares and H shares rank pari passu in all material respects except that the dividends to holders of H shares are declared in RMB but paid in Hong Kong Dollar.

37 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.

37 CASH-SETTLED SHARE-BASED PAYMENT (Continued)

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

Information on outstanding SAR is summarised as follows:

(a) Determination of fair values

	Date of grant	Expiry date	Exercise price in HK$ per share	The Group **2006 (Thousands)**	2005 (Thousands)
Tranche I	20 January 2003 (Note (i))	20 January 2013	2.19	**23,710**	23,710
Tranche II	24 June 2003 (Note (ii))	24 June 2013	2.18	**4,060**	4,060
				27,770	27,770

(i) The fair value of SAR granted under Tranche I as at 31 December 2006 determined using the Black-Scholes valuation model was HK$0.93 (2005: HK$1.14). The significant inputs into the model were share price of HK$2.81 (2005: HK$3.15), exercise price shown above, expected life of SAR of 3.03 years (2005: 3.05 years), expected dividend rate of 2.56% (2005: 2.73%) and risk-free interest rate of 3.60% (2005: ranging from 4.01% to 4.05%). The expected volatility is estimated based on historical daily share price of the Company.

(ii) The fair value of SAR granted under Tranche II as at 31 December 2006 determined using the Black-Scholes valuation model was HK$0.95 (2005: HK$1.18). The significant inputs into the model were share price of HK$2.81 (2005: HK$3.15), exercise price shown above, expected life of SAR of 3.24 years (2005: 3.48 years), expected dividend rate of 2.56% (2005: 2.73%) and risk-free interest rate of 3.61% (2005: ranging from 4.03% to 4.07%). The expected volatility is estimated based on historical daily share price of the Company.

(iii) The intrinsic value of SAR vested at 31 December 2006 is HK$0.62 (2005: HK$0.96) per share for Tranche I and HK$0.63 (2005: HK$0.97) per share for Tranche II respectively.

37 CASH-SETTLED SHARE-BASED PAYMENT (Continued)

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

	2006		2005	
	Average exercise price in HK$ per share	**Number of SAR (Thousands)**	Average exercise price in HK$ per share	Number of SAR (Thousands)
At beginning of year	**2.19**	**27,770**	2.19	27,770
Granted	**—**	**—**	—	—
Forfeited	**—**	**—**	—	—
Exercised	**—**	**—**	—	—
Lapsed	**—**	**—**	—	—
At end of year	**2.19**	**27,770**	2.19	27,770

Out of the 27,770,000 outstanding SAR (2005: 27,770,000), 27,770,000 SAR (2005: 26,416,667) were exercisable. No SAR were exercised since the date of grant.

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

	The Group	
	2006 RMB'000	2005 RMB'000
Staff costs (credited)/charged	**(6,913)**	14,573

	The Group	
	2006 RMB'000	2005 RMB'000
Salary and welfare payable	**26,009**	32,922

Notes to the Financial Statements

38 RESERVES

In accordance with the relevant PRC regulations and the Articles of Association of the Company, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to a statutory surplus reserve until the balance reaches 50% of the registered share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered share capital.

Until 31 December 2005, in accordance with the relevant PRC regulations and the Articles of Association of the Company, every year the Company was required to transfer between 5% and 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 was restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belonged to the Group. The statutory public welfare fund was 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 year ended 31 December 2006, the Board of Directors proposed appropriations of 10% of profit after tax (2005: 10%) determined under the PRC accounting standards, of RMB58,598,000 (2005: RMB80,597,000) 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 31 December 2006, the amount of retained earnings available for distribution was approximately RMB1,469,306,000 (2005: RMB1,230,860,000), being the amount determined in accordance with the PRC accounting standards.

As at 31 December 2006, the amount of investment revaluation reserve was RMB85,107,000 (2005: Nil), representing the share of fair value gain on available-for-sale financial assets, net of taxation, attributable to the equity holders of the Company (Note 24).

Notes to the Financial Statements

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to cash generated from operations

	The Group	
	2006	2005
	RMB'000	RMB'000
Profit for the year	**863,263**	1,044,627
Interest income	**(84,380)**	(79,405)
Interest expenses	**5,774**	9,640
Exchange loss on held-to-maturity financial assets	**2,092**	1,650
Gains on disposal of property, plant and equipment	**(2,925)**	(7,974)
(Reversal of)/provision for impairment of receivables and bad debts written off	**(7,373)**	45,691
Gain on disposal of a subsidiary	**—**	(1,368)
Gains on financial assets at fair value through profit and loss	**(311)**	(129)
Depreciation of property, plant and equipment	**309,817**	259,235
Reversal of impairment of property, plant and equipment	**(276)**	(7)
Reversal of provision for impairment of inventories	**(268)**	—
Amortisation of intangible assets	**15,193**	17,046
Operating lease charges on land use rights	**13,794**	11,184
Share of profit of associates, net of taxation	**(22,267)**	(12,747)
Excess of interest in the fair value of net identifiable assets over cost of acquiring subsidiaries, jointly controlled entities and associates	**—**	(8,191)
Operating profit before working capital changes	**1,092,133**	1,279,252
Decrease/(increase) in deferred tax assets	**11,470**	(3,042)
(Increase)/decrease in prepayments, deposits and other current assets	**(39,310)**	27,127
Increase in inventories	**(4,936)**	(4,486)
Increase in trade and other receivables	**(353,337)**	(629,092)
Increase in deferred tax liabilities	**43,345**	25,311
Decrease in other liabilities	**(2,254)**	(20,984)
Increase/(decrease) in provisions	**68,614**	(945)
Increase in trade payables	**315,291**	485,578
Decrease in other payables, accruals and other current liabilities	**(86,877)**	(222,242)
(Decrease)/increase in receipts in advance from customers	**(41,850)**	188,968
Increase in income and other taxes liabilities	**425,373**	407,855
Increase in salary and welfare payable	**38,378**	77,697
(Decrease)/increase in deferred income arising from discontinued operations	**(37,692)**	354,021
Cash generated from operations	**1,428,348**	1,965,018

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2006

In 2006, the Group acquired certain equity interests in four companies for a total cash consideration of RMB129,401,000. The acquisitions were accounted for using the purchase method of accounting. The name of the company, the acquisition date, the percentage of equity interest acquired and the cash consideration are listed as follows:

Company name	Acquisition date	Percentage of equity interests acquired	Cash consideration RMB'000
Shandong Sinotrans Lishen Hoisting and Transporting Company Limited	31 July, 2006	80%	54,227
Ningbo Dagang New Century Container Company Limited	26 July, 2006	50%	40,440
Man Shun Shipping Company Limited	25 January, 2006	100%	32,433
Sinotrans Foshan Warehouse and Terminal Company Limited	28 February, 2006	For additional 7.08%	2,301

The acquired business totally contributed turnover of RMB38,495,000 and loss of RMB1,032,000 to the Group for the period from the respective acquisition dates to 31 December 2006.

If the acquisitions had occurred on 1 January 2006, the Group's turnover would have been RMB32,247,185,000 and profit for the year would have been RMB864,041,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the acquirees to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2006, together with the consequential tax effects.

Moreover, on 1 January 2006, the Group via a wholly-owned subsidiary, Sinotrans Eastern Company Limited has obtained control of Shanghai Sinotrans Chemical International Logistics Company Limited (''Shanghai Chemical'') as a result of the changes to the composition of its board of directors. The Group is now represented by 6 out of 9 directors on the board of Shanghai Chemical (2005: 5 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 on the board of Shanghai Chemical.

With effective from 1 January 2006, the Group has accounted for Shanghai Chemical as a 40%-owned consolidated subsidiary (previously a 40%-owned jointly controlled entity accounted for by proportionate consolidation).

Notes to the Financial Statements

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2006 (Continued)

Details of the assets and liabilities acquired and obtained are as follows:

	Fair value RMB'000	Acquirees' carrying amount RMB'000
Property, plant and equipment	139,401	117,803
Land use rights	33,099	27,938
Intangible assets	20	20
Prepayments, deposits and other current assets	3,399	3,399
Inventories	1,616	1,616
Trade and other receivables	48,138	48,138
Cash and cash equivalents	37,391	37,391
Borrowings	(52,100)	(52,100)
Deferred tax liabilities	(4,011)	—
Other liabilities	(2,908)	(2,908)
Trade payables	(36,806)	(36,806)
Other payables, accruals and other current liabilities	(19,285)	(19,285)
Receipts in advance from customers	(4)	(4)
Current tax liabilities	(1,671)	(1,671)
Salary and welfare payable	(1,520)	(1,520)
Minority interests	(32,998)	—
Net identifiable assets acquired	111,761	122,011

Fair value of net identifiable assets acquired	111,761
Goodwill on acquisition	17,640
Total purchase consideration — cash paid	129,401

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

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

Cash and cash equivalents in the subsidiaries and jointly controlled entity acquired and obtained	37,391
Cash paid	(129,401)
Cash outflow on acquisition	(92,010)

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2005

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

Company name	Percentage of interest
Subsidiary:	
China Taicang Marine Shipping Agency Company Limited. (''CTMSA'')	100%
Jointly controlled entities:	
Jiangsu Nissin Sinotrans International Transportation Company Limited	50%
Ningbo Dagang Container Company Limited	50%
Xuzhou Sinotrans Maruzen Transportation Company Limited	50%
Sinotrans Hi-Tech Logistics (Suzhou) Company Limited	30%

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

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

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2005 (Continued)

Details of the assets and liabilities acquired are as follows:

	Fair value RMB'000	Acquirees' carrying amount RMB'000
Assets/liabilities acquired (at 100% interest for CTMSA and at respective proportionate interests in jointly controlled entities)		
Property, plant and equipment	62,223	54,026
Land use rights	30,680	16,040
Intangible assets	44	44
Other non-current assets	203	203
Prepayments, deposits and other current assets	1,606	1,606
Inventories	142	142
Trade and other receivables	10,687	10,687
Cash and cash equivalents	17,468	17,468
Deferred tax liabilities	(6,671)	—
Other liabilities	(15,089)	(15,089)
Trade payables	(13,453)	(13,453)
Other payables, accruals and other current liabilities	(13,699)	(13,699)
Receipts in advance from customers	(856)	(856)
Borrowings	(11,600)	(11,600)
Current tax liabilities	(268)	(268)
Salary and welfare payable	(798)	(798)
Minority interests	(327)	(327)
Net identifiable assets acquired	60,292	44,126

	RMB'000
Fair value of net identifiable assets acquired	60,292
Goodwill on acquisition	2,050
Excess of interest in the net fair value of identifiable net asset over purchase consideration	(1,585)
Total purchase consideration — cash paid	60,757

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

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

	RMB'000
Cash and cash equivalents in subsidiary and jointly controlled entities acquired	17,468
Purchase consideration settled in cash	(60,757)
Cash outflow on acquisition	(43,289)

Notes to the Financial Statements

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2005 (Continued)

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

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

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

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

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

Cash and cash equivalents in the subsidiary acquired	10,259
Purchase consideration settled in cash	(5,000)
Cash inflow on acquisition	5,259

Notes to the Financial Statements

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2005 (Continued)

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

	Fair value RMB'000	**Acquiree's carrying amount** RMB'000
Assets/liabilities acquired (at 50% interest)		
Property, plant and equipment	11,999	11,999
Prepayments, deposits and other current assets	188	188
Trade and other receivables	11,554	11,554
Cash and cash equivalents	6,128	6,128
Trade payables	(1,426)	(1,426)
Other payables, accruals and other current liabilities	(744)	(744)
Borrowings	(4,750)	(4,750)
Current tax liabilities	(54)	(54)
Salary and welfare payable	(121)	(121)
Minority interests	(726)	(726)
Net identifiable assets acquired	22,048	22,048

Fair value of net identifiable assets acquired	22,048
Goodwill on acquisition	2,952
	25,000
Total purchase consideration	
— Cash paid	20,623
— Fair value of property, plant and equipment transferred to SJIFTC	4,377
	25,000

Notes to the Financial Statements

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

For the year ended 31 December 2005 (Continued)

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

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

Cash and cash equivalents in the jointly controlled entity acquired	6,128
Purchase consideration settled in cash	(20,623)
Cash outflow on acquisition	(14,495)

40 CONTINGENT LIABILITIES

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 33. Where management cannot reasonably estimate the outcome of the lawsuits or believe the probability of loss is remote, no provision has been made. As at 31 December 2006 such lawsuits amounted to approximately RMB20,645,000 (2005: RMB 22,886,000).

41 GUARANTEES

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

	The Group	
	2006 **RMB'000**	2005 RMB'000
Guarantees provided by the Group for the benefit of jointly controlled entities	**27,000**	25,500

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 other guarantees have no expiry dates.

Notes to the Financial Statements

42 CAPITAL COMMITMENTS

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for but not provided for	**620,784**	146,300	**90,000**	—
Authorised but not contracted for	**515,546**	569,047	**390,000**	413,920
	1,136,330	715,347	**480,000**	413,920
An analysis of the above capital commitments by nature is as follows:				
Acquisition of property, plant and equipment	**349,579**	46,390	**168,480**	30,900
Construction commitments	**285,861**	275,935	**71,520**	119,000
Purchase of software	**—**	28,802	**—**	4,000
Investments in subsidiaries/jointly controlled entities/associates	**500,890**	364,220	**240,000**	260,020
	1,136,330	715,347	**480,000**	413,920

43 OPERATING LEASE COMMITMENTS

(a) The Group as lessee

The Group leases various land and buildings, vessels, containers and other property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the consolidated income statement during the year is disclosed in Note 10.

Notes to the Financial Statements

43 OPERATING LEASE COMMITMENTS (Continued)

(a) The Group as lessee (Continued)

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land and buildings				
— Not later than one year	**126,500**	172,259	**6,945**	6,945
— Later than one year but not later than five years	**185,364**	150,329	**27,780**	27,780
— Later than five years	**162,097**	152,760	**76,396**	83,349
Vessels, containers and other property, plant and equipment				
— Not later than one year	**801,167**	1,102,469	**691**	691
— Later than one year but not later than five years	**1,584,612**	2,416,346	**2,764**	2,764
— Later than five years	**22,733**	291,696	**3,454**	3,454
	2,882,473	4,285,859	**118,030**	124,983

(b) The Group as lessor

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Land and buildings		
— Not later than one year	**11,066**	10,156
— Later than one year but not later than five years	**10,165**	10,421
— Later than five years	**6,526**	7,887
Vessels, containers and other property, plant and equipment		
— Not later than one year	**123,181**	747
— Later than one year but not later than five years	**64,014**	—
	214,952	29,211

44 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 the 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; and

- Leasing of certain containers by the Group

In addition, on 26 January 2006, the Group also entered into a master lease agreement providing for the lease 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 is 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 is 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.

Notes to the Financial Statements

44 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(a) Transactions with related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Transactions with ultimate holding company and fellow subsidiaries		
Revenue:		
Revenue from provision of transportation and logistics services	**415,475**	504,157
Revenue from provision of information technology services	**—**	960
Expenses:		
Service fees	**(203,070)**	(255,950)
Rental expenses for office buildings, warehouses and depots	**(40,137)**	(48,232)
Rental expenses for containers	**(48,736)**	(49,553)
Rental expenses for vessels	**(57,261)**	(69,538)
Rental expenses for motor vehicles	**(3,417)**	(4,367)
Transactions with associates of the Group		
Revenue:		
Revenue from provision of services	**2,889**	1,423
Expenses:		
Service fees	**(1,309)**	(1,210)

In addition to the above, the ultimate holding company has assumed the Group's obligations to make benefits payments to certain of the Group's former employees and retirees and agreed to bear any further one-off cash housing subsidies in excess of the amount of RMB74,560,000 provided for in the consolidated financial statements of the Group at the time of the Reorganisation (Note 33).

44 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

	The Group	
	2006	2005
	RMB'000	RMB'000
Transactions with jointly controlled entities (after elimination of the Group's proportionate interests in those jointly controlled entities)		
Revenue:		
Revenue from provision of services	**150,069**	153,271
Rental income from buildings leased out	**434**	5,526
Expenses:		
Service fees	**(59,587)**	(62,724)

As at 31 December 2006, the Group provided RMB27,000,000 guarantees for certain jointly controlled entities (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 41).

	The Group	
	2006	2005
	RMB'000	RMB'000
Transactions with other state-owned enterprises		
Revenue:		
Revenue from provision of services	**364,734**	368,884
Interest income from bank deposits	**78,193**	67,746
Expenses:		
Service fees	**(852,013)**	(935,246)

Notes to the Financial Statements

44 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

	The Group	
	2006	2005
	RMB'000	RMB'000
Balances with the ultimate holding company and fellow subsidiaries		
Trade and other receivables	**75,803**	162,165
Provision for impairment of receivables	**(170)**	(1,112)
Prepayment, deposit and other current assets	**4,564**	13,415
Trade payables	**(59,587)**	(64,745)
Other payables, accruals and other liabilities	**(138,042)**	(152,872)
Receipts in advance from customers	**(14,663)**	(5,304)
Balances with jointly controlled entities		
Trade and other receivables	**40,554**	35,898
Provision for impairment of receivables	**(40)**	(742)
Prepayment, deposit and other current assets	**696**	924
Trade payables	**(3,607)**	(4,729)
Other payables, accruals and other liabilities	**(3,091)**	(1,666)
Receipts in advance from customers	**(188)**	(293)
Balances with associates of the Group		
Trade and other receivables	**6,309**	2,959
Provision for impairment of receivables	**(3)**	—
Trade payables	**(15,824)**	(184)
Other payables, accruals and other liabilities	**—**	(59)
Receipts in advance from customers	**(44)**	—
Balances with other state-owned enterprises		
Held-to-maturity financial assets	**62,470**	64,562
Restricted cash	**36,336**	12,339
Terms deposits with initial terms of over three months	**660,201**	686,604
Cash and cash equivalents	**4,050,499**	4,383,465
Trade and other receivables	**48,200**	47,859
Provision for impairment of receivables	**(4,341)**	(1,497)
Prepayment, deposit and other current assets	**12,949**	3,026
Trade payables	**(51,025)**	(49,317)
Other payables, accruals and other current liabilities	**(1,213)**	(983)
Receipts in advance from customers	**(12,750)**	—

44 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

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 due 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 year ended 31 December 2006, the expenses recognised in respect of bad or doubtful debts due from related parties were approximately RMB1,203,000 (2005: reversal of RMB9,674,000).

(c) Purchase of property, plant and equipment

	The Group	
	2006 RMB'000	2005 RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**—**	24,134
Transactions with other state-owned enterprises	**114,160**	224,856

(d) Purchase of land use rights

	The Group	
	2006 RMB'000	2005 RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**—**	106,316

(e) Loans

	The Group	
	2006 RMB'000	2005 RMB'000
Loans from state-owned banks		
At beginning of year	**80,895**	208,290
Proceeds from loans	**460,676**	319,906
Repayment of loans	**(481,438)**	(447,301)
Acquisition of subsidiaries and a jointly controlled entity	**52,100**	—
At end of year	**112,233**	80,895
Interest charged	**10,278**	9,640
Interest paid	**(10,771)**	(9,640)

The weighted average effective interest rate of the loans was 5.35% (2005: 4.64%) as at 31 December 2006.

Notes to the Financial Statements

44 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(f) Key management compensation

	The Group	
	2006 **RMB'000**	2005 RMB'000
Basic salaries, housing allowances and other allowances and benefits in kind	**3,095**	3,363
Discretionary bonuses	**4,225**	4,737
Change of fair value on SAR	**(1,135)**	804
Contributions to pension plans	**192**	177
Long term bonus plan	**—**	2,860

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

	The Group	
	2006 **RMB'000**	2005 RMB'000
Transactions with ultimate holding company and fellow subsidiaries	**—**	80,545

45 SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2006:

(a) At the Board of Directors' meeting held on 27 March 2007, the directors proposed a final dividend of RMB0.020 per ordinary share for the year ended 31 December 2006.

(b) The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (''the new tax law'') on 16 March 2007. With effective from 1 January 2008, the Group will be subject to a tax rate of 25%, with certain grandfathering provisions and preferential provisions. The changes in tax rate do not have any measurement impact on the Group's consolidated financial statements as at 31 December 2006, as the new tax law was neither enacted nor substantially enacted by that date.

The Group is assessing the impact of the new tax law on the consolidated financial statements for the year ending 31 December 2007.

Notes to the Financial Statements

46 ULTIMATE HOLDING COMPANY

The Company's directors regard Sinotrans Group Company, a company established in the PRC, as the ultimate holding company of the Company.

47 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 March 2007.

48 RECLASSIFICATION OF COMPARATIVE FIGURES

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