

**Analysis on Sinotrans Air
(Selected from China Logistics
Intelligence Weekly 20070625)**



Property right statement: Copyright of charts, tables and sentences in this report belongs to of Beijing Waterwood. For charts or tables marked as from other sources, original publishers own the copyright. The quoted data in this report are collected from public sources. If there is any problem related to property right, please do not hesitate to contact Beijing Waterwood.

Contents

1 Intensification of Industry Competition and Sustainable Growth of Business.....	3
1.1 Performance Growth by UPS Payment Exceeded the Expected.....	3
Table 1: Main Business Structure of Sinotrans Air.....	4
Table 2: Operating Performance of Major Shareholding Companies	5
1.2 Air freight Forwarding Service Gradually Suffered Strikes, But Air Express Service Grew Steadily.....	5
Table 3: Major Operating Performance Indicators of Sinotrans Air in 2006	6
Figure 1: Business Development of Sinotrans Air, 2000-2006.....	7
Table 4: Gross Profit Margin Changes of Sinotrans Air, 2004-2006	7
1.3 East China: Key Region by Income Source	8
Table 5: Main Business Distribution of Sinotrans Air by Region	8
2 Investment Behaviors Focus on Development Strategy	9
2.1 DHL-Sinotrans: main profit source.....	10
Table 6: Basic Information of DHL-Sinotrans.....	10
2.2 Rapid Expansion of Domestic Express Services.....	11
Table 7: Basic Information of E-express Service.....	12
2.3 Enhancement on Control of Airline Capacity.....	12
Table 8: Basic Information of Korea Air.....	13
About ResearchInChina and China Logistics Intelligence Weekly	14

1 Intensification of Industry Competition and Sustainable Growth of Business

According to the latest report on Forecast of World Air Cargo Transportation Market by Boeing Company, the average annual growth rate of China's air cargo market has exceeded 20% since 1990. China's air cargo transportation market scale is expected to double to 2.6 billion euros by 2010. China now becomes the world's second largest air cargo transportation market, with the average annual growth expecting to surpass 10% in the next 20 years.

The position of logistic industry becomes more and more important in the whole national economy. What's more, expresses delivery industry witnessed a rapid development in China as an emerging industry. Under the great development environment, Sinotrans Air Transportation Development Co., Ltd (Sinotrans Air) has a good prospect. After China's entry into WTO, relevant industrial policies are further loosed and market competition is becoming increasingly intense. However, relying on the advantages of former industrial barriers, Sinotrans Air has already established service network across China. Currently, it occupies 50% market shares in China's international express mail market and 10% shares of international freight forwarding market, posting strong competitive advantages.

1.1 Performance Growth by UPS Payment Exceeded the Expected

In 2006, the main business revenue of Sinotrans Air achieved RMB 5.885 billion, seeing a year-on-year growth of 18.95%. Its net profit stood at RMB 685 million, with a growth of 47.95% year-on-year, higher than the expected. The earnings per share reached RMB 0.76. At present, the major activities of Sinotrans Air focus on air express service and air freight forwarding service, of which the revenue from air express occupies over 90% of

the main business revenue and air freight forwarding service about 7%. Among its shareholding companies, DHL-Sinotrans and Exel-Sinotrans Freight Forwarding Co., Ltd contributed a lot to the company's profits.

There are several factors that promoted a rapid profit growth of Sinotrans Air. Firstly, UPS paid RMB 338.55 million; secondly, the business volume, revenue and net profit of DHL-Sinotrans increased 16.54%, 24.94% and 66.81% respectively, compared with the same period of previous year; thirdly, the investment incomes of its joint venture Exel-Sinotrans Freight Forwarding Co., Ltd grew by 33.25%.

Table 1: Main Business Structure of Sinotrans Air

Item	2004		2005		2006	
	Revenue (RMB Million)	Proportion (%)	Revenue (RMB Million)	Proportion (%)	Revenue (RMB Million)	Proportion (%)
Air Express Service	3339.36	85.73	4429.56	89.53	5311.80	90.26
International Air Freight Forwarding Services	374.92	9.83	399.89	80.08	443.90	7.54
Domestic Freight & Logistics	89.10	2.34	107.36	2.17	115.33	1.96

Table 2: Operating Performance of Major Shareholding Companies

	Proportion of Shares held by Controlling Shareholders (%)	Net Profit, 2006 (RMB Million)	YoY Growth (%)	Main Business
DHL-Sinotrans	50	711.19	66.81	International Air Express Services
OCS-Sinotrans	50	69.59	16.82	International Air Express Services
Exel-Sinotrans	50	122.76	65.58	Sea/Air Freight Forwarding Co., Ltd
				International Freight Forwarding Service

1.2 Air freight Forwarding Service Gradually Suffered Strikes, But Air Express Service Grew Steadily

In 2006, the volume of international air freight forwarding of Sinotrans Air reached 332,700 tons, fell 2.23% over 2005, of which the export volume was 190,400 tons, down 5.7%, and the import volume for 114, 200 tons, up 15.94%. The reason why the export volume declined is the opening up of the forwarding entry policy, which permits foreign forwarding enterprises directly participating into Chinese market. Therefore, it caused the loss of many clients.

The express business of Sinotrans Air achieved 19.2939 million waybills in 2006, up 14.4% year-on-year, of which there are 16.8907 million waybills completed by DHL-Sinortans, up 16.57%, and 813,100 waybills of e-express business, up 104.55% year-on-year.

From the data over the past years, it can be seen that the company's freight forwarding service kept a growth of over 20%. The year 2006 witnessed its business drop caused by opening up of freight market. As for express services, it began to rise after experiencing a sharp decline in 2005.

In addition, influenced by the shock from market competition, the gross profit margin of air freight forwarding service gradually decreased, down 6.49% over 2005. And its air express service kept a growth of 40% or so. What's more, its domestic freight and logistics business rose 10.13% compared with 2005, presenting its stronger strengths in domestic market.

Table 3: Major Operating Performance Indicators of Sinotrans Air in 2006

Indicator	International Air		Indicator	Air Express	
	Freight Service	Forwarding		Service	Service
	(Ten Thousand Tons)	YoY Growth (%)		(10,000 Waybills)	YoY Growth (%)
Volume	33.27	-2.23	Express Delivery Service	1929.39	14.4

Incl:	19.04	-5.7	Incl:	1689	16.54
Export			DHL-Sinotrans	.07	
	11.42	15.94	E-express	81.3	104.5
Import			Service	1	5

Figure 1: Business Development of Sinotrans Air, 2000-2006

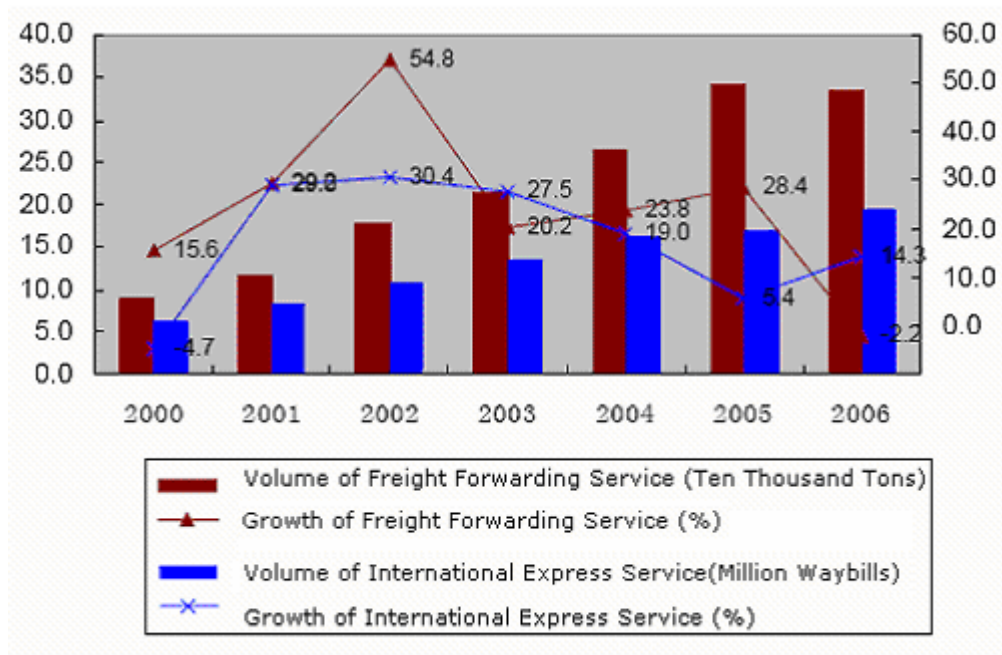


Table 4: Gross Profit Margin Changes of Sinotrans Air, 2004-2006

	2004	2005	2006	Change (%)
Air Express Service	42.27%	41.04%	41.60%	0.56
International Air Freight Forwarding Service	38.87%	26.70%	20.21%	-6.49
Domestic Cargo Transport &	8.64%	13.47%	23.6%	10.13

Logistics

Overall Gross Profit Margin	41.18%	39.32%	39.59%	0.27
-----------------------------	--------	--------	--------	------

1.3 East China: Key Region by Income Source

Seen from the distribution of main business revenue of the company, East China, South China and North China are the major income source regions. Main business revenue in above 3 regions accounts for 46.5%, 29.2% and 18.85% of the total respectively, with gross profit margin up to 37.35%, 42.7% and 41.35% separately. Except for the gross profit margin in South China decreased 2.2%, other regions' gross profit margin basically kept steadily.

Business development of Sinotrans Air is mainly related with the rapid economic growth of these regions, as well as the great demand for freight forwarding and express services. Additionally, the establishment of Pudong logistics center played a good supporting role in air freight import and export in East China, and logistic network distribution in Yangtze River Delta and Pearl River Delta by large shareholders created convenient conditions for the development of the company.

Table 5: Main Business Distribution of Sinotrans Air by Region

Region	Main Business Revenue			Gross Profit Margin	
	(RMB Million)	Proportion (%)	YoY Growth (%)	Gross Profit Margin (%)	YoY Growth (%)

North China	1109.13	18.85	20.67	41.35	2.92
East China	2736.75	46.5	20.5	37.35	0.79
South China	1719.03	29.21	14.42	42.70	-2.20
Southwest	98.42	1.67	28.06	43.73	1.88
Northwest	61.93	1.05	22.58	31.87	3.51
Northeast	160.02	2.72	25.51	32.73	0.74
Total	5885.27	100	18.95	39.59	0.27

2 Investment Behaviors Focus on Development Strategy

Development Strategies of Sinotrans Air:

1. Gradually realize to control airline capacity, speed up the transfer from a traditional air freight forwarding enterprise to a modern logistics enterprise, set up a unified standard system with an integration of operating process monitor, network flow management and quality guarantee, improve network operation efficiency and form core competitiveness.
2. Actively seek opportunities to invest in strategic logistics infrastructure projects, and participate into core business of airport ground operations.
3. Speed up network layout through self-construction or acquisition mode, spare no efforts to promote standard products like e-express service, and optimize and integrate network resources.

2.1 DHL-Sinotrans: main profit source

DHL-Sinotrans, a 50/50 joint venture between Sinotrans Air and DHL Worldwide Express (DHL), is the main profit source of the company. In 2006, more than 50% of net profits of Sinotrans Air was contributed by DHL-Sinotrans.

DHL is the global market leader in international express, overland transport and air freight. It is also the world's No.1 in ocean freight and contract logistics. On February 14, 2007, DHL announced, it will invest more than USD110 million in China's market over the next several years to boost its business development. This move will further consolidate its leadership in the market.

Table 6: Basic Information of DHL-Sinotrans

	2004	2005	2006	Increase
Registered Capital (USD Million)	14.50	14.50	14.50	--
Assets Scale (RMB Million)	1227	1443	1814	25.70%
Number of Outlets	56	56	73	17
Number of Express Waybills Completed (Million)	12.1	14.49	16.89	16.54%
Main Business Revenue (RMB Million)	2900	3770	4709	24.94%
Net Profit (RMB Million)	395	426	711	66.90%

As of 2006, DHL-Sinotrans had 73 branches across China, whose newly-increased network covers former second and third-tire cities that the group held. As possessing a

certain customer base, it can make profits within short time. At the same time, network expansion will stimulate the growth of international express services. Recently, DHL Global Freight Logistics obtained the license for 17 domestic flight routes, which will realize more extensive intercity connection and promote the business development. The business growth of DHL-Sinotrans is expected to keep 30% in the next two years.

The headquarters of DHL-Sinotrans has moved to Beijing Yizhuang Hi-Tech Development Zone from the downtown of Beijing. Since January 1, 2006, it began to enjoy 15% of preferential income tax rate (local tax rate 3%), decreased about 6% compared with former 24% income tax rate. DHL-Sinotrans will benefit from the preferential income tax rate within short time, despite the possible combination of two types of tax rate after 2008 (5-years transition period).

2.2 Rapid Expansion of Domestic Express Services

In October 2004, Sinotrans Air launched e-express service across China. In the same year, the waybill number of e-express services hit 18,500 and the revenue achieved RMB 533,000. In order to rapidly expand domestic express service, Sinotrans Air established e-express department in October 2006, mainly focusing on domestic express market. For this goal, it has already listed rapid network expansion into its development strategies.

In 2006, the waybill number of e-express service reached 813,100, up 104.55% year-on-year, with the revenue of about RMB 260 million. The number of outlets increased to 203 from 132 the year earlier, with the newly-increased outlets up to 71. From the company's strategic plan, the approach to realize rapid network expansion through acquisition mode is more feasible and realistic. The fast growth of e-express outlets, formation of network and positive implementation of development strategies, will greatly improve operation efficiency and business scale. In this way, it becomes possible to achieve break-even within two years.

Table 7: Basic Information of E-express Service

	Oct-Dec 2004	2005	2006	Growth
Number of Outlets	25	132	203	71
Number of Express Waybills Completed (10,000)	1.8456	39.75	81.31	104.55%
Revenue (RMB Million)	0.503	--	260	--

2.3 Enhancement on Control of Airline Capacity

On September 20, 2006, Sinotrans Air passed a proposal to set up a joint-venture cargo airline with Korean Air. Cooperating with Korean Air, the company can access to carrier field depending on its flight network and flight capacity, better connecting freight forwarding and cargo transport services. The extension of business chain will facilitate the company to adapt to market demand and cargo changes. Utilizing the flight capacity of the joint venture, the company can boost the expansion of air freight forwarding service and the rise of gross profit margin.

At preset, the establishment of the joint venture cargo airline is being approved. The joint venture will start operations in the fourth quarter of 2007, later than the scheduled. Mainly focusing on cargo airlines services, the joint venture is more likely to start operations by leasing aircraft at the initial stage. The promotion of benefits of the cooperation with Korean Air will be gradually reflected after 2007.

Table 8: Basic Information of Korea Air

Fleet	Flights		Business Operations (2006)		
				(KRW Million)	YoY Growth (%)
100 Passenger Airplanes	14 Cities in Korea	Passengers: 98 Cities in 31 Countries	Main Business Revenue	80,779	6.5
22 Cargo Airplanes	96 Cities in 35 Countries	Cargo: 47 Cities in 27 Countries	Net Profit	3,830	91.1

Note: Korean Air now has more than 150 passenger flights flying to Chinese 19 cities. Adding cargo flight routes, it totally has 240 flights and 27 routes. It is forecast that its passenger route network will cover 30 cities in China and the number of passenger and cargo routes will hit 35 in the next 5 years. Among its latest development planning, Korean Air plans to positively invest into China, expanding its sales in Chinese market to KRW 1.3 trillion (USD 1.34 billion).

It can be seen that the company's ongoing efforts are consistent with the development strategies. Establishing a joint venture with Korean Air, expansion of e-express business and investment in Pudong airport logistics center, all these factors make the company enter air carrier filed and intensify its strengths in logistics and express business.

About ResearchInChina and China Logistics Intelligence Weekly

ResearchInChina was established in 1999, has become a leading independent provider of China business intelligence. Our research is designed to meet the diverse planning and information needs of businesses, institutions, and professional investors worldwide. Our services are used in a variety of ways, including strategic planning, product and sales forecasting, risk and sensitivity management, and as investment research.

China Logistics Intelligence Weekly is an important product of our business intelligence series. It provide latest market news, information and vital insights for anyone doing business or facing competition in China. It includes:

Corporate news: the latest on M&A, investment, corporate earnings and top-level corporate appointments

Economics & legislation: economic indicators, banking news, new legislation that will impact sales, production and import/ export activities in China

Industry focus: market status, in-depth analysis, investment opportunities and potential pitfalls

ResearchInChina provides **China Intelligence Weekly** in following industries: consumer electronics, goods retailing, agriculture, food and beverage, automotive, energy, aviation, materials, industrial machinery, construction, chemicals, biotechnology, pharmaceutical, medical, computer and software, telecommunications, cyber economy, media, banking and financing, real estate, logistics, tourism, etc.

Contact Us

TEL +86-10-82600828 +86-10-82600862 FAX +86-10-82600829

WEB www.researchinchina.com Mail: weekly@researchinchina.com