

# Financial Risk Management

For the Year Ended 31 December 2004

(All amounts in RMB thousands unless otherwise stated)

## (1) Financial Risk Factors and Financial Risk Management

The Group activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

### (i) Credit risks

The Group has no significant concentration of credit risk with any single counterparty or group counterparties. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

### (ii) Liquidity risks

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

### (iii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group policy is to maintain all its borrowings in fixed rate instruments.

### (iv) Foreign exchange risk

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

## (2) Fair Value Estimation

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

In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

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.