

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow from operating activities

	2006	2005
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Profit before tax	<b>3,301,863</b>	3,146,517
Adjustments for:		
Interest income	<b>(24,893)</b>	(24,508)
Depreciation	<b>1,000,165</b>	922,049
Amortisation of deferred staff expenditure	<b>12,784</b>	12,784
Provision/(write-back of provision) for bad debts	<b>247</b>	1,075
Gain on disposal of property, plant and equipment, net	<b>(170,259)</b>	(107,529)
Losses on liquidation of a subsidiary	<b>17,254</b>	-
Fair value gain on equity investments at fair value through profit or loss	<b>(84,800)</b>	-
Write-off of construction in progress	<b>2,875</b>	8,545
Operating profit before working capital changes	<b>4,055,236</b>	3,958,933
Increase in trade and bills receivables	<b>(199,587)</b>	(74,400)
(Increase)/decrease in bunker oil inventories	<b>64,269</b>	(120,449)
Decrease in prepayments	<b>6,638</b>	1,321
Increase in deposits and other debtors	<b>(62,074)</b>	(1,062)
(Increase)/decrease in amounts due from fellow subsidiaries	<b>(170,098)</b>	108,653
Increase in trade payables	<b>13,744</b>	50,174
Increase/(decrease) in accruals	<b>(51,793)</b>	32,091
Increase in other liabilities	<b>26,448</b>	23,999
Increase in amounts due to fellow subsidiaries	<b>1,776</b>	18,295
Increase in amounts due to jointly-controlled entities	<b>1,163</b>	-
Cash generated from operations	<b>3,685,722</b>	3,997,555
Interest paid	<b>128,721</b>	135,593
Income tax paid	<b>(447,859)</b>	(455,606)
Net cash inflow from operating activities	<b>3,366,584</b>	3,677,542

**財務報告附注 (續)****NOTES TO FINANCIAL STATEMENTS***(continued)*

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**33. NOTES TO THE CONSOLIDATED****CASH FLOW STATEMENT(continued)****(b) Major non-cash transactions**

The Group incurred payables of Rmb134,611,000 to shipyards for vessels which were under construction as at 31 December 2005.

The Group incurred payables to China Shipping Group and its fellow subsidiaries of Rmb498,521,000 for the purchases of 9 dry bulk cargo vessels as at 31 December 2006.

During the year, the Group sold vessels to one of its fellow subsidiaries and recorded receivables of Rmb231,446,000 as at 31 December 2006.

**(c) Liquidation of a subsidiary**

	<b>2006</b>
	人民幣千元
	<b>Rmb'000</b>
Net assets disposed of:	
Cash and bank balances	<b>632,708</b>
Minority interests	<b>(27,967)</b>
	<b>604,741</b>
Loss on liquidation of a subsidiary	<b>(17,254)</b>
	<b>587,487</b>
Satisfied by:	
Cash	<b>587,487</b>

### 33. NOTES TO THE CONSOLIDATED

### CASH FLOW STATEMENT(continued)

#### (c) Liquidation of a subsidiary (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the liquidation of a subsidiary is as follows:

	<b>2006</b>
	<b>人民幣千元</b>
	<b>Rmb'000</b>
Cash consideration	<b>587,487</b>
Cash and bank balances disposed of	<b>(632,708)</b>
Net outflow of cash and cash equivalents in respect of the liquidation of a subsidiary	<b>(45,221)</b>

### 34. PENSION SCHEME

The Group is required to contribute to a pension scheme (the "Scheme") for the eligible employees. Under the Scheme, the Group's retirement benefit obligations to its existing and future retiring employees is limited to its annual contributions equivalent to 22.5% (2005: 22.5%) of the basic salaries of the Group's employees, after certain adjustments on individual employees' salaries in accordance with applicable regulations. Contributions by the Group to the Scheme for the year ended 31 December 2006 amounted to Rmb79,591,000 (2005: Rmb78,612,000).

### 35. PLEDGE OF ASSETS

Details of the Group's bank loans secured by the assets of the Group are included in note 27 to the financial statements.

**36. CONTINGENT LIABILITIES**

- (i) In March 2005, one of the Company's cargo vessels "Hualing" collided with a vessel of a German company. In June 2005, the Company was sued by the German company, claiming US\$10 million (equivalent to approximately Rmb78 million) in compensation for the losses arising from the accident. The Company has made provision as at 31 December 2006 for the estimated loss from the claim taking into consideration the amount that could be compensated by the insurance company.
- (ii) In December 2005, one of the Company's oil tankers "Daqing 91" leaked fuel during its voyage. According to a settlement agreement among Ministry of Communication, the Company and local authorities such as Maritime Safety Administration of Shandong Province, the Company would assume responsibility of the accident. The Company has made provision for the estimated loss from the claims taking into consideration the amount that could be compensated by the insurance company.

**37. OPERATING LEASE ARRANGEMENTS**

- (a) As lessor

The Group leases certain of its vessels under operating lease arrangements, with leases negotiated for terms ranging from 1 to 12 years.

### 37. OPERATING LEASE ARRANGEMENTS

(continued)

(a) As lessor (continued)

As at 31 December 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	本集團 Group		本公司 Company	
	2006	2005	2006	2005
	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000
Within one year	91,119	75,283	40,813	43,647
In the second to fifth years, inclusive	6,839	78,875	6,839	47,239
After five years	-	-	-	-
	<u>97,958</u>	<u>154,158</u>	<u>47,652</u>	<u>90,886</u>

The Company entered into several bare-boat charter party agreements with its jointly-controlled entities, whereby the Company has agreed to lease to its jointly-controlled entities. The charter commitment for these vessels is as follows:

	2006	2005
	人民幣千元 Rmb'000	人民幣千元 Rmb'000
As lessor:		
Within one year	4,875	5,000
In the second to fifth years, inclusive	-	4,875
	<u>4,875</u>	<u>9,875</u>

**37. OPERATING LEASE ARRANGEMENTS**

(continued)

(b) As lessee

The Group entered into non-cancellable operating lease arrangements on vessels, vehicles and buildings. The leases are negotiated for terms ranging from one to six years.

As at 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	本集團 Group		本公司 Company	
	2006	2005	2006	2005
	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000	人民幣千元 Rmb'000
Within one year	<b>103,103</b>	221,680	<b>278,673</b>	188,999
In the second to fifth years, inclusive	<b>1,802</b>	120,909	<b>671,925</b>	89,273
After five years	<b>-</b>	-	<b>852,277</b>	-
	<b>104,905</b>	342,589	<b>1,802,875</b>	278,272

In addition, the Group's share of the jointly-controlled entities' total future minimum lease payments under non-cancellable operating leases is as follows:

	2006	2005
	人民幣千元 Rmb'000	人民幣千元 Rmb'000
Within one year	<b>33,644</b>	56,165
In the second to fifth years, inclusive	<b>17,454</b>	23,754
	<b>51,098</b>	79,919

### 38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	<u>本集團</u>		<u>本公司</u>	
	Group		Company	
	2006	2005	2006	2005
	人民幣千元	人民幣千元	人民幣千元	人民幣千元
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted, but not provided for:				
Construction of vessels	7,633,629	1,881,664	4,624,093	1,724,618
Purchases of vessels	1,230,479	-	1,142,450	-
	<b>8,864,108</b>	1,881,664	<b>5,766,543</b>	1,724,618
Authorised, but not contracted for:				
Renovation of vessels	-	31,200	-	31,200
Capital contributions payable to jointly-controlled entities	-	70,000	-	70,000
	<b>8,864,108</b>	1,982,864	<b>5,766,543</b>	1,825,818

In addition, the Group's share of the jointly-controlled entities' capital commitments at the balance sheet date was as follows:

	2006	2005
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Contracted, but not provided for:		
Construction of vessels	512,446	189,246
Purchases of vessels	952,375	67,991
Renovation of vessels	-	15,365
	<b>1,464,821</b>	272,602

**財務報告附注(續)**

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**NOTES TO FINANCIAL STATEMENTS***(continued)*

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**39. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER HK GAAP AND PRC GAAP**

The Group has prepared a separate set of financial statements for the year ended 31 December 2006 in accordance with accounting principles generally accepted in the PRC ("PRC GAAP"). The major differences between the financial statements prepared under PRC GAAP and those under HK GAAP are as follows:

	2006	2005
	人民幣千元	人民幣千元
	Rmb'000	Rmb'000
Profit attributable to equity holders of the parent under HK GAAP	<b>2,755,850</b>	2,691,200
Adjustments for depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	<b>4,943</b>	23,023
Profit attributable to equity holders of the parent under PRC GAAP	<b><u>2,760,793</u></b>	<b><u>2,714,223</u></b>
Equity attributable to equity holders of the parent under HK GAAP	<b>12,596,924</b>	10,848,721
Adjustments for revaluation surplus, depreciation, gain on disposal of vessels and deferred staff expenditure, etc.	<b>(131,028)</b>	(137,497)
Equity attributable to equity holders of the parent under PRC GAAP	<b><u>12,465,896</u></b>	<b><u>10,711,224</u></b>

#### **40. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances detailed elsewhere in these financial statements, business transactions between the Group and its holding company, fellow subsidiaries and jointly-controlled entities of the Group as well as related parties for the year ended 31 December 2006, which are also considered by the directors as related party transactions, are set out below:

- (1) A services agreement dated 3 April 2001 between the Company and China Shipping became effective subsequent to an approval by the independent shareholders at an extraordinary general meeting held on 22 May 2001. Pursuant to the services agreement and a supplementary agreement entered into on 8 January 2004, China Shipping or its subsidiaries or jointly-controlled entities will provide to the Group the necessary supporting shipping materials and services for the ongoing operations of the Group, including the provision of dry-docking and repairs services, lubricating oil, fresh water supplies, raw materials and bunker oil, as well as other services. The service agreement has been updated by a new agreement entered into between China Shipping (and its subsidiaries and jointly-controlled entities) and the Company on 31 October 2006 which became effective from 1 January 2007 and will last for a period of 3 years. The fees for the agreed supplies payable to China Shipping were determined with reference to, depending on applicability and availability, any one among the state price, market price or cost.

Further details of the principal amounts paid by the Group to China Shipping, its subsidiaries or jointly-controlled entities in respect of the services agreement for the year ended 31 December 2006 are set out below:

## 財務報告附注(續)

## NOTES TO FINANCIAL STATEMENTS

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### 40. RELATED PARTY TRANSACTIONS

(continued)

		2006 總值 Total value	2005 總值 Total value
	價格基準 Pricing basis	人民幣千元 Rmb'000	人民幣千元 Rmb'000
Dry-docking and repairs	國家定價或市場價 State-fixed prices or market prices	<b>279,921</b>	343,325
Supply of lubricating oil, fresh water supplies, raw materials, bunker oil, mechanical and electrical engineering, ship stores and repairs and maintenance services for lifeboats	市場價 Market prices	<b>1,596,164</b>	1,332,408
Whitewashing and water treatment for vessels	國家定價或市場價 State-fixed prices or market prices	<b>10,033</b>	11,436
Installation, repairs and maintenance of telecommunication and navigational services	國家定價 State-fixed prices	<b>31,562</b>	23,740
Hiring of sea crew	市場價 Market prices	<b>164,050</b>	200,132
Accommodation, lodging and transportation for employees	市場價 Market prices	<b>7,813</b>	5,949
Medical services (for existing employees)	國家定價 State-fixed prices	<b>1,391</b>	1,596
Miscellaneous management services	市場價 Market prices	<b>46,970</b>	41,789
Agency commissions	市場價 Market prices	<b>71,896</b>	64,866
Service fees on sale and purchase of vessels, accessories and other equipment	市場價 Market prices	<b>1,245</b>	3,530

In connection with the above transactions and for other operating purposes, the Group made prepayments or advances to subsidiaries and jointly-controlled entities of China Shipping from time to time.

## 40. RELATED PARTY TRANSACTIONS

(continued)

- (2) Save for the related party transactions outlined above, details of the Group's related party transactions with the holding company, fellow subsidiaries, jointly-controlled entities and related companies are as follows:

	附注 Notes	2006 人民幣千元 Rmb'000	2005 人民幣千元 Rmb'000
Vessel chartering charges paid	(a)	<b>89,638</b>	97,041
Agency commissions paid		<b>897</b>	880
Vessel chartering income received	(b)	<b>(107,027)</b>	(96,609)
Sale of vessels	(c)	<b>(283,720)</b>	(123,463)
Vessel management fees	(d)	<b>(12,219)</b>	(11,282)
Purchases of vessels	(e)	<b>712,173</b>	-

Notes:

- (a) The Company has entered into the following agreements:

- A time charter party agreement on 22 December 2004 with one of its fellow subsidiaries, namely China Shipping (Hong Kong) Holdings Co., Ltd., whereby the Company has agreed to lease from this fellow subsidiary a vessel for a term of three years commencing 1 January 2005. The charter payment for this vessel for the year ended 31 December 2006 was Rmb55,965,000.
- A time charter party agreement on 22 December 2004 with one of its fellow subsidiaries, namely Shanghai Shipping Industrial Co., Ltd., whereby the Company has agreed to lease from this fellow subsidiary a vessel for a term of three years commencing 1 January 2005. The charter payment for this vessel for the year ended 31 December 2006 was Rmb27,777,000.

#### 40. RELATED PARTY TRANSACTIONS

(continued)

- A time charter party agreement with one of its fellow subsidiaries, namely Zhuhai Shipping Enterprise Co., Ltd., in the prior year, whereby the Company agreed to lease from this fellow subsidiary a vessel for a term commencing 1 January 2002 and ending on 9 September 2006, the scrap date of the vessel. The charter payment for this vessel for the year ended 31 December 2006 was Rmb5,896,000.
  
- (b) The Company has entered into the following agreements:
  - Together with one of its subsidiaries, namely China Shipping Development (Hong Kong) Marine Co., Limited (“China Shipping Hong Kong”), various bare-boat charter party agreements on 22 December 2004 with one of their fellow subsidiaries, namely China Shipping Container Lines Co., Ltd. (“CSC”), whereby the Company and China Shipping Hong Kong have agreed to lease to this fellow subsidiary four and five vessels for a term of three years commencing 1 January 2005. The chartering income for these vessels for the year ended 31 December 2006 was Rmb64,094,000.
  
  - Various bare-boat charter party agreements in 1998 with one of its fellow subsidiaries, namely CSC, whereby the Company has agreed to lease to this fellow subsidiary three vessels for a term of 12 years commencing 4 September 1998, 18 September 1998 and 23 September 1998, respectively, for a total consideration of Rmb2,520,000 for the year ended 31 December 2006.

#### **40. RELATED PARTY TRANSACTIONS**

**(continued)**

- A time charter party agreement with one of its jointly-controlled entities, namely Shanghai Times Shipping Co., Ltd. (“Times Shipping”), whereby Times Shipping has agreed to lease from the Company a vessel for a term of one year commencing 1 January 2006. Times Shipping has agreed to engage the Company’s voyage charter service in the year. The charter income for this vessel for the year ended 31 December 2006 was Rmb30,048,000.\*
- A bare-boat charter party agreement with one of its jointly-controlled entities, namely Shanghai Friendship Marine Co., Ltd. (“Friendship”), whereby Friendship has agreed to lease from the Company a vessel for a term of two years commencing 21 December 2005. The charter income for this vessel for the year ended 31 December 2006 was Rmb5,000,000.\*
- A bare-boat charter party agreement in year 2002 with one of its fellow subsidiaries, namely Shanghai Puhai Marine Co., Ltd., whereby the Company has agreed to lease to this fellow subsidiary a vessel for a term commencing 1 January 2002 and ending on the scrap date of the vessel. The chartering income for this vessel for the year ended 31 December 2006 was Rmb1,200,000.
- Some voyage charter party agreements with New Century, whereby New Century has agreed to engage the Company’s voyage charter services in year 2006. The charter income for these voyage charter services for the year ended 31 December 2006 was Rmb1,998,000.\*
- Some voyage charter party agreements with Times Shipping, whereby Times Shipping has agreed to engage the Company voyage charter services in year 2006. The charter income for these voyage charter services for the year ended 31 December 2006 was Rmb2,167,000.\*

#### 40. RELATED PARTY TRANSACTIONS

(continued)

- (c) The Company and one of its fellow subsidiaries, namely Yuzhou Ship Dismantling Company Limited, entered into a sale and purchase agreement on 21 April 2006, whereby the Company has agreed to sell and the fellow subsidiary has agreed to purchase the oil tanker named "Daqing 232", and thereafter to dismantle it for scrap metal. The consideration for the sale of this vessel was Rmb10,245,000 as determined based on the market price of scrap metal.

On 11 December 2006, China Shipping Hong Kong, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with one of its fellow subsidiaries, namely China Shipping Haisheng (Hong Kong) Co., Ltd. Pursuant to this agreement, China Shipping Hong Kong has agreed to sell 4 oil tankers to China Shipping Haisheng HK for a total consideration of Rmb240,800,000 as determined by reference to the asset valuation report of the oil tankers dated 21 September 2006 issued by an independent and qualified PRC valuer.

The Company and one of its fellow subsidiaries, namely Digang Dili Material Recovery Company (Dili Recovery Company), entered into two sale and purchase agreements on 15 January 2006 and 28 December 2006, respectively, whereby the Company has agreed to sell and Dili Recovery Company has agreed to purchase two oil tankers, and thereafter to dismantle them for scrap metal. The consideration for the sale of these vessels was respectively Rmb15,388,000 and Rmb17,287,000, respectively, as determined based on the market price of scrap metal.

#### **40. RELATED PARTY TRANSACTIONS**

**(continued)**

- (d) On 27 May 1998, the Company entered into two cargo vessel management agreements with Dalian Shipping (Group) Company (“Dalian Shipping”) and Guangzhou Maritime Transport (Group) Company Limited (“Guangzhou Maritime”) for the management of their 15 and 57 cargo vessels (the “Cargo Vessels”), respectively. Each of the cargo vessel management agreements contains an option exercisable by the Company at any time prior to the expiration thereof to acquire any of the Cargo Vessels, and under which the Company has a right of first refusal in respect of any proposed sale of the Cargo Vessels. In the event that Dalian Shipping or Guangzhou Maritime ceases to own any of the Cargo Vessels, the management fees shall be reduced accordingly by the percentage represented by the tonnage of the vessels disposed of to the total tonnage of the Cargo Vessels.

On 22 June 2005, the Company entered into two supplementary agreements with Guangzhou Maritime and Dalian Shipping, respectively. According to these agreements, Guangzhou Maritime should pay the Company Rmb10,136,000 (2005: Rmb9,199,000) for the management of its cargo vessels during the year ended 31 December 2006, while Dalian Shipping should pay Rmb2,083,000 (2005: Rmb2,083,000) for similar services in the same year.

- (e) On 31 October 2006, the Company exercised the option mentioned in note (d) above by entering into an acquisition agreement with China Shipping to acquire 42 cargo vessels for a total consideration of Rmb2.47 billion. Nine vessels had been delivered to the Company as at 31 December 2006 according to the acquisition agreement. The remaining 33 vessels were delivered to the Company in January and March 2007.

**40. RELATED PARTY TRANSACTIONS****(continued)**

- (f) Pursuant to a board resolution passed on 19 October 2006, the Company acquired the 50% equity interest in Times Shipping held by Hainan Haixiang for a consideration of Rmb411,839,000. After the transaction, Hainan Haixiang was liquidated on 31 December 2006.
  
- (g) Pursuant to a board resolution passed on 24 November 2006, the Company made an additional capital injection of Rmb350 million to Times Shipping.
  
- (h) Pursuant to two bare-boat charter party agreements both dated 20 October 1994, Shanghai Shipping (Group) Company (“Shanghai Shipping”, formerly the Company’s holding company and now a fellow subsidiary) agreed to charter two vessels to the Company from their respective dates of delivery to the Company until full repayment of the principal and interest of the related loans borrowed by Shanghai Shipping to purchase the vessels and under which, on due completion of the charters, the vessels will become the Company’s property. The vessels were delivered to the Company on 1 January 1996. The principal amounts to be paid each year until 2007 total approximately DM7.6 million. With the currency reform in Europe starting from 1 January 2002, the principal amounts re-denominated to Euro amount to approximately EURO3.9 million.
  
- (i) Pursuant to the share transfer agreement entered into between the Company and China Shipping on 9 September 2002, the Company transferred its 25% equity interest in CSC to China Shipping for a consideration of Rmb1. The Company is entitled to an option to buy back from China Shipping all or part of the interest in CSC disposed of on terms and for considerations to be agreed between the two parties (“the Option”). It was resolved in the board meeting of the Company on 8 January 2004 that the Company would not exercise the option within three years from the date when CSC was converted into a joint stock limited company, which was on 3 March 2004.

## 40. RELATED PARTY TRANSACTIONS

(continued)

(3) Outstanding balances with related parties:

Details of the Group's current account balances with its fellow subsidiaries as at the balance sheet date are disclosed in notes 20, 21, 23 and 24 to the financial statements.

(4) Compensation of key management personnel of the Group:

	2006 人民幣千元 Rmb'000	2005 人民幣千元 Rmb'000
Fees	180	180
Other emoluments:		
Salaries, allowances and benefits in kind	2,852	3,570
Pension scheme contributions	122	96
	<u>3,154</u>	<u>3,846</u>

Details of directors' and supervisor's emoluments are included in note 8 to the financial statements.

Except for the vessel chartering transactions with certain jointly-controlled entities of the Group, namely New Century, Times Shipping and Friendship, as disclosed with asterisks in paragraph (2)(b) above, and the capital injection to Times Shipping as disclosed in paragraph (2)(g) above, the above related party transactions as disclosed in paragraphs (1) and (2) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

December 2006, after taking into account the effect of the interest rate swaps, all of the Group's interest-bearing borrowings bore interest at fixed rates.

**41. FINANCIAL RISK MANAGEMENT  
OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, principally including interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

*Cash flow interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain all its interest-bearing borrowings at fixed interest rates. To manage this in a cost-effective manner, the Group enters into interest rate swaps, whereby the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31

#### **41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES(continued)**

##### *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 41.4% (2005: 39.7%) of the Group's revenue is denominated in currencies other than the functional currency of the operating units earning the revenue, whilst almost 76.9% (2005: 77.9%) of costs are denominated in the unit's functional currency.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise the effectiveness of the hedges.

The Group entered into swap arrangements for borrowings denominated in foreign currencies other than USD.

##### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES(continued)**

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases.

**42. POST BALANCE SHEET EVENT**

- (a) On 5 March 2007, a bank loan of Rmb720,000,000 included in the current portion of bank and other borrowing has been replaced by a long-term loan offered by the bank.
- (b) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

**43. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 29 March 2007.