

2.15 Convertible bonds that contain an equity component (.../Cont'd)

When the bonds are converted, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

2.16 Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as cross currency swap agreements and interest rate swap agreements to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of cross currency swap agreements is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap agreements is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized immediately in the income statement.

2.16 Derivative financial instruments and hedging (.../Cont'd)

Cash flow hedges (.../Cont'd)

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

2.17 Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) from shipping operations, on the percentage of completion basis;
- (b) rental income arising from assets leased out under operating leases are recognized on a straight-line basis over the period of each lease;
- (c) from vessel management, in the period in which the vessels are managed in accordance with the respective agreement;
- (d) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (f) dividend income, when the shareholders' right to receive payment has been established;
- (g) other service income is recognized when the services are rendered.

2.18 Bunker oil inventories and ship stores and spare parts

Bunker oil inventories are stated at cost less any impairment losses considered necessary by the directors. Cost is determined on the weighted average cost method basis.

Ship stores and spare parts are charged as operating expenses when purchased.

2.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

2.20 Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

2.20 Income tax (.../Cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.21 Foreign currencies

(a) *Functional and presentation currency*

Items included in the 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 Group's presentation and functional currency.

(b) *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 recognized in the income statement.

(c) *Translation for foreign operations*

For the foreign operations, the Company translated all items into reporting currency – RMB. All the assets and liabilities accounts at the balance sheet date are translated into RMB at the market rates of exchange prevailing as at that date. The equity accounts except for the "undistributed profits" are translated into RMB at the exchange rate on the date of occurrence. Income and expenses for each income statement are translated at average exchange rates. The translation difference between the assets, liabilities and equity is listed as a separate item behind "undistributed profits". Foreign exchange gains and losses resulting from the settlement of transactions and from the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.22 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

2.23 Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

2.24 Accounting estimates and judgements

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimates is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Depreciation of vessels

The Group determines the depreciation amount of vessels based on the estimated useful lives and residual values, which are reviewed at each balance sheet date. The principal assumptions for the Group's estimation of the useful lives and residual values include those related to the mode of operations, government regulations and scrap value of vessels in future. The carrying amount of the Group's vessels as at 31 December 2008 was RMB13,612,102,000 (2007: RMB14,212,139,000).

2.24 Accounting estimates and judgements (.../Cont'd)

Estimated net realizable value of inventories

The Group makes provision for slow-moving or obsolete inventories based on an assessment of the net realizable value of the inventories. Provisions are applied to the inventories where events or changes in circumstances indicate that net realizable value is less than cost. The determination of net realizable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have impact on carrying value of the inventories and provisions of inventory expenses in the period in which such estimate has been changed.

Estimated provision for impairment of trade, prepayments, deposits and trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade, prepayments, deposits and trade and other receivables. Provisions are applied to trade, prepayments, deposits and trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Valuation of convertible bonds

On initial recognition date, the fair value of convertible bonds that are not traded in an active market is determined by using discounted cash flow method. The Group uses its judgement to make assumptions that are mainly based on market conditions existing at the issue date. Details of the key assumptions are disclosed in note 30.

Provision for losses incurred in accidents

Provision for losses incurred in accidents is made based on an assessment of the outcome of negotiations, arbitration or litigation and the recoverability of losses from insurance companies, which requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of the provisions and losses incurred in accidents/write-back in the period in which such estimate has been changed.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN ACCOUNTING POLICIES

3.1 Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements:

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN ACCOUNTING POLICIES (.../Cont'd)

3.1 Impact of new and revised HKFRSs (.../Cont'd)

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

3.2 Impact of HKFRSs issued but not yet effective

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and obligations arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly controlled entity or Associate ²
HKFRS2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8 (Revised)	Operating Segments ²
HK(IFRIC)–INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC)–INT 15	Agreements for the Construction of Real Estate ²
HK(IFRIC)–INT 16	Hedges of a Net Investment in a Foreign Operation ⁵
HK(IFRIC)–INT 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC)–INT 18	Transfer of Assets from Customers ³

¹ Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 July 2008

⁵ Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40, and HKAS 41.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN ACCOUNTING POLICIES (.../Cont'd)

3.2 Impact of HKFRSs issued but not yet effective (.../Cont'd)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and anticipated that the adoption of the above revised and amended standards will not have a material impact on the results of operations and the financial position of the Group in the period of initial application.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The Group's business segments are categorised as follows:

- (a) oil shipment;
- (b) coal shipment;
- (c) other dry bulk shipment; and
- (d) rental income from vessel chartering

In determining the Group's geographical segments, revenues and results are attributed to the segments based on domestic and international shipment.

Business segments

The following table presents revenue and results information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Oil shipment		Coal Shipment		Other dry bulk shipment		Rental income from vessel chartering		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
Revenue	5,994,525	4,924,349	6,872,280	5,324,189	2,487,621	2,146,201	1,859,857	-	17,214,283	12,394,739
Segment results	1,795,648	1,392,688	3,436,601	2,482,111	970,955	1,190,632	(99,692)	-	6,103,512	5,065,431
Unallocated revenue:										
Other income and gains									460,900	542,947
Unallocated operating expenses:										
Marketing expenses									(37,907)	(36,744)
Administrative expenses									(256,883)	(214,841)
Other expenses									(284,429)	(21,374)
Share of profits of jointly-controlled entities									531,566	165,745
Finance costs									(84,074)	(173,129)
Profit before tax									6,432,685	5,328,035
Tax									(1,056,690)	(781,652)
Profit for the year									5,375,995	4,546,383

4. SEGMENT INFORMATION (.../Cont'd)

The net book values of oil vessels and cargo vessels at 31 December 2008 amounted to RMB8,666,391,000 and RMB4,945,711,000 respectively. Since the Group's assets and liabilities (other than the vessels) are not directly employed according to its business segments, nor could they be allocated to these segments on a reasonable basis, business segment information relating to segment assets and liabilities is not presented.

Geographical segments

The following table presents revenue and segment results from operating activities by geographical area of operations for the years ended 31 December 2008 and 2007.

	Year ended 31 December 2008		Year ended 31 December 2007	
	Revenue	Contribution	Revenue	Contribution
	RMB'000	RMB'000	RMB'000	RMB'000
Domestic	9,417,115	4,211,445	7,312,282	3,144,305
International	7,797,168	1,892,067	5,082,457	1,921,126
	<u>17,214,283</u>	6,103,512	<u>12,394,739</u>	5,065,431
Other income and gains		460,900		542,947
Marketing expenses		(37,907)		(36,744)
Administrative expenses		(256,883)		(214,841)
Other expenses		(284,429)		(21,374)
Share of profits of jointly-controlled entities		531,566		165,745
Finance cost		<u>(84,074)</u>		<u>(173,129)</u>
Profit before tax		6,432,685		5,328,035
Tax		<u>(1,056,690)</u>		<u>(781,652)</u>
Profit for the year		<u>5,375,995</u>		<u>4,546,383</u>

The principal assets employed by the Group are located in the PRC, and accordingly, no segment analysis of assets and expenditure has been prepared for the year.