

Management's Discussion and Analysis

The following section should be read in conjunction with our audited consolidated financial statements and accompanying notes presented in this annual report.

OVERVIEW

For the year ended 31 December 2006, the profit before income tax of the Group amounted to RMB5,514 million, representing a year-on-year increase of 54.8%. The profit attributable to equity holders of the Company amounted to RMB 3,199 million, representing a year-on-year increase of 45.7%. The earnings per share of the Company was RMB0.29.

The following is a comparison of financial results between the year ended 31 December 2006 and 2005.

CONSOLIDATED RESULTS OF OPERATIONS

Turnover

Turnover in 2006 amounted to RMB114,881 million, representing an increase of RMB 31,616 million or 38.0% from RMB83,265 million in 2005. The growth was mainly attributable to the increase of turnover in Infrastructure Construction Business, Dredging Business and Port Machinery Manufacturing Business, amounting to RMB21,497 million (before elimination of inter-segment transactions), RMB3,627 million (before elimination of inter-segment transactions), RMB5,081 million (before elimination of inter-segment transactions) respectively, representing an increase of 39.3%, 53.2% and 36.4%, respectively.

Cost of Sales and Gross Profit

Cost of sales in 2006 amounted to RMB103,066 million, representing an increase of RMB 27,956 million or 37.2% from RMB75,110 million in 2005. The growth was mainly attributable to the increase in cost of sales in Infrastructure Construction Business, Dredging Business and Port Machinery Manufacturing Business, amounting to RMB19,927 million (before elimination of inter-segment transactions), RMB2,840 million (before elimination of inter-segment transactions), RMB4,033 million (before elimination of inter-segment transactions) respectively, representing an increase of 38.8%, 49.6% and 33.5%, respectively.

As a result, gross profit in 2006 amounted to RMB11,815 million, representing an increase of RMB3,660 million or 44.9% from RMB8,155 million in 2005. The gross profit margin increased to 10.3% in 2006 from 9.8% in 2005.

Operating Profit

Operating profit in 2006 amounted to RMB6,488 million, representing an increase of RMB2,679 million or 70.3% from RMB3,809 million in 2005. The increase was mainly attributable to the increase in Infrastructure Construction Business, Dredging Business and Port Machinery Manufacturing Business, amounting to RMB991 million (before elimination of inter-segment transactions), RMB777 million (before elimination of inter-segment transactions) and RMB762 million (before elimination of inter-segment transactions) respectively, representing an increase of 105.3%, 143.9% and 48.3%, respectively. The operating profit margin increased from 4.6% in 2005 to 5.6% in 2006.

Interest Income

Interest income amounted to RMB347 million in 2006, representing an increase of RMB230 million from RMB117 million in 2005. It was mainly attributable to the interest income from oversubscription proceeds under the Hong Kong public offering as part of the Company's global offering.

Finance Costs

Finance costs amounted to RMB1,337 million in 2006, representing an increase of RMB904 million or 208.8% from RMB433 million in 2005. The increase was mainly due to an increase in interest expenses of RMB355 million, and a decrease of RMB436 million in net foreign exchange gains on borrowings from RMB591 million in 2005 to RMB155 million in 2006, primarily attributable to movement in exchange rates of the Renminbi against the U.S. dollar, Euro and Japanese Yen.

Share of Loss of Jointly Controlled Entities

Share of losses from jointly controlled entities amounted to RMB93 million in 2006 and RMB47 million in 2005.

Share of Profit of Associates

Share of the profits of associates amounted to RMB109 million in 2006 and RMB117 million in 2005.



Management's Discussion and Analysis (Continued)

CONSOLIDATED RESULTS OF OPERATIONS (Continued)

Profit before Income Tax

As a result of the foregoing factors, profit before income tax amounted to RMB5,514 million in 2006, representing an increase of RMB1,951 million or 54.8% from RMB3,563 million in 2005.

Income Tax Expense

Income tax expense amounted to RMB1,228 million in 2006, representing an increase of RMB636 million or 107.4% from RMB592 million in 2005. The effective tax rates for the Group in 2006 and 2005 were 22.3% and 16.6%, respectively. The increase in effective tax rate was mainly due to a tax credit of RMB290 million in 2005 arising from certain notional employee costs and benefits that became deductible for income tax purpose in 2005.

Minority Interests

Minority interests amounted to RMB1,087 million in 2006, an increase of RMB311 million or 40.1% from RMB776 million in 2005, primarily as a result of an increase in profit from Shanghai Zhenhua Port Machinery Co. Ltd ("ZPMC"), which is a subsidiary held by the Group with 43.26% shareholding as at 31 December 2006 (and 50.32% shareholding as at 31 December 2005).

Profit Attributable to Equity Holders of the Company

As a result of the foregoing factors, profit attributable to equity holders of the Company in 2006 amounted to RMB3,199 million, an increase of RMB1,004 million or 45.7% from RMB2,195 million in 2005. Profit margin with respect to profit attributable to equity holders of the Company was 2.8% in 2006, as compared to 2.6% in 2005.

DISCUSSION OF SEGMENT OPERATIONS

The following table sets forth the turnover, gross profit and operating profit of the Group for the years ended 31 December 2006 and 2005.

Business	Turnover		Gross Profit		Gross Profit Margin		Operating Profit ⁽¹⁾		Operating Profit Margin	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(RMB million)		(RMB million)		(%)		(RMB million)		(%)	
Infrastructure Construction	76,220	54,723	4,878	3,308	6.4	6.0	1,932	941	2.5	1.7
% of total	65.5	64.9	41.3	40.5			29.3	24.1		
Infrastructure Design	5,502	4,441	1,653	1,413	30.0	31.8	863	716	15.7	16.1
% of total	4.7	5.3	14.0	17.3			13.1	18.4		
Dredging	10,450	6,823	1,887	1,100	18.1	16.1	1,317	540	12.6	7.9
% of total	9.0	8.1	16.0	13.5			20.0	13.9		
Port Machinery Manufacturing	19,028	13,947	2,956	1,908	15.5	13.7	2,339	1,577	12.3	11.3
% of total	16.4	16.5	25.0	23.3			35.5	40.4		
Other businesses	5,111	4,409	441	443	8.6	10.0	139	124	2.7	2.8
% of total	4.4	5.2	3.7	5.4			2.1	3.2		
Subtotal	116,311	84,343	11,815	8,172			6,590	3,898		
Inter-segment elimination and unallocated costs	(1,430)	(1,078)	—	(17)			(102)	(89)		
Total	114,881	83,265	11,815	8,155	10.3	9.8	6,488	3,809	5.6	4.6

(1) Total operating profit represents the total segment results less unallocated costs.

Management's Discussion and Analysis (Continued)

DISCUSSION OF SEGMENT OPERATIONS (Continued)

Infrastructure Construction Business

The financial information for the Infrastructure Construction Business presented in this section is before elimination of inter-segment transactions and before unallocated expenses.

The following table sets out the principal profit and loss information for the Infrastructure Construction Business for the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Turnover	76,220	54,723
Cost of sales	(71,342)	(51,415)
Gross profit	4,878	3,308
Selling and marketing expenses	(54)	(51)
Administrative expenses	(3,063)	(2,376)
Other income/(expenses), net ⁽¹⁾	171	60
Segment result	1,932	941
Depreciation and amortisation	1,196	1,110

(1) Other income/(expenses), net in our segment discussion reflects other income, expenses and other gains/(losses), net combined.

Turnover. Turnover from Infrastructure Construction Business in 2006 was RMB76,220 million, an increase of RMB21,497 million, or 39.3%, as compared with RMB54,723 million in 2005, primarily due to an increase in the aggregate value of projects undertaken by the Group, driven by demand for our services. This increase was primarily attributable to the growth in infrastructure expenditure by the PRC government. The value of new contracts entered into for the Infrastructure Construction Business in 2006 was RMB105,214 million, an increase of RMB36,832 million, or 53.9%, as compared with RMB68,382 million in 2005. No single project accounted for more than 5% of the Group's total turnover in 2006 or 2005.

Cost of sales and gross profit. Cost of sales for the Infrastructure Construction Business in 2006 was RMB71,342 million, an increase of RMB19,927 million or 38.8%, as compared with RMB51,415 million in 2005. Cost of sales as a percentage of turnover decreased from 94.0% in 2005 to 93.6% in 2006, primarily as a result of control over raw materials and employee benefits. As the growth in our business outpaced the growth in our capacity, we had increasingly subcontracted to third parties. The Group realised lower gross margins on projects that were subcontracted out than projects executed by itself, however, the Group adopted measures to strengthen controls over subcontracting costs.

Gross profit from the Infrastructure Construction Business in 2006 increased RMB1,570 million, or 47.5%, to RMB4,878 million from RMB3,308 million in 2005. Gross profit margin increased from 6.0% in 2005 to 6.4% in 2006.

Selling and marketing expenses. Selling and marketing expenses for the Infrastructure Construction Business in 2006 was RMB54 million, an increase of RMB3 million, or 5.9%, as compared with RMB51 million in 2005 primarily due to increased turnover.

Administrative expenses. Administrative expenses for the Infrastructure Construction Business in 2006 was RMB3,063 million, an increase of RMB687 million, or 28.9%, as compared with RMB2,376 million in 2005, primarily due to the increase in employee benefits, partially offset by a decrease in provisions for impairment of accounts receivables. Administrative expenses as a percentage of turnover decreased from 4.3% in 2005 to 4.0% in 2006.

Other income/(expenses), net. Other income/(expenses), net for the Infrastructure Construction Business increased by RMB111 million from RMB60 million in 2005 to RMB171 million in 2006.

Segment result. As a result of the above, segment result for the Infrastructure Construction Business in 2006 was RMB1,932 million, an increase of RMB991 million, or 105.3%, as compared with RMB941 million in 2005. Segment result margin increased from 1.7% in 2005 to 2.5% in 2006.



Management's Discussion and Analysis (Continued)

DISCUSSION OF SEGMENT OPERATIONS (Continued)

Infrastructure Design Business

The financial information for the Infrastructure Design Business presented in this section is before elimination of inter-segment transactions and before unallocated expenses.

The following table sets out the principal profit and loss information for the Infrastructure Design Business for the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Turnover	5,502	4,441
Cost of sales	(3,849)	(3,028)
Gross profit	1,653	1,413
Selling and marketing expenses	(93)	(145)
Administrative expenses	(787)	(554)
Other income/(expenses), net ⁽¹⁾	90	2
Segment result	863	716
Depreciation and amortisation	104	93

(1) Other income/(expenses), net in our segment discussion reflects other income, expenses and other gains/(losses), net combined.

Turnover. Turnover from the Infrastructure Design Business in 2006 was RMB5,502 million, an increase of RMB1,061 million, or 23.9%, as compared with RMB4,441 million in 2005. This increase was primarily attributable to an increase in the aggregate value of design contracts, including comprehensive contracts. An increase in the aggregate value of design contracts was primarily due to an increase in infrastructure expenditure by the PRC government and higher demand for our specialised design skills and experience in complex projects. The value of new contracts entered into for the Infrastructure Design Business in 2006 was RMB6,868 million, an increase of RMB1,450 million, or 26.8%, as compared with RMB5,418 million in 2005.

Cost of sales and gross profit. Cost of sales for the Infrastructure Design Business in 2006 was RMB3,849 million, an increase of RMB821 million, or 27.1%, as compared with RMB3,028 million in 2005. Cost of sales as a percentage of turnover increased from 68.2% in 2005 to 70.0% in 2006, primarily due to an increase in subcontracting costs arising from an increase in construction projects undertaken by the Infrastructure Design Business and an increase in cost of raw materials.

Gross profits from the Infrastructure Design Business in 2006 were RMB1,653 million, an increase of RMB240 million, or 17.0%, as compared with RMB1,413 million in 2005.

Selling and marketing expenses. Selling and marketing expenses for the Infrastructure Design Business in 2006 was RMB93 million, a decrease of RMB52 million, or 35.9%, as compared with RMB145 million in 2005.

Administrative expenses. Administrative expenses for the Infrastructure Design Business in 2006 was RMB787 million, an increase of RMB233 million, or 42.1%, as compared with RMB554 million in 2005. Administrative expenses as a percentage of turnover remained relatively stable, increasing from 12.5% in 2005 to 14.3% in 2006, primarily due to the increased employee benefits.

Other income/(expenses), net. Other income/(expenses), net for the Infrastructure Design Business in 2006 was RMB90 million, an increase of RMB88 million, as compared with RMB2 million in 2005.

Segment result. As a result of the above, segment result for the Infrastructure Design Business in 2006 was RMB863 million, an increase of RMB147 million, or 20.5%, as compared with RMB716 million in 2005. Segment result margin decreased from 16.1% in 2005 to 15.7% in 2006.

Management's Discussion and Analysis (Continued)

DISCUSSION OF SEGMENT OPERATIONS (Continued)

Dredging Business

The financial information for the Dredging Business presented in this section is before elimination of inter-segment transactions and before unallocated expenses.

The following table sets out the principal profit and loss information for the Dredging Business for the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Turnover	10,450	6,823
Cost of sales	(8,563)	(5,723)
Gross profit	1,887	1,100
Selling and marketing expenses	(25)	(21)
Administrative expenses	(637)	(550)
Other income/(expenses), net ⁽¹⁾	92	11
Segment result	1,317	540
Depreciation and amortisation	400	371

(1) Other income/(expenses), net in our segment discussion reflects other income, expenses and other gains/(losses), net combined.

Turnover. Turnover from the Dredging Business in 2006 was RMB10,450 million, an increase of RMB3,627 million, or 53.2%, as compared with RMB6,823 million in 2005. The increase in turnover was primarily attributable to increased port development activities and urbanisation in the PRC, which led to higher demand for our dredging services, and our stronger market position, which led to a bigger bargaining power. The value of new contracts entered into for the Dredging Business in 2006 was RMB11,392 million, an increase of RMB1,502 million, or 15.2%, as compared with RMB9,890 million in 2005.

Cost of sales and gross profit. Cost of sales for the Dredging Business in 2006 was RMB8,563 million, an increase of RMB2,840 million, or 49.6%, as compared with RMB5,723 million in 2005. Cost of sales as a percentage of turnover for our Dredging Business in 2006 was 81.9%, decreasing from 83.9% in 2005. The decrease was primarily attributable to the implementation of cost control including a tighten cost control in subcontracting.

Gross profit from the Dredging Business in 2006 was RMB1,887 million, an increase of RMB787 million or 71.5%, as compared with RMB1,100 million in 2005. Gross profit margin for the Dredging Business increased from 16.1% in 2005 to 18.1% in 2006.

Selling and marketing expenses. Selling and marketing expenses for the Dredging Business in 2006 was RMB25 million, an increase of RMB4 million, or 19.0%, as compared with RMB21 million in 2005.

Administrative expenses. Administrative expenses for the Dredging Business in 2006 was RMB637 million, an increase of RMB87 million, or 15.8%, as compared with RMB550 million in 2005. Administrative expenses as a percentage of turnover decreased from 8.1% in 2005 to 6.1% in 2006, primarily due to the recovery of certain amount of impaired accounts receivables in 2006. We also reversed certain amount of provisions for impairment on receivables after assessing the collectibility of the receivables in 2006.

Other income/(expenses), net. Other income/(expenses), net for the Dredging Business in 2005 was income of RMB92 million, an increase of RMB81 million, as compared with expense of RMB11 million in 2005.

Segment result. As a result of the above, segment result for the Dredging Business in 2006 was RMB1,317 million, an increase of RMB777 million, or 143.9%, as compared with RMB540 million in 2005. Segment result margin increased from 7.9% in 2005 to 12.6% in 2006.



Management's Discussion and Analysis (Continued)

DISCUSSION OF SEGMENT OPERATIONS (Continued)

Port Machinery Manufacturing Business

The financial information for the Port Machinery Manufacturing Business presented in this section is before elimination of inter-segment transactions and before unallocated expenses.

The following table sets out the principal profit and loss information for the Port Machinery Manufacturing Business for the years ended 31 December 2006 and 31 December 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Turnover	19,028	13,947
Cost of sales	(16,072)	(12,039)
Gross profit	2,956	1,908
Selling and marketing expenses	(46)	(39)
Administrative expenses	(511)	(367)
Other income/(expenses), net ⁽¹⁾	(60)	75
Segment result	2,339	1,577
Depreciation and amortisation	460	320

(1) Other income/(expenses), net in our segment discussion reflects other income, expenses and other gains/(losses), net combined.

Turnover. Turnover from the Port Machinery Manufacturing Business in 2006 was RMB19,028 million, an increase of RMB5,081 million, or 36.4%, as compared with RMB13,947 million in 2005. This increase was primarily due to growth in global container transportation, which continued to drive the increase in market demand for the Company's products, which was met by further increasing the Company's production capacity. The value of new contracts entered into for the Port Machinery Manufacturing Business in 2006 was RMB25,868 million, an increase of RMB4,268 million, or 19.8%, as compared with RMB21,600 million in 2005.

Cost of sales and gross profit. Cost of sales for the Port Machinery Manufacturing Business in 2006 was RMB16,072 million, an increase of RMB4,033 million, or 33.5%, as compared with RMB12,039 million in 2005, primarily due to an increase in turnover. Cost of sales as a percentage of turnover decreased from 86.3% in 2005 to 84.5% in 2006. This decrease was primarily due to the implementation of cost controls.

Gross profit from the Port Machinery Manufacturing Business in 2006 was RMB2,956 million, an increase of RMB1,048 million or 54.9%, as compared with RMB1,908 million in 2005. Gross profit margin increased from 13.7% in 2005 to 15.5% in 2006.

Selling and marketing expenses. Selling and marketing expenses for the Port Machinery Manufacturing Business in 2006 was RMB46 million, an increase of RMB7 million, or 17.9%, as compared with RMB39 million in 2005, which was in line with the increasing turnover.

Administrative expenses. Administrative expenses for the Port Machinery Manufacturing Business in 2006 was RMB511 million, an increase of RMB144 million, or 39.2%, as compared with RMB367 million in 2005, primarily due to an increase in turnover. Administrative expenses as a percentage of turnover for the Port Machinery Manufacturing Business increased from 2.6% in 2005 to 2.7% in 2006, primarily due to the increased spending on research and development and employee benefits in relation to technical personnel, partially offset by the increasing economies of scale resulted from the growth of our business.

Other income/(expenses), net. Other income/(expenses), net for the Port Machinery Manufacturing Business in 2006 was expenses of RMB60 million, as compared with income of RMB75 million in 2005.

Segment result. As a result of the above, segment result for the Port Machinery Manufacturing Business in 2006 was RMB2,339 million, an increase of RMB762 million, or 48.3%, as compared with RMB1,577 million in 2005. Segment result margin increased from 11.3% in 2005 to 12.3% in 2006.

Management's Discussion and Analysis (Continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company's business requires a significant amount of working capital to finance the purchase of raw materials and the performance of engineering, construction and other work on projects before payment is received from clients. The Company historically met its working capital and other capital requirements principally from cash provided by operations, while financing the remainder of the Company's requirements primarily through borrowings.

Cash Flow Data

The following table presents selected cash flow data from our consolidated cash flow statements for 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Net cash generated from operating activities	3,495	2,914
Net cash used in investment activities	(8,032)	(4,942)
Net cash generated from financing activities	24,606	2,884
Net increase in cash and cash equivalents	20,069	856
Cash and cash equivalents at beginning of the year	10,797	9,993
Exchange losses on cash and cash equivalents	(73)	(52)
Cash and cash equivalents at end of the year	30,793	10,797

Cash flow from operating activities

In 2006, net cash generated from operating activities increased to RMB3,495 million from RMB2,914 million in 2005. This increase of RMB581 million was primarily due to an increase in cash generated from operations, partially offset by an increase in interest paid and income tax paid in 2006. Cash generated from operations before changes in working capital increased to RMB9,019 million in 2006 from RMB5,902 million in 2005, primarily as a result of increased profit in 2006. In 2006, changes in working capital amounted to RMB3,459 million, primarily as a result of cash of RMB9,466 million used by increases in trade and other receivables and cash of RMB5,699 million used by increases in contract work-in-progress; partially offset by cash of RMB12,447 million provided by increases in trade and other payables.

Cash flow from investment activities

Net cash used in investing activities in 2006 was RMB8,032 million as compared with RMB4,942 million in 2005. The increase of RMB3,090 million was primarily due to an increase in capital expenditures for property, plant and equipment including dredgers and an increase in investment in BOT projects. In 2006, we had purchases of property, plant and equipment (including dredgers) of RMB7,067 million and acquisition of intangible assets principally concession assets in BOT projects of RMB1,342 million, partially offset by proceeds from disposal of property, plant and equipment of RMB375 million and interest and dividends received of RMB584 million.

Cash flow from financing activities

Net cash generated from financing activities in 2006 was RMB24,606 million as compared to RMB2,884 million in 2005. The increase was primarily due to the proceeds from our initial public offering of RMB17,878 million and proceeds from borrowings of RMB29,043 million in 2006, which was partially offset by repayments of borrowings of RMB20,552 million and payment of special distribution of RMB1,556 million to CCCG, the Company's parent company.



Management's Discussion and Analysis (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Capital Expenditure

Our capital expenditure principally comprises expenditure from the building of plants, purchases of property, vessels and equipment and investment in BOT projects. The following table set forth our capital expenditure by business for the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006 RMB million	2005 RMB million
Infrastructure Construction Business	3,591	2,739
Infrastructure Design Business	271	186
Dredging Business	1,293	676
Port Machinery Manufacturing Business	3,241	1,606
Other	100	121
Total	8,496	5,328

Capital expenditure in 2006 was RMB8,496 million, as compared to RMB5,328 million in 2005. The increase of RMB3,168 million or 59.5% was primarily due to the purchase of additional dredgers to increase our dredging capacity and the capital expenditure for the building of additional production base for the Port Machinery Manufacturing Business.

Working Capital

Contract work-in-progress

The following table sets out our contract work-in-progress as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006 RMB million	2005 RMB million
Contract cost incurred plus recognised profit less recognised losses	171,683	145,684
Less: Progress billings	(157,123)	(136,103)
Contract work-in-progress	14,560	9,581
Representing:		
Amount due from customers for contract work	20,903	14,001
Amount due to customers for contract work	(6,343)	(4,420)
	14,560	9,581

The increase in contract work-in-progress of RMB4,979 million or 52.0% was attributable to the growth in our core businesses (mainly the Infrastructure Construction Business and the Port Machinery Manufacturing Business).

Management's Discussion and Analysis (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Working Capital (Continued)

Accounts receivable and accounts payable

The following table sets forth the turnover of our average accounts receivable and average accounts payable for the years ended 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	Number of days	Number of days
Turnover of average trade and bills receivable ⁽¹⁾	52	54
Turnover of average accounts payable and bills payable ⁽²⁾	78	77

(1) Average accounts receivable equals accounts receivable net of provisions at the beginning of the year plus accounts receivable net of provisions at the end of the year divided by 2. Turnover of average accounts receivable (in days) equals average accounts receivable divided by turnover and multiplied by 365.

(2) Average accounts payable equals accounts payable at the beginning of the year plus accounts payable at the end of the year divided by 2. Turnover of average accounts payable (in days) equals average accounts payable divided by cost of sales and multiplied by 365.

The following table sets forth an ageing analysis of trade and bills receivables as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Less than 6 months	15,791	10,690
6 months to 1 year	2,622	2,102
1 year to 2 years	1,276	1,182
2 years to 3 years	384	426
Over 3 years	990	1,065
	21,063	15,465

Majority of the Company's revenues is generated through construction projects and settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. For sales of products, a credit period ranging from 30 to 90 days may be granted to large or long-established customers with good repayment history. Revenues from small, new or short-term customers are normally expected to be settled shortly after provision of services or delivery of goods. Management closely monitors the recovery of the Company's overdue trade and bills receivables on a regular basis, and, when appropriate, provides for impairment of these trade and bills receivable. As at 31 December 2006, we had a provision for impairment of RMB1,775 million, which covers all trade and bills receivables aged over two years and approximately 31.4% of trade and bills receivables aged between one year and two years.

The following table sets forth an ageing analysis of trade and bills payables as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Within 1 year	24,107	16,885
1 year to 2 years	1,333	914
2 years to 3 years	210	275
Over 3 years	206	184
	25,856	18,258



Management's Discussion and Analysis (Continued)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Working Capital (Continued)

Accounts receivable and accounts payable (Continued)

For purchase of raw materials, our suppliers typically grant us a credit period ranging from 30 to 90 days. Payment of subcontracting charges is made in accordance with the terms of the contracts governing the relevant transactions which normally range from 45 to 60 days.

Payments to suppliers and subcontractors may be delayed as a result of delays in settlement from our customers. Nevertheless, there have been no material disputes arising from the non-timely payment of outstanding balances under our supplier contracts or contracts with subcontractors.

Retentions

The following table sets forth the fair value of the retentions as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Current	2,010	2,315
Non-current	1,354	784
Total	3,364	3,099

INDEBTEDNESS

Borrowings

The following table sets out the maturities of our total borrowings as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Total Borrowings		
— Within 1 year	22,098	17,470
— Between 1 year and 2 years	2,350	1,100
— Between 2 years and 5 years	3,617	3,044
Wholly repayable within 5 years	28,065	21,614
— Over 5 years	2,624	836
	30,689	22,450

Our borrowings are primarily denominated in Renminbi, U.S. dollars, and to a lesser extent, Euro, Hong Kong dollars and Japanese Yen. The following table sets out the carrying amounts of our borrowings by currencies as at 31 December 2006 and 2005.

	Year ended 31 December	
	2006	2005
	RMB million	RMB million
Total Borrowings		
Renminbi	19,050	12,047
U.S. dollar	7,264	6,375
Hong Kong dollar	620	1,557
Japanese yen	1,494	915
Euro	2,261	1,548
Others	—	8
	30,689	22,450

The gearing ratio (total liabilities / total assets) was 71.1%, representing a decrease of 13.2 percentage points from that of 2005. This was mainly attributable to the increase of equity as a result of our initial public offering in 2006.

Management's Discussion and Analysis (Continued)

INDEBTEDNESS (Continued)

Contingent Liabilities

We has contingent liabilities in respect of legal claims arising in the ordinary course of business.

	2006 RMB million	2005 RMB million
Pending lawsuits (Note a)	134	67
Outstanding loan guarantees (Note b)	283	473
	417	540

- (a) We have been named in a number of lawsuits arising in the ordinary course of business. No provision has been made for pending lawsuits when the outcome of the lawsuits cannot be reasonably estimated or management believes the probability of loss is remote.
- (b) We have acted as the guarantor for various external borrowings made by certain jointly controlled entities and associates of the Group and certain third party entities.

MARKET RISKS

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Interest rate risk

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Our income and operating cash flows are substantially independent of changes in market interest rates as the we have no significant interest-bearing assets.

Our exposure to changes in interest rates is mainly attributable to our borrowings. Borrowings at variable rates expose us to cash flow interest-rate risk. Borrowings at fixed rates expose us to fair value interest-rate risk. As at 31 December 2005 and 2006, approximately RMB17,278 million and RMB20,587 million of our borrowings were at fixed rates.

Foreign exchange risk

Our functional currency is Renminbi with most of our transactions settled in Renminbi. We use, however, foreign currencies to settle our invoices from overseas operations, our purchases of machinery and equipment from overseas suppliers and for certain expenses. In addition, a significant proportion of our bank borrowings are denominated in foreign currencies, particularly the U.S. dollar, the Euro and the Japanese Yen. Renminbi is not freely convertible into other foreign currencies and conversion of the Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. In July 2005, the PRC government introduced a managed floating exchange rate system to allow Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and may in the future make further adjustments to the exchange rate system. When Renminbi appreciates, the value of foreign currency denominated assets will decline against Renminbi.

Fluctuations in foreign exchange currency rates could adversely affect us by decreasing any revenues from our sales which are denominated in foreign currency and increasing our borrowings which are denominated in foreign currencies.

During the years ended 31 December 2006 and 2005, certain of the group companies used foreign currency forward contracts for transaction with domestic and overseas registered banks, to hedge our exposure to foreign currency risk on individual transactions in connection with Renminbi.

