Annual Report 2005

上海棟華石油化工股份有限公司
SHANGHAI DONGHUA PETROCHEMICAL CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(stock code: 8251)

* *For identification purposes only*

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This report will remain on the "Latest Company Announcements" page of the GEM website (www.hkgem.com) for at least seven days from the day of its posting.

Contents

Summary of Financial Information

(Expressed in Thousands of Renminbi, except for earnings per share)

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31 December		
	2005	2004	2003
Turnover	**683,761**	530,698	310,890
Profit before taxation	**62,408**	28,778	17,341
Profit attributable to equity holders of the Company	**52,372**	24,014	14,746
Net profit margins	**7.66%**	4.52%	4.74%
Earnings per share (RMB)	**0.182**	0.100	0.071

AUDITED CONSOLIDATED BALANCE SHEET

	As at 31 December		
	2005	2004	2003
Non-current assets	**67,392**	14,099	9,580
Current assets	**195,720**	99,415	51,108
Current liabilities	**(121,193)**	(67,280)	(29,307)
Minority interests	**(1,935)**	(335)	(118)
Capital and reserves attributable to the Company's equity holders	**139,984**	45,899	31,263

Corporate Information

EXECUTIVE DIRECTORS

Qian Wenhua – *Chairman*
Lu Yong – *General Manager, Vice Chairman*
Yao Peie
Zhang Jinhua
Li Hongyuan

NON-EXECUTIVE DIRECTOR

Hsu Chun-min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhu Shengfu
Lv Renzhi
Ye Mingzhu

SUPERVISORS

Gu Xiaoqing
Shao Dan
Gao Xiaolan

COMPLIANCE ADVISER

Shenyin Wanguo Capital (H.K.) Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADDRESS

706 Renhe Building
2056 Pudong Road
Pudong New Area
Shanghai
the PRC, 200135

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 902
Kai Wong Commercial Building
222 Queen's Road Central
Hong Kong

COMPANY HOMEPAGE/WEBSITE

www.dhpec.com

COMPLIANCE OFFICER

Lu Yong

COMPANY SECRETARY

Chan Chor Ming, *FCPA, FCCA, MPA*

AUTHORISED REPRESENTATIVES

Lu Yong
Chan Chor Ming, *FCPA, FCCA, MPA*

QUALIFIED ACCOUNTANT

Chan Chor Ming, *FCPA, FCCA, MPA*

MEMBERS OF THE AUDIT COMMITTEE

Zhu Shengfu
Lv Renzhi
Ye Mingzhu

MEMBERS OF THE REMUNERATION COMMITTEE

Qian Wenhua
Zhu Shengfu
Lv Renzhi
Ye Mingzhu

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-16
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Shanghai
Industrial and Commercial Bank of China
Agricultural Bank of China
Bank of Communication

Chairman's Statement

The Company had its initial public offering in Hong Kong on 13 July 2005 and raised net proceeds of approximately RMB44 million. The listing of the H shares of the Company has paved the way to raise funds for the existing projects and for future development.

To further penetrate the China market, the Group offers its customers with one-stop asphalt sales and logistics service including procurement, storage and delivery. Through our efforts to enhance the logistics service and corporate governance standards, we shall execute our development projects as planned.

RESULTS OF THE YEAR

For the year ended 31 December 2005, the Group has recorded an operating profit of approximately RMB63.3 million and profits attributable to the equity holders of the Company of approximately RMB52.4 million which represented a growth of 111.5% and 118.1% respectively. The Group's income was basically originated from the sales of asphalt in China.

LOGISTICS FRAMEWORK

It is the Group's policy to take advantage of the Yangtze River routes and has either installed or extended the network locations with aggregate storage capacities amounting to 32,000 tons in Shanghai City, Anqing City of Anhui Province, Jiujiang City of Jiangxi Province, Jiaxing City of Zhejiang Province and Wuhan City of Hubei Province.

As of 31 December 2005, the Group has set up 8 network locations with a total storage capacity of 42,800 tons which was 4 times the capacity at 31 December 2004.

In addition, the Group is setting up or expanding the network locations along the Yangtze River coasts and in the inland regions involving a total storage capacity of 101,000 tons which are expected to commence operation around the 3rd quarter of 2006. The Group's storage capacity will then reach 143,800 tons.

In the mean time, the Group is seeking for other suitable network locations along the Yangtze River coasts and in the inland regions in order to substantiate the development plans.

The Group has set up "Shanghai Shenhua Logistics Company Limited" (上海神華物流有限公司) ("Shenhua Company") which focuses on asphalt delivery. The Company and its subsidiary (the "Group") owned 99% equity interests of Shenhua Company. The principal activity of Shenhua Company is to provide professional delivery service by asphalt vehicles. At present, Shenhua Company has established branches in Nanchang City of Jiangxi Province and Wuhan City of Hubei Province. Shenhua Company has acquired 25 asphalt vehicles with a total loading of approximately 700 tons. It is expected to strengthen the Group's distribution capacity and will further lower the Group's distribution costs.

The Group has acquired an ocean carrier with a loading of 3,250 tons of asphalt and time chartered in another 2 ocean carriers with a total loading of 9,100 tons of asphalt. The 3 vessels, being ocean voyagers, are different to the existing fleet category of the Group and can facilitate the Group's overseas asphalt purchase. They are expected to lower the overall asphalt purchase costs of the Group.

The Group has also established a wholly-owned subsidiary in Hong Kong, Donghua (Hong Kong) Company Limited, to administer the Group's importing of asphalt. This policy will reduce both the intermediate handling procedures and handling costs for import of asphalt.

Chairman's Statement *(continued)*

CORPORATE GOVERNANCE

The Group has been accredited with ISO9000 which laid a strong foundation to regulate the Group's operation and management.

The Group will upgrade its information system and emphasis on strengthening the management of project documentation, financial and human resources.

To widen the panel of directorship, the Board and the General Meeting of the Company have respectively on 30 December 2005 and 16 February 2006 approve the appointment of Mr Hsu Chun-min as the Company's non-executive director. Mr Hsu has more than 20 years experience in the area of petroleum product trading, finance and investment.

HUMAN RESOURCES

In 2005, the Group has recruited 22 staff for different departments including finance, technical, information service and logistics. The success of the Group is founded on our sophisticated and outstanding staff. The Board hereby expresses its appreciation to the contributions of the staff team for the past one year and would expect their valuable contributions to bring further continued success to the new business of the Group in the near future.

APPRECIATION

Finally, I wish to express my gratitude to the industrious and professional performance of the Board members. In light of the remarkable results of the Group, I sincerely appreciate and thank you for your supports and contributions.

Qian Wenhua
Chairman

22 March 2006, Shanghai, PRC

Management Discussion and Analysis

BUSINESS REVIEW

Turnover

For the year ended 31 December 2005, the Group has recorded turnover of approximately RMB683.8 million (2004: RMB530.7 million) representing a growth of approximately 28.84% year-on-year. The substantial growth of turnover of the Group was principally attributable to the strong demand on the asphalt and the increase in average selling price of the asphalt sold. The domestic consumption of asphalt in China in 2005 has gone up by 5% when compared with 2004 and has reached about 13.16 million tons. The Group's average selling price of asphalt has increased by approximately 31% and come to approximately RMB2,161 per ton.

Cost of Sales

For the year ended 31 December 2005, the Group's cost of sales was approximately RMB576.4 million (2004: RMB469.1 million), representing an increase of around 22.87% year-on-year. The Group's cost of sales comprised mainly the purchase costs of asphalt. The increase in cost of sales was corresponding to the increasing demand of asphalt in China. The Group's average purchase costs of asphalt when compared with 2004 has increased by around 25% and reached approximately RMB1,821 per ton. The Group has monitored its procurement strategy from time to time so as to control the impact of increasing asphalt purchase costs.

Gross Profit

For the year ended 31 December 2005, the Group's gross profit was approximately RMB107.3 million. The gross profit margin has increased from around 11.60% in 2004 to around 15.70% in 2005. The improvement was mainly attributable to the Group's bulk procurement strategy as well as the increase in average selling price of asphalt.

Investment Income

The Group's investment income has increased from approximately RMB1 million in 2004 to approximately RMB1.3 million in 2005 which was mainly due to the increase in cash dividend income received from the available-for-sale investments of the Group.

Distribution Costs

The distribution costs for current year were approximately RMB24.6 million and increased by 2.11% year-on-year. The better management of logistics functions such as storage and delivery service has further effectively controlled the distribution costs from escalating with the growing turnover.

General and Administrative Expenses

For the year ended 31 December 2005, the Group's general and administrative expenses were around RMB20.8 million which represented an increase of approximately 142.63% year-on-year. The increase was mainly due to the increase on employee benefit expenses, legal expenses and auditors' remuneration.

Finance Costs

The finance costs for the year were about RMB1.9 million and increased by 69% year-on-year. The increase was mainly attributable to the increase in interest expenses in discounted commercial notes and foreign exchange losses.

Management Discussion and Analysis *(continued)*

Profit for the Year

For the year ended 31 December 2005, the Group has recorded profit for the year of approximately RMB52.4 million (2004: RMB24 million) representing a growth of approximately 118% over last year. The remarkable increase in the Group's profit for the year was mainly attributable to the Group's increase in the efficiency of the logistic system and bulk procurement strategy and the increase in average selling price of asphalt.

OUTLOOK

Under the 11th five-year plan of China, a total of RMB100 billion will be invested in infrastructure within 5 years. Basically, the highway networks of the nation, the 5 vertical and 7 horizontal ("五縱七橫") national main roads and the western provincial road networks will all be completed. It is expected that 95% of the rural cities and villages become accessible by asphalt (cement) roads. According to the China National Highway Network Plan《國家高速公路網規劃》, China will construct additional 34 highways before 2020 with the total mileage of highways in the country reaching 85,000 kilometers.

China has constructed a total of approximately 41,000 kilometers of highways. More than half of them have entered the early or mid-stages of maintenance.

In the near future, it is foreseen that road maintenance and construction will consume a high volume of asphalt. Within the 11th five-year plan period, the asphalt consumption in China may exceed 13 million tons per annum. The Group will take this opportunity to further extend the market to achieve a sales target of 450,000 tons of asphalt for 2006.

Immediate Plans

The Group adheres strictly to its development targets to build up its networks along the Yangtze River and in the central mainland provinces. The Group is committed to improve its logistics facilities to provide its customers with one-stop asphalt sales and delivery services. The details are as follows:–

1. Install storage hubs with a total capacity of 31,000 tons in Changzhou City of Jiangsu Province and Nanchang City of Jiangxi Province; to upgrade the asphalt storage facilities in Wuhan City from 15,000 tons to 22,000 tons and to upgrade the asphalt storage facilities in Shanghai Wai Gao Qiao from 11,000 tons to 21,000 tons. The aforesaid projects will be commissioned in the 2nd quarter of 2006 which will expand the Group's networks along the Yangtze River coasts.

2. Complete the construction of storage facilities with capacity of 38,000 tons in Zhengzhou City in the 3rd quarter of 2006 in order to extend into the inland markets.

3. Increase 25 asphalt delivery vehicles which make up a total of 50 vehicles under Shenhua Company. The total loading capacity will reach 1,400 tons which will re-inforce the distribution capacity and lower the distribution costs through scale of economy.

4. Properly utilize ocean liners to lower the cost of purchases and will become the major delivery channel of the Group's procurement of asphalt.

5. Utilize the advantage of the subsidiary company in Hong Kong by expanding the channel of procurement and to lower the commercial risks.

6. Launch an Enterprise Resource Planning (ERP) system to enhance corporate management.

7. Improve human resource management and training policies to upgrade the staff and employ professional staff if necessary.

Management Discussion and Analysis *(continued)*

Substantial Investments

On 11 November 2005, the Group acquired a property from an independent third party at a consideration of RMB18,483,080. The property acquired will be used as the headquarters of the Group in the PRC.

On 18 November 2005, the Group contracted to buy from an independent third party an ocean carrier with carrying capacity of 3,250 tons at RMB20.88 million. The carrier will facilitate the Group to direct purchase from overseas and will as expected further reduce the Group's overseas purchase costs.

On 12 October 2005, the Group established a professional asphalt delivery fleet, Shanghai Shenhua Logistics Company Limited ("Shenhua Company"). The total investment budget is RMB8 million. Shenhua Company focuses on distribution service of asphalt by vehicles. At the date of this report, Shenhua Company has set up branches in Nanchang City of Jiangxi Province and in Wuhan City of Hubei Province. Its fleet comprises 25 vehicles and has a total carrying loading of 700 tons. Besides reinforcing the Group's distribution capacity, it is believed that the Shenhua Company can further dilute the Group's distribution costs.

In the second half of 2005, the Group has invested RMB6.4 million in "Wuhan Hualong Highway Resources Company Limited" (武漢華隆公路物資有限公司). The target is to construct a storage hub with a capacity of 15,000 tons and a loading and unloading pier. The storage hub is completed in the 1st quarter of 2006. Wuhan City is strategically located at the Yangtze River coasts and at central western China which fits into the Group's expansion plan.

On 6 December 2005, the Company entered into an equity joint venture agreement with its subsidiary Shenhua Company to construct a 38,000 tons capacity storage hub on a piece of land with area of approximately 100,000 square meters in Zhengzhou City, Henan Province. The estimated total cost of investment is around RMB20 million. Henan Province is located near central and eastern China which is strategically significant in the market development and business growth of the Company. Within the 11th five-year plan of the country, Henan Province will consume an immense volume of asphalt per year to build additionally 2,500 kilometers of highways, 8,000 kilometers of first and second grade roads, and approximately 75,000 kilometers of new and upgraded rural roads.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets Value

As at 31 December 2005, the Group had a total net current assets of approximately RMB74.5 million (31.12.2004: RMB32.1 million). The current assets comprised: cash and cash equivalents amounting to RMB97.9 million (31.12.2004: RMB7.6 million), trade and other receivables of approximately RMB70.1 million (31.12.2004: RMB81.4 million), inventories of approximately RMB27.7 million (31.12.2004: RMB10.4 million). The current liabilities comprised: short term bank loans of about RMB35.5 million (31.12.2004: RMB32.5 million), trade and other payables of about RMB81.4 million (31.12.2004: RMB33.5 million), taxation payables of around RMB4.3 million (31.12.2004: RMB1.3 million). The net current asset value increased from RMB32.1 million in 2004 to RMB74.5 million in 2005 mainly arising from the net proceeds of initial public offer of the Company's H shares, increase of inventory, increase of bank loans and profits generated by the Group.

Working Capital

As at 31 December 2005, the Group had cash and cash equivalent items of approximately RMB97.9 million. The net cash generated from financing activities was approximately RMB40.2 million. The main source was mainly from the issue of H shares by the Company.

Management Discussion and Analysis *(continued)*

Borrowings and Bank Credits

As at 31 December 2005, the Group had short term borrowings of approximately RMB35.5 million (31.12.2004: RMB32.5 million). Short term borrowings of approximately RMB2.5 million were secured by certain properties of the Group.

Debt to Asset Ratio

The debt to asset ratio as at 31 December 2005 was 46% (2004: 59%) which was computed as total current liabilities divided by total assets.

Capital Structure and Financial Resources

As at 31 December 2005, the Group's net asset value was approximately RMB141.9 million. The Group's operation and investments were basically financed by internal resources, bank borrowings and the share capital.

Foreign Currency Risks

The Group's trade receivables were denominated in RMB whereas purchases were either denominated in RMB or USD. As such, the Group did not have significant foreign currency risks. The Group did not pursue any hedging or other relevant strategy.

Use of Proceeds from Listing

The Company has been listed on the GEM Board of the Hong Kong Stock Exchange on 13 July 2005. The net proceeds raised after deducting those direct listing expenses from the gross proceeds were approximately RMB44 million.

The original usage of the proceeds as published in the public offer and placing of shares document dated 30 June 2005 (the "Prospectus") has included using RMB40 million to fund certain acquisitions in Shanghai, including land use rights, piers and storage tank facilities, etc, to extend the intermediate storage capacities of the Group in Shanghai. These acquisitions were budget in accordance with a letter of intent signed with an independent third party. Nevertheless, the independent third party has expressly revoked to sell the assets and land use rights in compliance with the terms of the letter of intent. The Company has terminated the letter of intent after due consideration and rearranged the usage of the said RMB40 million.

On 10 March 2006, the General Meeting of the Company has duly authorized the Board of Directors to apply as they thought fit and appropriate. On 13 March 2006, the Group used RMB10.69 million to fund a joint venture project with an independent third party to build storage tanks with 38,000 tons capacities in Zhengzhou City, Henan Province, in order to penetrate the Henan market. This network location will ultimately engage approximately RMB20 million.

Progress of Business Objectives

The public offer and placing of shares document of the Company dated 30 June 2005 (the "Prospectus") has described the business objectives and their scheduled progress up to 31 December 2005 in order to achieve the long term business targets. During the period under review, the actual progress of the plan is as follows:–

EXTENDING THE STORAGE CENTRES:

PROJECT: TAI HE ROAD, SHANGHAI

Progress as Scheduled	Actual Performance
• Acquire pier, storage tanks and land use rights, upgrade the facilities and operations	The Company has signed a letter of intent with an independent third party on 1 July 2004 to acquire certain pier, storage tanks and land use rights. Nevertheless the party has revoked to sell the assets and land use rights in accordance with the terms of the letter of intent. The Company after due consideration has terminated the letter of intent and alter the use of funds.

PROJECT: WAI GAO QIAO, SHANGHAI

Progress as Scheduled	Actual Performance
• Acquire storage facilities, upgrade the facilities and operations	On 11 November 2005, the Company has entered into cooperation with an independent third party to build a storage tank with 10,000 tons capacity in Wai Gao Qiao District. The facilities will commission in the 2nd quarter of 2006. The Company funds the project with RMB6 million which is above the prior expectation by RMB1 million. The inflation of construction materials costs and the delay of commission date caused by longer than expected government approval procedures have both caused a higher investment budget to the Company.

Progress of Business Objectives *(continued)*

PROJECT: SET UP STORAGE CENTRES ALONG THE YANGTZE RIVER COASTAL AREA

	Progress as Scheduled	Actual Performance
• Hefei City, Anhui Province	Complete the construction, start operation and develop the market in Anhui Province	Completed and met the schedule
• Jiaxing City, Zhejiang Province	Complete the construction, start operation and develop the market in Zhejiang Province	Completed and met the schedule
• Jiujiang City, Jiangxi Province	Complete the acquisition, upgrade the facilities and start operation	Completed and met the schedule
• Wuhan City, Hubei Province	Complete the acquisition, upgrade the facilities and start operation	Completed the acquisition and the facilities are being upgraded. Expect to commence operation in 1st quarter of 2006. The delay of the project is caused by building additional pier facilities.

PROJECT: SET UP STORAGE CENTRES IN THE INLAND PROVINCES

	Progress as Scheduled	Actual Performance
• Shanxi Province	Commence negotiation	Negotiating

PROJECT: SET UP "DONGHUA HONG KONG"

Progress as Scheduled	Actual Performance
Set up the company and start operation	Completed and met the schedule

Besides the above business objectives, the company has implemented the followings:

- **Storage Centre in Zhengzhou City, Henan Province:**

  The Company commenced the construction of a storage hub with 38,000 tons capacity on a piece of land with 100,000 square meters in Zhengzhou City of Henan Province. The project investment budget is around RMB20 million and is expected to complete in 3rd quarter, 2006.

- **Storage Centre in Changzhou City, Jiangsu Province:**

  The Company plans to lease from an independent third party a storage tank with 15,000 tons capacity situated at Changzhou City. The tank is planned to be upgraded and commission in the 2nd quarter of 2006. As of 31 December 2005, the parties have finished the negotiation. Changzhou City situates on the Yangtze River coast and its geographical location fits into the Company's expansion plan.

Progress of Business Objectives *(continued)*

- **Storage Centre in Xiangtang City, Jiangxi Province:**

  The Company targets to lease from an independent third party a storage tank with 16,000 tons capacity situated at Xiangtang City. The tank is planned to be upgraded and commission in the 2nd quarter of 2006. As of 31 December 2005, the parties have finished the negotiation. Xiangtang City is close to Nan Chang City and the arterial railways and is quite convenient in transportation. While through the railway network, the depot is linked to the Group's suppliers, customers and the Zhengzhou project in the country.

- **Shenhua Company**

  The Group established a professional asphalt delivery fleet through Shenhua Company. The total investment budget is RMB8 million. Shenhua Company focuses on distribution service of asphalt by vehicles. At present, Shenhua Company has set up branches in Nan Chang City and Wuhan City. Its fleet comprises 25 vehicles and has a total loading capacity of 700 tons. In 2006, Shenhua Company will promote its services to cover all the network locations of the Group. Besides reinforcing the Group's distribution capacity, Shenhua Company is expected to further dilute the Group's distribution costs.

- **Ocean Carriers**

  The Company entered into a vessel purchase contract with an independent third party to acquire an ocean carrier at RMB20.88 million and with 3,250 tons of loading. The vessel is expected to finish construction and to operate in the 2nd quarter of 2006.

  The Company has also time chartered in 2 asphalt ocean carriers with total loadings of 9,100 tons. They have commissioned operation in January 2006.

  These vessels are different to the existing fleet category of the Group and are ocean voyagers that facilitate the Group's direct overseas asphalt purchase. They are expected to lower the overall asphalt purchase costs of the Group.

Profile of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Qian Wenhua (錢文華), aged 49, is a qualified Economist in China. He graduated from Shanghai Television University (上海電視大學) in July 1986 with a professional diploma in industrial enterprise management and obtained his Executive Master of Business Administration degree organized by Phoenix International University (鳳凰國際大學) and Fudan Qiushi College (復旦求是進修學院), which is ancillary to Fudan University (復旦大學), in December 2002. Mr Qian has over 20 years' experience in the asphalt industry. He worked in a subsidiary of 上海市建築材料供應總公司 (Shanghai Construction Materials Supplies Trading Company) from 1975 to 1996 as a sales personnel. During such period he was promoted to the position of manager and was responsible for the sale of asphalt. Mr. Qian was the general manager of 上海建築材料保税貿易行 (Shanghai Construction Materials Tax Free Trading Enterprise) during the period from 1996 to 1997. From 1997 to 2003, he became the chairman and general manager, and an executive director of the Company. Since June 2004, Mr. Qian has been appointed as the Chairman of the Company and is responsible for the business development of the Group.

Mr. Lu Yong (陸勇), aged 51, is qualified as an Assistant Economist in China. He was appointed as an executive director and vice general manager of the Company in 1999 and was appointed as vice chairman of the Company in December 2003 who is responsible for the Group's market development and asphalt storage function. Mr. Lu has been appointed as vice chairman and general manager of the Company since June 2004.

Mr. Li Hongyuan (李鴻源), aged 49, a qualified Economist in China. He graduated from Shanghai Television University (上海電視大學) with a diploma in industrial enterprise management in July 1986. Mr. Li has over 10 years' experience in construction material industry. He worked in Shanghai Fusi Leshi Bentai Construction Product Company Limited (上海富斯樂士本泰建築工程產品有限公司) as general manager from 1991 to 2001. He joined the Company in 2001 and was the supervisor of the company from 2001 to 2003. Mr. Li has been appointed as a vice general manager of the Company and a Director since December 2003. He is responsible for asphalt market information.

Ms. Yao Peie (姚培娥), aged 56, graduated from Shanghai Engineering University (上海市機電工業學校) with a diploma in accounting in June 1988. Before joining 上海建築材料保税貿易行 (Shanghai Construction Materials Tax Free Trading Enterprise), she worked in 上海市建築材料供應總公司 (Shanghai Construction Materials Supplies Trading Company) as an accountant from 1971 to 1993. She was appointed as a finance manager and an executive director of the Company in 1997. Ms. Yao has been appointed as a Director since December 2003 and has been responsible for the financial affairs of the Company.

Mr. Zhang Jinhua (張金華), aged 41, graduated from Yangzhou Education College (揚州師範學院) with a Bachelor degree in economics in June 1988. Prior to joining the Group, Mr Zhang was the Secretary in the Nantong City Commercial Bureau (南通市商業局) from 1988 to 1995. He joined the Company in December 2003 as a vice general manager and an executive Director. Mr. Zhang is responsible for the Group's market development and asphalt transportation.

NON-EXECUTIVE DIRECTOR

Mr Hsu Chun-min (許群敏), aged 53, graduated from 國立中興大學 (Guo Li Zhong Xing University) with a bachelor degree. He is now the vice general manager of 中塑油品股份有限公司 (Simosa Oil Co., Ltd.). He has over 20 years' experience in finance, investment analysis and system planning.

Profile of Directors, Supervisors and Senior Management

(continued)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Lv Renzhi (呂人祉), aged 61, is a Senior Business Operator (高級經營師). From 1984 onwards, he teaches economics at the Shanghai City Television University (上海市電視大學). He obtained the qualification of Economist in 1989 and Senior Business Operator (高級經營師) in 2003. From 1978 onwards, he works for Shanghai City Construction Materials Main Company (上海市建材集團總公司) and focuses on business planning.

Mr. Zhu Shengfu (朱生富), aged 56, is a Senior Business Operator (高級經營師). He obtained a diploma in industrial enterprise management at the Shanghai Television University (上海電視大學) in July 1986. He also obtained a degree in economics at the China Central Distance-Learning College (中共中央黨校函授學院) in December 1993 and the qualification of senior business operator (高級經營師) in 2003. From 1979 to 1993, he worked for Shanghai City Resources Bureau Officers's School (上海市建材局幹部學校) as the head of teaching and research department. From 1993 onwards, he has worked for Shanghai City Construction Resources Supplies Company (上海市建材供應總公司) as the head of the administration office.

Ms. Ye Mingzhu (葉明珠), aged 60, is a certified public accountant in China. Since September 1998, she has worked for Shanghai Xin Guang Certified Public Accountant Co., Ltd (上海信光會計師事務所).

SUPERVISORS AS NOMINATED BY THE SHAREHOLDERS OR EMPLOYEES

Mr. Shao Dan (邵丹), aged 28, graduated from the Shanghai Commercial School (上海商業學校) in accountancy in 1998 and Shanghai Fudan University Evening School (上海復旦大學夜大) in advertising in 2003. He joined the Company in 2002 and is currently working in the finance department.

Ms. Gao Xiaolan (高曉嵐), aged 29, graduated from Shanghai Technology and Engineering University (上海理工大學) in accountancy involving foreign entities. She joined the Company in 1998 and is currently working in the information resources department.

Ms. Gu Xiaoqing (顧曉慶), aged 25, graduated from Nanjing University of Posts & Telecommunications with a Bachelor degree in information technology in 2004. She joined the Company in June 2004 and is currently working in the information resources department.

SENIOR MANAGEMENT

Mr. Shen Linxiang (沈林祥), aged 39, graduated from Shanghai Institute of Building Materials (上海建築材料工業學院) with a diploma in building materials industrial enterprise management in July 1987. He obtained his Executive Master of Business Administration degree from Phoenix International University (鳳凰國際大學) in December 2002. He joined 上海建築材料保稅貿易行 (Shanghai Construction Materials Tax Free Trading Enterprise) in 1993. Mr. Shen has been appointed as a vice general manager of the Company since June 2004 and has been responsible for the inspection and supervision of the Group's business operations and the development of modifiable asphalt.

Mr. Jin Xiaohua (金曉華), aged 34, graduated from Shanghai Commerce Accountancy School (上海商業會計學校) with a diploma in business financial accounting in July 1992. He has been appointed as a vice general manager of the Company since June 2004 and has been responsible for marketing.

Ms. Ye Zhenghua (葉正華), aged 30, graduated from East China University of Science and Technology (華東理工大學) with a diploma in Technology English in July 1997. She also obtained a bachelor's degree in business administration from the Night College of Shanghai Jiao Tong University (上海交通大學夜大學). Before joining the Company, Ms. Ye worked in the Shanghai Branch of Korean Resources Limited (韓國資源產業株式會社上海代表處) as an assistant manager. She joined the Company in February 2004. Ms. Ye has been appointed as a vice general manager of the Company since May 2005 and has been responsible for the import procurement.

Profile of Directors, Supervisors and Senior Management

(continued)

Mr. Yang Hu (楊虎), aged 56, graduated from Shanghai Administration Institute (上海行政學院) with a diploma in materials management in July 1991. Before joining the Company's subsidiary, Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping"), he worked as an executive in 上海市建築材料供應總公司 (Shanghai Construction Material Supplies Trading Company) since 1974. Mr. Yang has been appointed as general manager of Suzhong Shipping since 2003 and has been responsible for the management and operation of the Group's vessel fleet.

Mr. Chan Chor Ming (陳楚明), aged 47, is the company secretary, qualified accountant and authorised representative of the Company. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He obtained his Master degree in professional accounting in June 2003 from The Open University of Hong Kong. Prior to joining the Group, he had accumulated more than twenty years of experience in the field of auditing and taxation.

Corporate Governance Report

INTRODUCTION

Subject to the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules since the listing of its shares in the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions with close reference to the required standard as set out in the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors since the listing of its shares in the year.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises 9 Directors, is responsible for corporate strategy, annual, interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

Mr. Qian Wenhua is the chairman of the Board of Directors. Mr Lu Yong is the vice chairman, general manager and an executive Director of the Company who performs the role of a chief executive officer. The division of responsibilities between the chairman and chief executive officer has been established.

The Company also appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. In addition, the shareholders of the Company have newly appointed in 2006 a non-executive Director, Hsu Chun-min, to enrich the profile of the Board of Directors.

The terms of appointment for all the executive Directors, non-executive Director and independent non-executive Directors are 3 years which conform to the two recommended best practices of: first, a specific term of appointment and second, retirement by rotation at least once every three years. All Directors shall be elected and removed by the shareholders in general meeting according to the Articles of the Company.

Corporate Governance Report *(continued)*

Attendance of individual Directors at Board meetings since the listing of the Company's shares in mid 2005:

Number of meetings	13	
Executive Directors:		
Qian Wenhua	13/13	100%
Lu Yong	13/13	100%
Li Hongyuan	13/13	100%
Yao Peie	13/13	100%
Zhang Jinhua	13/13	100%
Non-executive Directors:		
Hsu Chun-min (appointed on 16 February 2006)	–	–
Independent Non-executive Directors:		
Lv Renzhi	13/13	100%
Zhu Shengfu	12/13	92%
Ye Mingzhu	11/13	85%
Average attendance rate	97%	

Apart from regular board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda for decision before each board meeting.

REMUNERATION OF DIRECTORS

The remuneration committee was established in 2005. The majority of the committees are independent non-executive Directors and the committee chairman is Mr Lv Renzhi. Other committees are Ms Ye Mingzhu, Mr Zhu Shengfu and Mr Qian Wenhua.

The roles of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board about the remuneration of non-executive Director.

Details of the attendance of the remuneration committee meeting are as follows:

Number of meetings	3	
Executive Directors:		
Qian Wenhua	3/3	100%
Independent Non-executive Directors:		
Lv Renzhi	3/3	100%
Zhu Shengfu	3/3	100%
Ye Mingzhu	3/3	100%
Average attendance rate	100%	

Corporate Governance Report *(continued)*

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and the non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts are fair and reasonable.

NOMINATION OF DIRECTORS

The Company is newly listed in 2005 and does not have an immediate need to form any nomination committee. The Company will consider to form a nomination committee as necessary.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-auditing functions could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of approximately RMB930,000 to the external auditor for its auditing services.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises the three independent non-executive Directors. The chairman of the audit committee is Mr Lv Renzhi.

The audit committee held 2 meetings during the year since the listing of the Company. Details of the attendance of the audit committee:

Number of meetings		2	
Independent Non-executive Directors:			
Lv Renzhi	2/2		100%
Zhu Shengfu	2/2		100%
Ye Mingzhu	2/2		100%
Average attendance rate		100%	

The Group's unaudited half year interim results, third quarter results and annual audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which has the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 29 of this report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. The Directors are of the view that the existing system of internal control is effective and adequate to the Group.

Corporate Governance Report *(continued)*

MANAGEMENT FUNCTIONS

The Board is responsible for overall corporate strategy and control of the performance of the Group whereas the management is responsible for the daily hands on operation.

When the Board delegates certain functions to the management, it has given clear directions as to the powers of the management and the circumstances where Management shall obtain prior approval before making decisions or entering into any commitments.

The Company has established a list of functions reserved to the Board for decision and those delegated to the management. The Board shall review those arrangements regularly.

INVESTORS RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Meeting with media and investors were conducted periodically as necessary. The Company also replied the inquiry from shareholders timely.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2005, the supervisory committee of Shanghai Donghua Petrochemical Co. Ltd. (the "Supervisory Committee"), exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of trustworthiness, honestly carried out the duties of supervisors and worked cautiously and diligently, in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company for their accountability to the shareholders.

During the year, the major work performed by the Supervisory Committee included the attendance of the Board meetings; reviewing the report of the Directors and reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting; reviewed the use of proceeds from the listing of the Company in strict compliance with the plan of use of proceeds disclosed in the public offer and placing of shares document dated 30 June 2005 (the "Prospectus"); strictly and effectively monitored that whether the policies and decisions made by the management of the Company had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interest of the shareholders. The Supervisory Committee has also reviewed the performance of the Directors, general manager and senior management in the daily operation by various means, seriously examined the Company's financial affairs and its connected transactions. After the examination, the Supervisory Committee concluded that:

1. the report of the Directors and the reserve appropriation proposal prepared to be submitted by the Board for the shareholders' approval at the forthcoming annual general meeting are in accordance with the relevant laws and regulations and the Articles of Association of the Company;

2. the use of proceeds from the listing was in compliance with the plan of use of proceeds disclosed in the Prospectus;

3. the Directors, general manager and other senior management of the Company have strictly followed the principles of trustworthiness, work diligently and responsibly, and discharged their duties for the best interest of the Company. The Supervisory Committee has not discovered that any Directors, general manager and other senior management of the Company have abused their powers, damaged the interest of the Company or the benefits of the shareholders and employees nor contravened any laws and regulations or the Articles of Association of the Company;

4. the financial statements of the Company for the year ended 31 December 2005, which were audited by PricewaterhouseCoopers, has truly and fairly reflected the operating results and asset position of the Group. The related parties transactions were in compliance with the GEM Listing Rules and were fair and reasonable and had not infringed upon the interest of the Company and the shareholders.

The Supervisory Committee takes this opportunity to thank the shareholders, Directors and all the employees of the Company for their supports in the past year.

By order of the Supervisory Committee

Ms Gao Xiaolan
Chairman of the Supervisory Committee

Shanghai, 22 March 2006

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are trading of asphalt. The activities of its subsidiaries are set out in note 16 to the financial statements.

The Group operates in one business segment which is trading of asphalt in the PRC. All the Group's assets are located in the PRC and sales are made to customers located in the PRC. Accordingly, no separate segment information is disclosed.

FINANCIAL STATEMENTS, DIVIDENDS AND BONUS SHARES

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 30.

The state of the Group's affairs as at 31 December 2005 is set out in the consolidated balance sheet on page 31.

During the year, a special dividend of RMB0.0066 per share totaling RMB2,263,000 was declared and paid.

The Directors recommend the payment of a final dividend of RMB0.0396 per share totalling approximately RMB13,582,800 for the year.

The Directors further recommend a distribution of 343,000,000 bonus shares of RMB0.1 each to the shareholders at 1 bonus share for every 1 share held that amounting in total to RMB34,300,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 23 to the financial statements.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2005, calculated under the Company Law of the People's Republic of China (the "PRC"), being the jurisdiction in which the Company was established, amounted to RMB57,859,000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there was no restriction against such rights under the laws of the PRC, which would oblige the Company to offer new shares on a pro-rate basis to existing shareholders.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Group for the last three financial years is set out on page 2.

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

As at the date of this report, no option has been granted or agreed to be granted by the Company to any of its Directors, Supervisors or employees of the Company.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Qian Wenhua
Mr. Lu Yong
Ms. Yao Peie
Mr. Zhang Jinhua
Mr. Li Hongyuan

Non-executive Directors

Mr. Hsu Chun-min *(appointed on 16 February 2006)*

Independent Non-executive Directors

Mr. Zhu Shengfu
Mr. Lv Renzhi
Ms. Ye Mingzhu

The Company has received from each of the independent non-executive Directors the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all independent non-executive Directors are independent to the Group in accordance with the terms of the guidelines as set out in Rule 5.09 of the GEM Listing Rules.

In accordance with Article 95 of the Company's Articles of Association, all the Directors shall be appointed at the shareholders' general meeting for a term of three years. A director may serve consecutive terms if re-elected upon the expiration of the terms. All directors shall continue in office at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on pages from 14 to 16.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years from his/her date of appointment as a Director or supervisor and thereafter subject to termination by either party giving not less than one month's written notice to the other party.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the Directors' service contracts disclosed above, no contracts of significance in relation to the Group's business to which the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

At 31 December 2005, the interests of long or short position of the Directors, chief executives and supervisors of the Company (the "Supervisors") in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) was required, (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part V of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept therein, pursuant to section 352 of the SFO; or (c) to notify to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors referred to in Rule 5.46 of the GEM Listing Rules are as follows:

Long position in the shares, underlying shares and debentures of the Company:

Name of Directors	Capacity	Number of shares: Personal interest	Number of shares: Family Interest	Total long interest	Approximate percentage of shareholding in such class of shares of the Company	Approximate Percentage of shareholding in the registered share capital of the Company
Qian Wenhua (Executive Director)	Beneficial owner	95,896,000 (domestic shares)	17,927,000 *(Note 1)* (domestic shares)	113,823,000	47.23	33.19
Lu Yong (Executive Director)	Beneficial owner	31,309,000 (domestic shares)	–	31,309,000	13.05	9.13
Yao Peie (Executive Director)	Beneficial owner	17,273,000 (domestic shares)	–	17,273,000	7.20	5.04
Li Hongyuan (Executive Director)	Beneficial owner	9,200,000 (domestic shares)	–	9,200,000	3.83	2.68
Zhang Jinhua (Executive Director)	Beneficial owner	7,576,000 (domestic shares)	–	7,576,000	3.16	2.21

Note 1: The 17,927,000 shares are held by Liu Huiping, the wife of Qian Wenhua, and such shares are deemed to be family interests held by Qian Wenhua.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the persons or company (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO and who were directly and/or indirectly deem to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of shareholders	Capacity	Number of shares Personal interest	Family Interest	Total long interest	Approximate percentage of shareholding in such class of shares	Approximate Percentage of shareholding in the registered share capital of the Company
Liu Huiping *(Note 1)*	Beneficial owner	17,927,000 (domestic shares)	95,896,000 *(Note 1)* (domestic shares)	113,823,000	47.43	33.19
Shenyin Wanguo Strategic Investments (H.K.) Ltd.	Beneficial owner	30,300,000 (H Shares)	–	30,300,000	29.42	8.83
Shenyin Wanguo (H.K.) Limited *(Note 2)*	Interest of a controlled corporation	30,300,000 (H Shares)	–	30,300,000	29.42	8.83
中塑油品股份有限公司	Beneficial owner	14,500,000 (H Shares)	–	14,500,000	14.08	4.23
Lu Shuidi	Beneficial owner	5,840,000 (H Shares)	–	5,840,000	5.07	1.07

Notes

1. Liu Huiping is the wife of Qian Wenhua.

2. The entire issued share capital of Shenyin Wanguo Strategic Investment (H.K.) Limited is legally and beneficially owned by Shenyin Wanguo (H.K.) Limited. Accordingly, Shenyin Wanguo (H.K.) Limited is deemed to be interested in the shares registered in the name of Shenyin Wanguo Strategic Investment (H.K.) Limited.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

–	the largest customer	11%
–	five largest customers combined	42%

Purchases

–	the largest supplier	37%
–	five largest suppliers combined	89%

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

None of the Directors and Supervisors or their respective associates was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right during the year ended 31 December 2005.

AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.29 of the GEM Listing Rules, the Company established an audit committee with written terms of reference. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive directors, Ms. Ye Mingzhu, Mr. Zhu Shengfu and Mr. Lv Renzhi. Mr. Lv Renzhi is the chairman of the audit committee.

The audit committee has reviewed the Group's consolidated results for the year ended 31 December 2005 and had the opinion that the preparation of the results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

SUBSEQUENT EVENTS

Details of certain events after the balance sheet date are disclosed in note 29 to the financial statements.

Report of the Directors

RELATED PARTIES TRANSACTIONS

A summary of the related parties transactions are disclosed in note 28 to the financial statements.

STAFF AND REMUNERATION POLICY

In 2004 and 2005, the Group staff functions were analyzed as follows:

	Year ended 31 December Number of staff	
Functions:	**2005**	2004
Human resources	**2**	2
Information system	**5**	5
Sales and marketing	**22**	17
Accounting and finance	**8**	4
Management	**13**	5
Shipping and transportation	**7**	4
Storage centre	**33**	31
Total	**90**	68

On 31 December 2005, the Group had 90 staff (2004: 68 staff). Employees are remunerated according to market level, individual performance, qualification and working experience. Other benefits included social insurance scheme. The annual staff costs amounted to RMB9,790,000 (2004: RMB4,474,000).

All staff is entitled to the social insurance scheme. The insurance premiums are borne both by the Group and the staff in the relevant proportions according to the relevant laws of China to assure the staff's living expenditure upon their retirements.

The Group's bonus to the staff (including Directors and senior management staff) for the year ended 31 December 2005 was RMB4,031,400 (2004: RMB859,700).

The Group did not have a record of significant labour dispute or strike which has disrupted daily operations. The Directors regarded that the relationship with the staff were excellent.

COMPLETING INTERESTS

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

Report of the Directors

COMPLIANCE ADVISOR'S INTERESTS

Pursuant to the compliance adviser agreement dated 12 July 2005 entered into between the Company and Shenyin Wanguo Capital (H.K.) Limited ("SW Capital"), SW Capital has been appointed as the compliance adviser as required under the GEM Listing Rules for the period from 13 July 2005 to 31 December 2007. SW Capital is paid for acting as the Company's compliance adviser.

The Company has been notified by SW Capital, the compliance advisor of the Company, that at 31 December 2005, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital was interested in 30,300,000 H Shares of the Company. Save as disclosed above, none of SW Capital, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDITORS OF THE COMPANY

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Qian Wenhua
Chairman
Shanghai, The PRC, 23 March 2006

Auditors' Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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AUDITORS' REPORT TO THE SHAREHOLDERS OF
Shanghai Donghua Petrochemical Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 30 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2006

Consolidated Income Statement

		Year ended 31 December	
		2005	2004
	Note	***RMB'000***	*RMB'000*
Turnover	*5*	**683,761**	530,698
Cost of sales	*7*	**(576,425)**	(469,124)
Gross profit		**107,336**	61,574
Other revenues	*5*	**2,373**	1,746
Loss on disposal of an investment in a joint venture	*6*	**–**	(18)
Distribution costs	*7*	**(24,610)**	(24,102)
General and administrative expenses	*7*	**(20,784)**	(8,566)
Other operating expenses		**(989)**	(689)
Operating profit		**63,326**	29,945
Finance costs	*8*	**(1,890)**	(1,116)
Share of profit/(loss) of associates	*17*	**972**	(51)
Profit before taxation		**62,408**	28,778
Taxation	*9*	**(10,036)**	(4,757)
Profit for the year		**52,372**	24,021
Attributable to:			
Equity holders of the Company	*10*	**52,372**	24,014
Minority interests		–	7
		52,372	24,021
Dividends	*11*	**15,846**	5,000
Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB)	*12*	**0.182**	0.100

Consolidated Balance Sheet

	Note	As at 31 December **2005** ***RMB'000***	 2004 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**21,762**	8,948
Construction-in-progress	*15*	**34,874**	1,330
Investment in associates	*17*	**7,604**	1,699
Available-for-sale investments	*18*	**3,152**	2,122
		67,392	14,099
Current assets			
Inventories	*19*	**27,754**	10,443
Trade and other receivables	*20*	**70,080**	81,355
Cash and cash equivalents		**97,886**	7,617
		195,720	99,415
Total assets		**263,112**	113,514
LIABILITIES			
Current liabilities			
Trade and other payables	*21*	**81,407**	33,480
Taxation payable		**4,286**	1,300
Short-term bank loans	*22*	**35,500**	32,500
Total liabilities		**121,193**	67,280
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*23*	**34,300**	24,000
Proposed dividends	*11, 24*	**13,583**	5,000
Other reserves	*24*	**92,101**	16,899
Capital and reserves attributable to the Company's equity holders		**139,984**	45,899
Minority interest		**1,935**	335
Total equity		**141,919**	46,234
Total liabilities and equity		**263,112**	113,514
Net current assets		**74,527**	32,135
Total assets less current liabilities		**141,919**	46,234

Lu Yong
Director

Yao Peie
Director

Balance Sheet

		As at 31 December	
		2005	2004
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**9,929**	6,698
Construction-in-progress	*15*	**16,199**	1,330
Investment in subsidiaries	*16*	**38,425**	2,894
Investment in associates	*17*	**4,935**	1,750
Available-for-sale investments	*18*	**3,152**	2,122
		72,640	14,794
Current assets			
Inventories	*19*	**28,410**	10,443
Trade and other receivables	*20*	**113,185**	81,052
Cash and cash equivalents		**41,739**	7,480
		183,334	98,975
Total assets		**255,974**	113,769
LIABILITIES			
Current liabilities			
Trade and other payables	*21*	**76,247**	34,179
Taxation payable		**3,925**	1,265
Short-term bank loans	*22*	**35,500**	32,500
Total liabilities		**115,672**	67,944
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*23*	**34,300**	24,000
Proposed dividends	*11, 24*	**13,583**	5,000
Other reserves	*24*	**92,419**	16,825
Total equity		**140,302**	45,825
Total liabilities and equity		**255,974**	113,769
Net current assets		**67,662**	31,031
Total assets less current liabilities		**140,302**	45,825

Lu Yong
Director

Yao Peie
Director

Consolidated Statement of Change in Equity

	Note	Share capital RMB'000	Capital reserve RMB'000	Share issuance cost RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Currency translation reserve RMB'000	Retained earnings RMB'000	Minority Interest RMB'000	Total RMB'000
		Attributable to equity holders of the Company								
Balance at 1 January 2004		24,000	–	–	1,517	758	–	4,988	118	31,381
Dividend declared and paid in respect of the period from 1 August to 31 December 2003	*24*	–	–	–	–	–	–	(4,800)	–	(4,800)
Profit for the year		–	–	–	–	–	–	24,014	7	24,021
Direct costs attributable to new issuance of shares on the GEM	*23*	–	–	(4,578)	–	–	–	–	–	(4,578)
Appropriation	*24*	–	–	–	2,413	1,206	–	(3,619)	–	–
Capital injection by minority shareholders		–	–	–	–	–	–	–	250	250
Dividend relating to 2003		–	–	–	–	–	–	–	(40)	(40)
Balance at 31 December 2004		24,000	–	(4,578)	3,930	1,964	–	20,583	335	46,234
Balance at 1 January 2005		**24,000**	**–**	**(4,578)**	**3,930**	**1,964**	**–**	**20,583**	**335**	**46,234**
Issuance of H shares	*23*	10,300	34,117	12,512	–	–	–	–	–	56,929
Direct costs attributable to new issuance of shares on the GEM	*23*	–	–	(7,934)	–	–	–	–	–	(7,934)
Currency translation differences		–	–	–	–	–	(19)	–	–	(19)
Profit for the year		–	–	–	–	–	–	52,372	–	52,372
Appropriation	*24*	–	–	–	5,498	2,750	–	(8,248)	–	–
Dividend declared and paid in respect of the year 2004	*11*	–	–	–	–	–	–	(5,000)	–	(5,000)
Dividend declared and paid in respect of the period from 1 January to 30 June 2005	*11*	–	–	–	–	–	–	(2,263)	–	(2,263)
Minority interest – Consolidation of a new subsidiary		–	–	–	–	–	–	–	1,600	1,600
Balance at 31 December 2005		**34,300**	**34,117**	**–**	**9,428**	**4,714**	**(19)**	**57,444**	**1,935**	**141,919**

Consolidated Cash Flow Statement

	Note	Year ended 31 December **2005** *RMB'000*	2004 *RMB'000*
Cash flows from operating activities			
Cash received from customers		**861,162**	575,453
Cash payment to suppliers		**(708,032)**	(529,509)
Cash paid to and on behalf of employees		**(5,729)**	(4,572)
Other cash received		**2,546**	577
Other cash payments		**(44,453)**	(38,456)
Net cash inflow generated from operations	*25*	**105,494**	3,493
Interest paid		**(1,701)**	(1,116)
Taxes paid		**(7,050)**	(4,160)
Net cash inflow/(outflow) from operating activities		**96,743**	(1,783)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(38,671)**	(5,154)
Proceeds from disposal of property, plant and equipment		**100**	1,370
Interest received		**292**	59
Investment in and disposal of a joint venture, net		**–**	(18)
Acquisition of a subsidiary, net of cash acquired	*26*	**(3,869)**	–
Investments in and acquisition of associates		**(4,770)**	(1,750)
Acquisition of available-for-sale investments		**(1,030)**	–
Dividends received from unlisted investments		**1,280**	960
Net cash outflow from investing activities		**(46,668)**	(4,533)
Cash flows from financing activities			
Net proceeds from issuance of H shares	*23*	**44,417**	–
Proceeds from capital contribution by minority investors of subsidiaries		**40**	250
Draw down of loans		**39,000**	32,500
Repayment of loans		**(36,000)**	(19,300)
Dividends paid		**(7,263)**	(4,811)
Dividends paid to a minority investor of a subsidiary		**–**	(40)
Net cash inflow from financing		**40,194**	8,599
Net increase in cash and cash equivalents		**90,269**	2,283
Cash and cash equivalents at beginning of the year		**7,617**	5,334
Cash and cash equivalents at end of the year		**97,886**	7,617
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**97,886**	7,617

Notes to Financial Statements

For the year ended 31 December 2005

1. GENERAL INFORMATION

Shanghai Donghua Petrochemical Co., Ltd. ("the Company") was established in the People's Republic of China ("the PRC") as a privately owned company and became a joint stock limited company on 30 December 2003 by converting its paid-in capital and reserves as at 31 July 2003 into 24 million ordinary shares of RMB1.00 each.

Pursuant to an approval by the China Securities Regulatory Commission on 18 February 2005, the Company's share capital has been approved to be sub-divided from 24,000,000 ordinary shares of RMB1.00 each to 240,000,000 ordinary shares of RMB0.10 each.

On 13 July 2005, the Company issued a total number of 103 million H shares (30.03% of the total issued ordinary share capital), which were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited in July 2005. Together with original 240 million domestic shares of the Company, a total of 343 million ordinary shares (including H shares) are in issue as at 31 December 2005.

The principal activities of the Company are trading of asphalt. The principal activities of the Company's subsidiaries are set out in Note 16. All sales of the Group are made to customers located in the PRC.

The address of the Company's registered office is 706 Renhe Building, 2056 Pudong Road, Pudong New Area, Shanghai, the PRC.

These consolidated financial statements are presented in units of Renminbi (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relatively significant to the financial statements, are described in Note 4.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as appropriate, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 32, 33, 36, 38, 39, HKAS-Ints 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies, nor any significant impact on the financial statements of the Group and the Company. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 28, 33, 36, 38, HKAS-Ints 15 and HKFRS 3 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

– The adoption of HKASs 32 and 39 does not have a material effect on the Group's policies except for the following:

(i) Reclassification of investment securities into available-for-sale investments on the balance sheet; and

(ii) Previously, commercial notes receivable discounted on a with recourse basis were derecognized from the balance sheet and were disclosed as contingent liabilities. Upon adoption of HKAS 39, such notes discounted are not derecognized from the balance sheet, and the cash proceeds received are recorded as short-term loans (see Note 22).

There was no impact on opening retained earnings at 1 January 2004 from the adoption of new/revised HKFRS.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follow:

HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. These amendments are not relevant to the Group's operation as it does not maintain any defined benefit plan during the years ended 31 December 2005 and 2004.

HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as it does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments. The Group will apply this amendment from annual periods beginning 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. This amendment is not relevant to the Group's operations, as it does not have any guarantee to other third parties.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as it is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). HKFRS 6 is not relevant to the Group's operations.

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). HKFRS-Int 5 is not relevant to the Group's operations.

HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). HK(IFRIC)-Int 6 is not relevant to the Group's operations.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Translation of 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 RMB, which is the Company's functional and presentation 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) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Translation of foreign currencies *(continued)*

(c) Group companies (continued)

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

2.4 Property, plant and equipment

Property, plant and equipment, comprising buildings, storage facilities, furniture and fixtures and transportation facilities are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis. The estimated useful lives and residual values, as a percentage of the cost, are as follows:

	Estimated useful lives	**Estimated residual values**
Buildings	20 years	5%
Storage facilities	12 years	5%
Furniture and fixtures	5 years	5%
Transportation facilities	2 to 20 years	5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2.5 Construction-in-progress

Construction-in-progress represents property, plant and equipment under construction or installation and is stated at cost less any accumulated impairment losses. Cost comprises development and construction expenditure incurred and interest and other direct costs attributable to the development. No depreciation is provided on construction-in-progress. Upon completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Government grants

Grants from the government in the form of subsidy or financial refunds are recognised at their fair value when there is reasonable assurance that the grants will be received and all attached conditions are complied with.

Government grants relating to income are initially recorded as deferred revenue, and are recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are initially recorded as deferred revenue, and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.8 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.9 Available-for-sale investments

Available-for-sale investments are non-derivatives unlisted equity investments designated as such by management. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of available-for-sale investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Available-for-sale investments are initially recognized at fair value plus transaction costs, derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group's available-for-sale investments are all unlisted investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These investments are subsequent measured at cost less any provision for impairment losses. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale investments, the cumulative loss is recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Inventories

Inventories represent asphalt for resale and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Retirement benefit costs

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expenses as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

2.16 Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

Dividend income is recognised when the shareholder's right to receive payment is established.

2.19 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

2.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group operates in one business segment, which is trading of asphalt in the PRC. All sales are made to customers located in the PRC, and substantially all of the Group's assets are located in the PRC. Accordingly, no separate segment information is disclosed.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market price, foreign currency exchange rates and interest rates. 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.

Risk management is carried out by the Finance Department under policies approved by the Board of Directors. Finance Department identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

(a) Currency risk

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates mainly in the PRC and is exposed to various foreign currency exposures, primarily with respect to United States Dollar. The Group does not use financial derivative instruments to hedge its currency risk, but closely monitor the fluctuation of the rates of these foreign currencies against Renminbi.

(b) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risks mainly arise from bank borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The interest rates and maturity of the bank borrowings the Group are described in Note 22.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date, the Group had no significant concentrations of credit risk except for trade receivables from three of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Amounts due from customers representing more than 10% of the outstanding trade receivables and notes receivable at each balance sheet date are as follows:

	Group As at 31 December		Company As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*
上海建設機場道路工程有限公司	**23,000**	4,800	**23,000**	4,800
南通興通物資有限公司	**8,197**	1,156	**8,197**	1,156
江蘇華源交通工程有限公司	**7,337**	2,007	**7,337**	2,007
	38,534	7,963	**38,534**	7,963

(d) Liquidity risk

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

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is to the extent practicable determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the useful lives of the Group's property, plant and equipment as described below.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be within 2 to 20 years. The carrying amounts of the Group's and the Company's property, plant and equipment as at 31 December 2005 was RMB21,762,000 (2004: RMB8,948,000) and RMB9,929,000 (2004: RMB6,698,000) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

4.2 Critical judgements in applying the entity's accounting policies

Management has reviewed the Group's trade and other receivables at year end to determine whether there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. As at 31 December 2005, management believes that the provision for impairment for trade and other receivables of RMB1,365,000 (2004: RMB578,000) is adequate.

5. TURNOVER AND REVENUES

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Turnover		
Sales of asphalt	**683,761**	530,698
Other revenues		
Dividend income from unlisted investments	**1,280**	960
Subsidy income *(Note a)*	**42**	172
Interest income	**292**	59
Others	**759**	555
	2,373	1,746
Total revenues	**686,134**	532,444

(a) Subsidy income

Subsidy income represents financial subsidies from the Finance Bureau, which were received by the Group during the respective years.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

6. LOSS ON DISPOSAL OF AN INVESTMENT IN A JOINT VENTURE

The Company, together with an independent third party, established a joint venture entity in Shanghai called Shanghai Showa Donghua Asphalt Company Limited ("Showa Donghua") in 2004. The Company contributed RMB5,794,000 in April 2004 as paid-in capital of Showa Donghua, representing its share of the total registered capital of the joint venture. The details of the joint venture were as follow:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Registered capital	Equity interests held
Showa Donghua	PRC, sino-foreign equity joint venture	Production and sales of modified asphalt in the PRC	USD 1,400,000	50%

Pursuant to a resolution of the Board of directors of Showa Donghua on 22 July 2004, the Company agreed with the other joint venture partner of Showa Donghua to liquidate the joint venture. Upon the completion of the liquidation of Showa Donghua in November 2004, the Company received a net cash proceed of RMB5,776,000, and a loss of RMB18,000 was recognised in the income statement as a result.

7. EXPENSES BY NATURE

Expenses included in cost of goods sold, distribution costs and general and administrative expenses are analyzed as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(Note 14)*	**1,005**	983
Employee benefit expense *(Note 13)*	**9,790**	4,474
Cost of inventories	**574,969**	468,192
Provision for impairment of receivables	**787**	76
Operating lease rental expenses in respect of		
– Land and buildings	**5,438**	3,506
– Transportation facilities	**453**	1,011
Transportation expenses	**15,634**	18,677
Entertainment and promotion expenses	**1,826**	1,599
Heating expenses for vessels and warehouses	**1,548**	1,026
Auditors' remuneration	**930**	350
Others	**9,439**	1,898
	621,819	501,792

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

8. FINANCE COSTS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Interest expense on bank loans	**821**	692
Interest expense on discounted commercial notes	**873**	424
Net foreign exchange transaction loss	**196**	–
	1,890	1,116

9. TAXATION

Taxation on profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**9,888**	4,757
– Hong Kong profits tax	**148**	–
	10,036	4,757

The Company is subject to the Income Tax Law of the PRC. Being a company incorporated in Pudong New Area of Shanghai, the relevant PRC enterprise income tax rate is 15% on the assessable profit for the year.

The enterprise income tax rates of the Company's subsidiaries (Note 16) are as follows:

Name of subsidiary	**Enterprise income tax rate**
Wuhan Hualong Highway Resources Company Limited ("Wuhan Hualong")	33%
Donghua (Hong Kong) Limited ("Donghua Hong Kong")	17.5%
Shanghai Shenhua Logistics Company Limited ("Shenhua Logistics")	15%
Zhengzhou Huasheng Petrochemical Company Limited ("Zhengzhou Huasheng")	33%

Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping"), the subsidiary of the Company, is classified as a small-scale company for income tax purpose. According to a circular issued by Dong Tai city tax bureau in November 2003, the income tax of Suzhong Shipping was charged at 1% of its revenue. According to another circular issued by Jiangsu provincial tax bureau in December 2003, the income tax of Suzhong Shipping is charged at 3.3% of its revenue effective from February 2004.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

9. TAXATION *(continued)*

The tax on the Group's profit before taxation differs from the expected amount that would arise using the tax rates applicable to the Group as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**62,408**	28,778
Tax calculated at tax rate of 15%	**9,361**	4,317
Effect of different tax rate for subsidiaries	**270**	394
Income that is not subject to and expenses that are not deductible for tax purposes	**405**	46
Taxation charges	**10,036**	4,757

Deferred taxation as at 31 December 2005 and 2004 was not significant.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB52,745,000 (2004: RMB24,362,000) *(Note 24)*.

11. DIVIDENDS

Dividends declared by the Company during the years ended 31 December 2005 and 2004 are set out as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	RMB'000
Dividend in respect of the year ended 31 December 2004 *(Note a)*	**–**	5,000
Dividend in respect of the period from 1 January 2005 to 30 June 2005 *(Note b)*	**2,263**	–
Proposed dividend in respect of the year ended 31 December 2005 *(Note c)*	**13,583**	–
	15,846	5,000

(a) At a meeting held on 2 February 2005, the directors of the Company proposed a dividend of RMB5,000,000 in respect of the year ended 31 December 2004. This dividend was not reflected as a dividends payable as at 31 December 2004, but was reflected as an appropriation of retained earnings for the year ended 31 December 2005.

(b) On 12 August 2005, a special dividend of RMB0.0066 per ordinary share, amounted in total to approximately RMB2,263,000, in respect of the period from 1 January 2005 to 30 June 2005 was declared by the directors of the Company and has been paid during the year ended 31 December 2005.

(c) At a meeting held on 22 March 2006, the directors of the Company proposed a dividend of RMB13,582,800 at RMB0.0396 per ordinary share in respect of the year ended 31 December 2005. This proposed dividend was not reflected as a dividends payable as at 31 December 2005, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

12. EARNINGS PER SHARE

The calculation of the earnings per share for the years ended 31 December 2005 and 2004 are based on the Group's profit attributable to shareholders of RMB52,372,000 and RMB24,014,000, respectively, and the weighted average of 288,537,000 and 240,000,000 ordinary shares in issue during the years ended 31 December 2005 and 2004, respectively. In determining the weighted average number of shares in issue during the year ended 2005 and 2004, the sub-division of the Company's shares as described in Note 23 was deemed to have occurred at the beginning of the earliest year presented.

Diluted earnings per share have not been calculated, as there were no potential dilutive ordinary shares during the years ended 31 December 2005 and 2004.

13. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**9,369**	4,169
Social security costs	**204**	149
Retirement benefit costs *(Note a)*	**217**	156
	9,790	4,474

(a) Retirement benefit costs

The employees of the Group participate in a retirement benefit plan organised by the municipal government whereby the Group is required to make monthly contributions to the plan within the range from 20% to 22.5% of the employees' basic salary for the years ended 31 December 2005 and 2004. The Group has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plan were RMB217,000 and RMB156,000 for the years ended 31 December 2005 and 2004 respectively.

(b) Directors' and senior management's emoluments

Details of emoluments paid to the directors and supervisors of the Company are as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Fees	**45**	–
Basic salaries and allowances	**1,069**	924
Bonus	**2,616**	282
Retirement scheme contributions	**107**	84
	3,837	1,290

None of the directors waived emoluments during the years ended 31 December 2005 and 2004.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Directors' and senior management's emoluments *(continued)*

Individual emoluments paid/payable to the directors and supervisors for the year ended 31 December 2005 are as follows:

Name	Fees	Basic salaries and allowances	Bonus	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Qian Wenhua, Director	–	363	1,046	15	1,424
Mr. Lu Yong, Director	–	189	633	15	837
Mr. Li Hongyuan, Director	–	98	268	13	379
Mr. Zhang Jinhua, Director	–	131	322	15	468
Ms. Yao Peie, Director	–	94	247	13	354
Mr. Lv Renzhi, Independent non-executive director	15	–	–	–	15
Mr. Zhu Shengfu, Independent non-executive director	15	–	–	–	15
Ms. Ye Mingzhu, Independent non-executive director	15	–	–	–	15
Ms. Ye Zhenghua, Supervisor[a]	–	42	7	5	54
Mr. Shao Dan, Supervisor	–	52	36	10	98
Ms. Gao Xiaolan, Supervisor	–	60	44	13	117
Ms. Gu Xiaoqing, Supervisor[d]	–	40	13	8	61
	45	1,069	2,616	107	3,837

Individual emoluments paid/payable to the directors and supervisors for the year ended 31 December 2004 are as follows:

Name	Fees	Basic salaries and allowances	Bonus	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Qian Wenhua, Director	–	329	110	14	453
Mr. Lu Yong, Director	–	164	55	14	233
Mr. Li Hongyuan, Director	–	63	14	11	88
Mr. Zhang Jinhua, Director	–	127	40	7	174
Ms. Yao Peie, Director	–	66	19	10	95
Ms. Ye Zhenghua, Supervisor[a]	–	85	24	12	121
Mr. Shao Dan, Supervisor[b]	–	39	9	7	55
Ms. Gao Xiaolan, Supervisor[c]	–	51	11	9	71
	–	924	282	84	1,290

Notes:

(a) Appointed in July 2004 and resigned in May 2005

(b) Appointed in August 2004

(c) Appointed in July 2004

(d) Appointed in May 2005

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Number of individuals	
	2005	2004
Directors and supervisors	**3**	3
Other individuals	**2**	2
	5	5

Emoluments paid to directors and supervisors are reflected in the analysis presented in (b). The emoluments paid to the remaining highest paid individuals during the years ended 31 December 2005 and 2004 are as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	RMB'000
Basic salaries and allowances	**257**	197
Bonus	**694**	7
Retirement scheme contributions	**28**	22
	979	226

The emoluments of each of these highest paid individuals fell within the following bands:

	Number of individuals	
	2005	2004
HK$ Nil to HK$1,000,000 (RMB1,040,000)	**2**	2

(d) During the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT

Group	**Buildings** *RMB'000*	**Storage facilities** *RMB'000*	**Furniture and fixtures** *RMB'000*	**Transportation facilities** *RMB'000*	**Total** *RMB'000*
Cost:					
At 1 January 2004	2,458	–	683	4,399	7,540
Additions	1,356	2,326	11	1,080	4,773
Disposals	–	–	(15)	(2,361)	(2,376)
At 31 December 2004	3,814	2,326	679	3,118	9,937
At 1 January 2005	3,814	2,326	679	3,118	9,937
Additions	–	–	189	10,080	10,269
Transfer from construction-in–progress *(Note 15)*	–	2,116	–	1,613	3,729
Disposals	–	–	(5)	(240)	(245)
At 31 December 2005	3,814	4,442	863	14,571	23,690
Accumulated depreciation:					
At 1 January 2004	(49)	–	(196)	(787)	(1,032)
Charge for the year	(162)	–	(129)	(692)	(983)
Disposals	–	–	15	1,011	1,026
At 31 December 2004	(211)	–	(310)	(468)	(989)
At 1 January 2005	(211)	–	(310)	(468)	(989)
Charge for the year	(179)	(226)	(132)	(468)	(1,005)
Disposals	–	–	5	61	66
At 31 December 2005	(390)	(226)	(437)	(875)	(1,928)
Net book value:					
At 31 December 2005	3,424	4,216	426	13,696	21,762
At 31 December 2004	3,603	2,326	369	2,650	8,948

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company	**Buildings**	**Storage facilities**	**Furniture and fixtures**	**Transportation facilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2004	2,458	–	683	3,020	6,161
Additions	1,356	2,326	11	–	3,693
Transfer to a subsidiary	–	–	–	(2,000)	(2,000)
Disposals	–	–	(15)	(361)	(376)
At 31 December 2004	3,814	2,326	679	659	7,478
At 1 January 2005	3,814	2,326	679	659	7,478
Additions	–	–	152	–	152
Transfer from construction-in–progress *(Note 15)*	–	2,116	–	1,613	3,729
Disposals	–	–	(5)	–	(5)
At 31 December 2005	3,814	4,442	826	2,272	11,354
Accumulated depreciation:					
At 1 January 2004	(49)	–	(196)	(750)	(995)
Charge for the year	(162)	–	(129)	(200)	(491)
Transfer to a subsidiary	–	–	–	480	480
Disposals	–	–	15	211	226
At 31 December 2004	(211)	–	(310)	(259)	(780)
At 1 January 2005	(211)	–	(310)	(259)	(780)
Charge for the year	(179)	(226)	(132)	(113)	(650)
Disposals	–	–	5	–	5
At 31 December 2005	(390)	(226)	(437)	(372)	(1,425)
Net book value:					
At 31 December 2005	3,424	4,216	389	1,900	9,929
At 31 December 2004	3,603	2,326	369	400	6,698

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expense of RMB355,000 (2004: RMB536,000) has been expensed in distribution costs and RMB650,000 (2004: RMB447,000) in general and administrative expenses.

At 31 December 2005, buildings with net book value of RMB3,424,000 (original cost of RMB3,814,000) were pledged as security for the Company's short-term loans amounted to RMB2,500,000 (Note 22).

At 31 December 2004, buildings with net book value of RMB3,603,000 (original cost of RMB3,814,000) were pledged as security for the Company's short-term loans amounted to RMB2,500,000 (Note 22).

15. CONSTRUCTION-IN-PROGRESS

Group	*RMB'000*
At 1 January 2004	950
Additions	380
At 31 December 2004	1,330
Additions	37,273
Transfer to property, plant and equipment *(Note 14)*	(3,729)
At 31 December 2005	34,874

Company	*RMB'000*
At 1 January 2004	950
Additions	380
At 31 December 2004	1,330
Additions	18,598
Transfer to property, plant and equipment *(Note 14)*	(3,729)
At 31 December 2005	16,199

16. INVESTMENT IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**38,425**	2,894

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

16. INVESTMENT IN SUBSIDIARIES – COMPANY *(continued)*

The followings are the details of the subsidiaries at 31 December 2005:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Registered capital	Equity interests held Direct	Equity interests held Indirect
Suzhong Shipping *(Note a)*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB3,000,000	90%	–
Wuhan Hualong *(Note c)*	PRC, limited liability company	Asphalts trading in the PRC	RMB8,000,000	80%	–
Donghua Hong Kong *(Note b)*	Hong Kong, limited liability company	Asphalts trading to customers in the PRC	USD1,000,000	100%	–
Shenhua Logistics *(Note b)*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB8,000,000	90%	9%
Zhengzhou Huasheng *(Note b)*	PRC, limited liability company	Asphalts trading in the PRC	RMB15,000,000	93.33%	6.60%

Note a: Acquired by the Company in 2003.

Note b: Invested by the Company or its subsidiaries upon the subsidiaries' incorporation in 2005. Shenhua Logistics and Zhengzhou Huasheng have not yet commenced commercial operations as at 31 December 2005.

Note c: Acquired by the Company in 2005, details of which are described in Note 26.

17. INVESTMENT IN ASSOCIATES – GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**1,699**	–	**1,750**	–
Share of associates' results				
– profit/(loss) before taxation	**1,578**	(51)	**–**	–
– taxation	**(606)**	–	**–**	–
	972	(51)	**–**	–
Acquisition of associates	**4,933**	1,750	**3,185**	1,750
End of the year	**7,604**	1,699	**4,935**	1,750
Unlisted equity investments, at cost	**6,679**	1,750	**4,935**	1,750

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

17. INVESTMENT IN ASSOCIATES – GROUP AND COMPANY *(continued)*

The followings are the details of the associated companies:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Registered capital	Equity interests held
2004				
Jiangxi Huatong Highway Materials Company Limited ("Jiangxi Huatong") *(Note a)*	PRC, limited liability company	Asphalt trading in the PRC	RMB5,000,000	35%
2005				
Jiangxi Huatong	PRC, limited liability company	Asphalt trading in the PRC	RMB5,000,000	35%
Jiaxing Huatong Asphalt Company Limited ("Jiaxing Huatong") *(Note b)*	PRC, limited liability company	Processing, sale, storage and delivery of asphalt and related products in the PRC	RMB13,000,000	24.5%
Jiangxi Ganbei Highway Materials Company Limited ("Jiangxi Ganbei") *(Note c)*	PRC, limited liability company	Processing, sale, storage and delivery of asphalt in the PRC	RMB5,000,000	35%

Note a: Invested by the Company upon the associate's incorporation in 2004.

Note b: Invested by the Company upon the associate's incorporation in 2005.

Note c: Acquired by Donghua Hong Kong in 2005.

The Group's interests in the associates, all of which are unlisted, were as follows:

Name	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/(loss) RMB'000
2004				
Jiangxi Huatong	4,865	10	–	(145)
2005				
Jiangxi Huatong	11,759	4,797	25,567	2,108
Jiaxing Huatong	18,073	4,097	4,241	977
Jiangxi Ganbei	6,162	1,179	2,030	(17)

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

18. AVAILABLE-FOR-SALE INVESTMENTS – GROUP AND COMPANY

	As at 31 December	
	2005	2004
	RMB'000	RMB'000
Unlisted equity investments	**3,152**	2,122

These represent investments in unlisted companies in the PRC.

There were no disposals of or impairment provisions for available-for-sale investments in 2005.

19. INVENTORIES

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Asphalt for resale	**27,754**	10,443	**28,410**	10,443

No inventories were carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**32,538**	41,811	**31,710**	41,721
Commercial notes receivable *(Note 22)*	**32,099**	34,223	**32,099**	34,223
	64,637	76,034	**63,809**	75,944
Less: Provision for impairment of receivables	**(1,365)**	(578)	**(1,365)**	(578)
	63,272	75,456	**62,444**	75,366
Prepayments and deposits	**6,074**	3,463	**5,000**	3,361
Due from related parties *(Note 28)*	**250**	–	**250**	–
Due from subsidiaries	**–**	–	**45,417**	–
Other receivables	**484**	2,436	**74**	2,325
	70,080	81,355	**113,185**	81,052

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

20. TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of trade and notes receivables, arising mainly from sales of asphalt to customers and with credit terms of 30 days to 60 days, is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**43,363**	59,377	**42,816**	59,287
31 – 60 days	**11,343**	12,806	**11,062**	12,806
61 – 90 days	**3,934**	2,678	**3,934**	2,678
91 days – one year	**4,924**	595	**4,924**	595
One year-two years	**1,073**	–	**1,073**	–
Over three years	**–**	578	**–**	578
	64,637	76,034	**63,809**	75,944

The carrying amounts of the Group's trade and other receivables approximate their fair values because of the short maturity of these instruments.

The Group has recognized a loss of RMB787,000 (2004: RMB76,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in general and administrative expenses in the income statement.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**20,025**	24,842	**19,290**	24,842
Due to related parties (Note 28)	**800**	–	**800**	–
Due to subsidiaries	**–**	–	**10,990**	4,101
Share issuance costs payable	**–**	1,260	**–**	1,260
Advances from customers	**46,847**	1,775	**33,662**	1,775
Other payables	**11,530**	3,684	**9,764**	2,164
Accruals	**2,205**	1,919	**1,741**	37
	81,407	33,480	**76,247**	34,179

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

21. TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of trade payables is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**18,735**	23,290	**18,638**	23,290
31 – 60 days	**985**	688	**347**	688
61 – 90 days	**65**	489	**65**	489
91 days – one year	**131**	263	**131**	263
One year-two years	**109**	60	**109**	60
Over three years	**–**	52	**–**	52
	20,025	24,842	**19,290**	24,842

22. SHORT-TERM BANK LOANS – GROUP AND COMPANY

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Short-term bank loans	**35,500**	32,500

The Group's short-term bank loans were denominated in RMB as at 31 December 2005 and 2004.

As at 31 December 2005, short-term bank loans comprised:

(a) bank loans of RMB10,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party, which bore interest at 5.859% per annum;

(b) bank loans of RMB2,500,000 secured by office premises of the Company with a net book value of RMB3,424,000 (original cost of RMB3,814,000) (Note 14), which bore interest at 5.859% per annum; and

(c) commercial notes receivable discounted to commercial banks on a with recourse basis of RMB23,000,000, which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

As at 31 December 2004, short-term bank loans comprised:

(a) bank loans of RMB15,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party, bore interest at 5.5755% per annum;

(b) bank loans of RMB2,500,000 secured by office premises of the Company with a net book value of RMB3,603,000 (original cost of RMB3,814,000) (Note 14) , bore interest at 5.5755% per annum; and

(c) commercial notes receivable discounted to commercial banks on a with recourse basis of RMB15,000,000, which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

The carrying amounts of short-term borrowings approximate their fair value.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

23. SHARE CAPITAL

	RMB'000
Share capital at 1 January 2004 and 31 December 2004	24,000
Share capital at 1 January 2005	24,000
Issuance of H shares *(Note)*	10,300
Share capital at 31 December 2005	34,300

Note: As at 1 January 2004 and 2005, the Company's registered and issued share capital was RMB24,000,000, divided into 24,000,000 domestic ordinary shares of RMB1.00 each.

Pursuant to an approval by the China Securities Regulatory Commission on 18 February 2005, the Company's share capital was approved to be sub-divided from 24,000,000 domestic ordinary shares of RMB1.00 each to 240,000,000 domestic ordinary shares of RMB0.10 each.

On 13 July 2005, the Company issued a total number of 103 million H shares (30.03% of the total issued ordinary share capital), which were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited in July 2005. The gross proceeds arising from the issuance of the H shares amounted to RMB56,929,000 (HK$0.53 per H share). The related transaction costs of RMB12,512,000 have been netted off with the proceeds.

All the domestic shares and H shares rank pari passu in all material aspects except that dividends to holders of H shares are declared in RMB but paid in Hong Kong dollars.

24. RESERVES

Pursuant to the relevant PRC regulations and the Articles of Association of the PRC companies within the Group, each of the PRC companies within the Group is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand its production operations, or to increase its capital. Upon approval by a resolution of shareholders' general meeting, each of the companies within the Group may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the statutory common reserve fund after such issue is not less than 25% of the registered capital.

Pursuant to the PRC regulations and the Articles of Association of the PRC companies within the Group, each of the PRC companies within the Group is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to its employees. This fund is non-distributable other than in liquidation.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

24. RESERVES *(continued)*

Group	Share issuance costs	Capital reserve	Statutory common reserve fund	Statutory common welfare fund	Currency translation reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	–	–	1,517	758	–	4,988	7,263
Dividend declared in respect of the period from 1 August to 31 December 2003	–	–	–	–	–	(4,800)	(4,800)
Profit for the year	–	–	–	–	–	24,014	24,014
Appropriation	–	–	2,413	1,206	–	(3,619)	–
Direct costs attributable to new issuance of shares on the GEM	(4,578)	–	–	–	–	–	(4,578)
At 31 December 2004	(4,578)	–	3,930	1,964	–	20,583	21,899
Representing:							
Dividend proposed *(Note 11)*							5,000
Other reserves							16,899
At 31 December 2004							21,899
At 1 January 2005	(4,578)	–	3,930	1,964	–	20,583	21,899
Issue of H shares	12,512	34,117	–	–	–	–	46,629
Direct costs attributable to new issuance of shares on the GEM	(7,934)	–	–	–	–	–	(7,934)
Currency translation differences	–	–	–	–	(19)	–	(19)
Profit for the year	–	–	–	–	–	52,372	52,372
Appropriation	–	–	5,498	2,750	–	(8,248)	–
Dividend declared in respect of the year 2004	–	–	–	–	–	(5,000)	(5,000)
Dividend declared in respect of the period from 1 January to 30 June 2005	–	–	–	–	–	(2,263)	(2,263)
At 31 December 2005	–	34,117	9,428	4,714	(19)	57,444	105,684
Representing:							
Dividend proposed *(Note 11)*							13,583
Other reserves							92,101
At 31 December 2005							105,684

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

24. RESERVES *(continued)*

Company	**Share issuance costs** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory common reserve fund** *RMB'000*	**Statutory common welfare fund** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 January 2004	–	–	1,475	737	4,629	6,841
Dividend declared in respect of the period from 1 August to 31 December 2003	–	–	–	–	(4,800)	(4,800)
Profit for the year	–	–	–	–	24,362	24,362
Appropriation	–	–	2,406	1,203	(3,609)	–
Direct costs attributable to new issuance of shares on the GEM	(4,578)	–	–	–	–	(4,578)
At 31 December 2004	(4,578)	–	3,881	1,940	20,582	21,825
Representing:						
Dividend proposed *(Note 11)*						5,000
Other reserves						16,825
At 31 December 2004						21,825
At 1 January 2005	(4,578)	–	3,881	1,940	20,582	21,825
Issue of H shares	12,512	34,117	–	–	–	46,629
Direct costs attributable to new issuance of shares on the GEM	(7,934)	–	–	–	–	(7,934)
Profit for the year	–	–	–	–	52,745	52,745
Appropriation	–	–	5,470	2,735	(8,205)	–
Dividend declared in respect of the year 2004	–	–	–	–	(5,000)	(5,000)
Dividend declared in respect of the period from 1 January to 30 June 2005	–	–	–	–	(2,263)	(2,263)
At 31 December 2005	–	34,117	9,351	4,675	57,859	106,002
Representing:						
Dividend proposed *(Note 11)*						13,583
Other reserves						92,419
At 31 December 2005						106,002

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

25. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Operating profit	**63,326**	29,945
Provision for impairment of receivables *(Note 20)*	**787**	76
Depreciation of property, plant and equipment *(Note 14)*	**1,005**	983
Loss/(gain) on disposal of property, plant and equipment, net	**79**	(20)
Loss on disposal of an investment in a joint venture *(Note 6)*	**–**	18
Dividends received from unlisted investments *(Note 5)*	**(1,280)**	(960)
Interest income *(Note 5)*	**(292)**	(59)
Operating profit before working capital changes	**63,625**	29,983
Increase in inventories	**(17,295)**	(1,987)
Decrease/(increase) in trade and other receivables	**21,519**	(35,890)
Increase in trade and other payables	**37,645**	11,387
Net cash inflow generated from operations	**105,494**	3,493

26. BUSINESS COMBINATION

In the second half year of 2005, the Company acquired a total of 80% equity interests in Wuhan Hualong at a cash consideration of RMB6,400,000. The fair value of Wuhan Hualong's net assets acquired approximated the cash consideration paid by the Company.

The assets and liabilities arising from the acquisition are as follows:

	Fair value
	RMB'000
Cash and cash equivalents	2,531
Trade and other receivables	6,661
Inventories	16
Construction in progress	8,871
Trade and other payables	(10,282)
Net assets	7,797
Minority interests (20%)	(1,560)
Net assets acquired	6,237

	RMB'000
Purchase consideration settled in cash	6,400
Cash and cash equivalents in the subsidiary acquired	(2,531)
Cash outflow on acquisition	3,869

There was no acquisition of subsidiary during the year ended 31 December 2004.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

27. COMMITMENTS

(a) Capital commitments

Capital expenditures at the balance sheet date but not yet incurred is as follows:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**47,149**	–

(b) Operating lease commitments – where the Group is the lessee

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of transportation facilities, office premises and warehouse facilities as follows:

	As at 31 December	
	2005	2004
	RMB'000	RMB'000
Not later than one year	**35,772**	8,865
Later than one year and not later than five years	**18,383**	27,780
Later than five years	**39,942**	4,849
	94,097	41,494

28. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	**Relationship**
Jiangxi Huatong	Associate
Jiaxing Huatong	Associate
Shanghai Wenhong Enterprises Development Company Limited ("Shanghai Wenhong")	Controlled by Mrs. Qian Liu Huiping *(Note)*
Shanghai Huashi Industrial Company Limited ("Shanghai Huashi")	Controlled by Mrs. Qian Liu Huiping *(Note)*

Note: Mrs. Qian Liu Huiping is the wife of Mr. Qian Wenhua, who are substantial shareholders of the Company. Mr. Qian Wenhua is also an executive director of the Company.

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

28. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties

The following transactions were carried out with related parties:

(i) Sales of asphalts

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Jiangxi Huatong	**4,209**	–

(ii) Provision of services by

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Jiangxi Huatong	**630**	–

(iii) Year-end balances arising from sales of asphalts/provision of services

Due from related parties *(Note 20)*

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Jiaxing Huatong	**250**	–

Due to related parties *(Note 21)*

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Jiangxi Huatong	**800**	–

(iv) Key management compensation

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Basic salaries and allowances	**1,550**	750
Bonus	**3,789**	238
Retirement scheme contributions	**161**	55
	5,500	1,043

Notes to Financial Statements *(continued)*

For the year ended 31 December 2005

28. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties *(continued)*

(v) According to an equity transfer agreement entered into between the Company and Shanghai Wenhong in August 2005, Shanghai Wenhong transferred a 1.66% equity interest in an unlisted company to the Company at a cash consideration of RMB1,030,000.

(vi) In February 2004, the Company purchased an office premises from Shanghai Huashi at a cash consideration of RMB1,356,000.

29. EVENTS AFTER THE BALANCE SHEET DATE

(a) In a Board of Directors' meeting held on 24 January 2006, the directors resolved to increase the registered and paid-in share capital of Donghua Hong Kong from USD1,000,000 to USD2,000,000.

(b) In a Board of Directors' meeting held on 23 February 2006, the directors resolved to provide guarantee and pledged bank deposits to secure the bank loans of Shenhua Logistics amounting to RMB10,000,000.

(c) At a Board of Directors' meeting held on 22 March 2006, the directors of the Company proposed a cash dividend of RMB13,582,800 at RMB 0.0396 per ordinary share in respect of the year ended 31 December 2005, and issuance of bonus shares of 343,000,000 shares at 1 bonus share per 1 ordinary share by capitalizing the Company's capital reserve and retained earnings. The issuance of the bonus shares is subject to the final approval in the shareholders' meeting and by the relevant authorities.