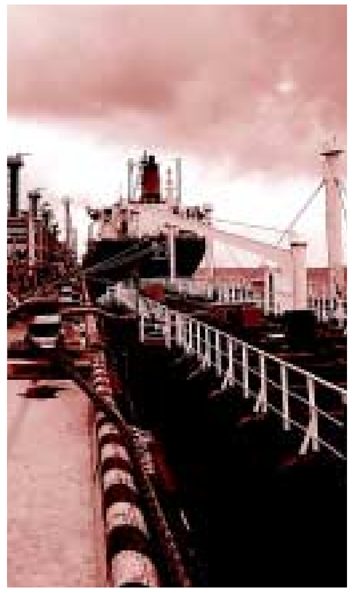
Annual Report 2006



上海東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 incompliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange 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 INCOME STATEMENT

	For the year ended 31 December			
	2006	2005	2004	2003
Turnover	**1,064,819**	683,761	530,698	310,890
Profit before income tax	**76,290**	62,408	28,778	17,341
Profit attributable to equity holders of the Company	**67,243**	52,372	24,014	14,746
Net profit margins	**6.31%**	7.66%	4.52%	4.74%
Earnings per share (RMB)	**0.098**	0.076	0.100	0.071

AUDITED CONSOLIDATED BALANCE SHEET

	As at 31 December			
	2006	2005	2004	2003
Non-current assets	**179,744**	67,392	14,099	9,580
Current assets	**295,828**	195,720	99,415	51,108
Non-current liabilities	**(5,550)**	–	–	–
Current liabilities	**(277,130)**	(121,193)	(67,280)	(29,307)
Minority interests	**(5,171)**	(1,935)	(335)	(118)
Capital and reserves attributable to the Company's equity holders	**187,721**	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

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222 Queen's Road Central
Hong Kong

COMPANY HOMEPAGE/WEBSITE

www.tonva.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

China Construction Bank
China Minsheng Bank
China CITIC Bank
Bank of Communication

Chairman's Statement

I am pleased to present the second annual report since the Company's listing on GEM.

2006 was a year in which Shanghai Donghua achieved rapid development and made important progress. While expanding its asphalt business, the Group also strengthened its logistics service business to enhance its one-stop asphalt sales capability. On the other hand, the Group continued to invest in the storage and sales network to ensure its rapid and diversified growth in the future.

RESULTS OF THE YEAR

As the PRC government has imposed financial restrictions on banks, the number of road construction projects undertaken were reduced owing to the lack of funds. In respect of the Group's financial results, this translated into a lower than expected demand for asphalt and hence the company had fall short of the target for the results of the year.

The Group's operating profit increased 25.0% from 2005 to RMB79,134,000 in 2006. Profit attributable to the Company's equity holders rose 28.39% to RMB67,243,000. According to the policy adopted, the Company distributes dividends in an amount equivalent to 30% of the Group's net profit every year. Since the Company has already distributed interim dividends of RMB5,007,800 (interim dividends of RMB 2,263,800 were distributed in the corresponding period of 2005), the Company's Board of Directors recommended to distribute a final dividend of RMB0.022 per share, which amounted to RMB15,092,000 in total (final dividends of RMB 13,582,800 were distributed in the corresponding period in 2005).

BUSINESS OVERVIEW

Trading of asphalt remained the major source of revenue. Benefiting from the newly established storage network locations, this business saw a 49.6% growth in income from 2005 to RMB1,023,143,000 for the year ended 31 December, 2006. Moreover, income from transportation services surged to RMB41,676,000, mainly attributable to the substantial increase in transportation vehicles such as trucks and ocean carriers.

MAJOR FACTORS AFFECTING THE PROFIT

Currently, trading of asphalt is the major source of revenue of the Group. During the year, the PRC government imposed restrictions on the lending from banks. This resulted in the reduction of land construction projects and lead to a weak demand for asphalt. This economic environment had a major impact on the expansion of asphalt business.

Limited by the above austerity in economic conditions, the price of asphalt declined accordingly. This had undermined the profitability of the asphalt business otherwise captured.

Apart from the above factors, depreciation expenses also increased substantially after the expansion of the scale of storage hubs and transportation team.

Chairman's Statement *(continued)*

OPERATION

In order to expand the asphalt business, the Group established and extended 4 asphalt storage network locations during the year. The additional storage capacity amounted to approximately 71,200 tons and the total storage capacity as at the end of the year reached 114,000 tons, representing 2.7 times of the storage capacity as of 31 December 2005. Storage hubs in construction with a capacity of 38,000 tons are expected to be completed and commence operation during the first half of 2007. Though the newly established network locations have helped propel the asphalt business, yet as most of the storage hubs were only completed in the second half of the year, greater contribution is expected to be realized in 2007.

In addition, the Company also expanded its asphalt business through the acquisition of a 25% equity interest in Nantong Highway and Bridge Engineering Limited ("Nantong Highway and Bridge"). Nantong Highway and Bridge was our existing customer. It mainly engages in the business of the construction of highway. This Company is certified as a class 1 highway engineering contractor and a class 1 municipal public engineering contractor. It is notable for being an enterprise to possess both certifications in the PRC.

As regards the transportation business, 7 vehicles with carrying capacity of approximately 92 tons were purchased and an ocean carrier with carrying capacity of approximately 3,800 tons was ordered during the year. In addition to the above purchase, an ocean carrier with carrying capacity of 3,250 tons that was ordered in November 2005 was also delivered during the year, and the lease of two ocean carriers with carrying capacity of approximately 9,100 tons was renewed.

CORPORATE DEVELOPMENT

The tailor-made ERP system of the Group commenced operation during the year. The system provides both financial and administrative support. It allows the Group to process information in a more centralized, timely, accurate and comprehensive manner and therefore enhances the standard of financial management and corporate control.

In October 2006, the Company entered into a subscription agreement with Mumiya Limited and Babylon Limited to place 175,000,000 new H shares to these two subscribers at a price of HK$1.10 per share and to offer not more than 75,190,000 new H shares to its existing H shareholders at the same price by way of a public offer. CLSA Capital Partners is the adviser to the general partners of Aria Investment Partners II, L.P. and Aria Investment Partners III, L.P., which are the holding companies of the Subscribers. The Company expects that the proceeds before expenses from placing and public offering (provided that the public offering is fully subscribed), amounting approximately HK$275,200,000 in total, will be applied for the following items:

(i) approximately HK$78,400,000 for the establishment of new storage hubs in Jiangsu Province;

(ii) approximately HK$58,800,000 to acquire a road construction company to develop road construction business along with the Group's expansion in asphalt business;

(iii) approximately HK$44,100,000 to acquire through its subsidiaries additional vessels, train and trucks;

(iv) approximately HK$14,700,000 for the expansion of storage hubs in Guangxi Provinces; and

(v) approximately HK$64,800,000 after deducting the relevant fees and expenses, as general working capital.

Chairman's Statement *(continued)*

PROSPECTS

Although the financial results in 2006 were not as satisfactory as anticipated due to the implementation of austerity measures, however, with the impacts of unfavourable factors gradually diminishing, the Group is confident that it will maintain a strong momentum of growth in the financial results of 2007.

The lack of high quality highway in the PRC hinders the development of the economy and the enhancement of people's living standard. However, the Eleventh Five-Year Plan on Highway Construction will improve this situation. With the gradual implementation of the plan, the construction of highway will be under progress in different regions as scheduled and hence the demand for asphalt will continue to be strong. The Group will develop its asphalt business by establishing new storage network locations, enhancing services standard and adopting innovative sales methods.

Transportation service is one of the key business of the Group. In 2007, the Group will acquire additional transportation facilities such as vehicles and vessels to strength its transportation capability. On the other hand, it will enhance its transportation management on transportation to improve the utilization rate of transportation facilities.

Since the existing storage hubs and transportation facilities can both be used for its fuel oil operation, the Group plans to commence its fuel oil business in 2007 in order to optimize the utilization rate of resources. Fuel oil and asphalt are both products refined out of the crude oil. Fuel oil has similar properties with asphalt but a stronger market demand mainly coming from industries such as power generation, transportation, smelting, chemical industry and light industry. The business will become a new segment set to provide profit contribution to the Group.

In 2007, while enhancing its overall profitability, the Group will also expand its original profit base from asphalt sales and transportation services to fuel oil sales. Asphalt will remain the major business of the Group, as such, the Group will be committed to developing such business.

APPRECIATION

Finally, I wish to express my gratitude to the Board members, the management and staff of the Group for their industrious performance and dedication during the year, and to the shareholders, suppliers and customers for their continuous support for the Company.

QIAN WENHUA
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

In 2006 the Group, in addition to expanding its core asphalt trading business, has put more effort in strengthening its asphalt logistic business. The full scale expansion of asphalt logistic business enables the Group to establish a stable platform and provide comprehensive asphalt sales services.

Our asphalt trading business mainly provides one-stop services from procurement to storage and delivery through its widely dispersed storage network and logistics facilities, while our logistic business mainly includes vehicle transportation, river transportation and ocean transportation.

Asphalt Trading Business

After purchasing asphalt both domestically and from overseas, the Company distributes the asphalt to ultimate users through its distribution network.

The Group's distribution network is established mainly along the Yangtze River and extends to the inland regions gradually. The Group has set up 10 storage network locations, with a total storage capacity of 152,000 tons, of which 38,000 tons are in progress.

For the year ended 31 December 2006, the Group's asphalt sales amounted to approximately RMB1,023,143,000 (2005: RMB683,761,000), representing an increase of around 49.63% year-on-year. The increase in the sales of Group's asphalt was mainly due to increased marketing effort. In 2006, the Group has set up new network in Nanchang, Changzhou and Quanjiao and expanded its network in Shanghai to facilitate the sales of asphalt. In addition, the average sellng price of asphalt increased approximately 30.96% from 2005 to approximately RMB2,830 per ton, representing another factor benefiting the Group.

Management Discussion and Analysis *(continued)*

For the year ended 31 December 2006, the Group's cost of sales of asphalt was approximately RMB904,279,000 (2005: RMB576,425,000), representing an increase of around 56.88% year-on-year. The increase in cost of sales of the Company was mainly attributable to the continuous rise in the price of asphalt in 2005. When compared with 2005, the average cost of asphalt has increased by around 37.29% and reached approximately RMB2,500 per ton. The Company will pay close attention to the supply and demand on the market and adapt "purchase to order" basis to avoid the negative effect caused by the fluctuation in the price of asphalt.

For the year ended 31 December 2006, the Group's gross profit from the sales of asphalt was approximately RMB118,864,000. The gross profit margin has decreased from 15.70% in 2005 to 11.62% in 2006. The decrease is mainly due to the extent of increase in cost of asphalt being higher than that in selling price.

Logistic Business

Logistic business is a business which the Group has rapidly developed in 2006. Logistic business caters mainly to the purchases and distribution of asphalt. The Group currently has 32 vehicles, 3 river carriers and 4 ocean carriers, of which 2 are time-charter carriers and 1 is under construction. The total loading capacity of vehicles and carriers are respectively 792 tons and 18,136 tons.

For the year ended 31 December 2006, the Group has logistic revenue of approximately RMB41,676,000, representing 3.9% of the total revenue of the Group. Cost of transportation amounted to approximately RMB25,347,000, representing 2.73% of the total costs of sales of the Group.

For the year ended 31 December 2006, the Group's gross profit from the logistic business was approximately RMB16,329,000, representing a gross profit margin of around 39.18%.

INVESTMENT INCOME

Investment income increased from approximately RMB1,280,000 for the year ended 31 December 2005 to approximately RMB7,549,000 for the year ended 31 December 2006. The increase in the investment income was mainly attributable to the cash dividend income received from the available-for-sale financial assets of the Group.

DISTRIBUTION COSTS

The distribution costs for the year ended 31 December 2006 was approximately RMB44,332,000, increased by 80.1% year-on-year. The increase was attributable to the expansion on the scale of operation.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2006, the general and administrative expenses increased 7.04% to RMB22,248,000. The increase in general and administrative expenses was due to the rise of staff benefits and auditor's remuneration.

FINANCE COSTS

The finance costs for the year were about RMB5,999,000, representing an increase of 217% year-on-year. The increase in finance costs was mainly attributable to the increase in interest expenses in bank borrowings and discounted commercial notes.

Management Discussion and Analysis *(continued)*

PROFIT FOR THE YEAR

For the year ended 31 December 2006, the Group recorded profit attributable to shareholders for the year of approximately RMB67,243,000 (2005: RMB52,372,000), representing a growth of approximately 28.4% over last year. The increase in the Group's profit was mainly attributable to the expansion of the logistic business and the growth of the asphalt sales business.

Immediate Plans

The Group will adhere to its fixed plan to expand its asphalt trading business and explore the sales of fuel oil business by establishing new network along the Yangtze River and the inland regions. On the other hand, the Group will purchase logistic facilities to improve its logistic efficiency and enhance its overall capacity in providing logistic services.

Substantial Investments

1. In the second quarter of 2006, the Company has invested RMB6,500,000 in "Quanjiao Puxing Petrochemical Products Company Limited". The target is to build a storage hub with 12,000 tons capacity on a piece of land with a site area of approximately 29,673 square meters in Quanjiao county in Anhui Province. The storage hub was completed in the 4th quarter of 2006.

2. A subsidiary, Donghua Hong Kong, entered into a carrier purchases agreement with an independent third party on 15 May 2006, pursuant to which Donghua Hong Kong purchased an ocean carrier with loading capacity of 3,800 tons at a consideration of HK$18,000,000. The carrier shall directly procure asphalt from overseas for the Company and will further reduce the Group's cost of overseas purchases.

3. Shenhua Logistics, a wholly owned subsidiary of the Company, signed an agreement with an independent third party on 4 December 2006 to acquire an asphalt storage hub located in Gao Gang, Jiangsu Province at a consideration of RMB12,000,000. The storage hub, located at the coast of Yangtze River, has a capacity of 22,000 tons. This will enhance the logistics system of the Group and facilitate business development at Jiangsu Province and the downstream region of the Yangtze River.

4. On 22 December 2006, the Company entered into an acquisition agreement with an independent third party in relation to the acquisition of 25% equity interest in 南通路橋工程有限公司 (Nantong Highway and Bridge Engineering Limited) for a consideration of RMB32,680,000. 南通路橋工程有限公司 (Nantong Highway and Bridge Engineering Limited) is principally engaged in the construction of highways and bridges in PRC which is licensed to undertake the first class highway construction projects and the first class public facilities construction projects. The acquisition will enable the Group to expand its asphalt sales business. The acquisition was subsequently completed in 2007.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets Value

As at 31 December 2006, the Group had a total net current assets of approximately RMB18,698,000 (2005: RMB74,527,000). The current assets comprised: cash and cash equivalents amounting to RMB43,256,000 (2005: RMB97,886,000), trade and other receivables of approximately RMB190,582,000 (2005: RMB70,080,000), inventories of approximately RMB61,990,000 (2005: RMB27,754,000). The current liabilities comprised: borrowings of about RMB96,920,000 (2005: RMB35,500,000), trade and other payables of about RMB175,386,000 (2005: RMB81,407,000), taxation payables of around RMB4,824,000 (2005: RMB4,286,000). The net current asset value decreased from RMB74,527,000 in 2005 to RMB18,698,000 in 2006 mainly due to the substantial fluctuation of liabilities.

Management Discussion and Analysis *(continued)*

Working Capital

As at 31 December 2006, the Group had cash and cash equivalent items of approximately RMB43,256,000 (2005: RMB97,886,000). The net cash generated from financing activities was approximately RMB52,179,000 (2005: RMB40,194,000).

Borrowings and Bank Credits

As at 31 December 2006, the Group had long term borrowings of RMB5,550,000 (2005: RMB Nil) and short term borrowings of approximately RMB96,920,000 (2005: RMB35,500,000). Short term borrowings were mainly guaranteed by two subsidiaries of the Company, and Shanghai Jianpu Imports & Exports Co., Ltd, an independent third party. Long term borrowings were secured by office premises of the Group.

Debt to Asset Ratio

The debt to asset ratio as at 31 December 2006 was 59.4% (2005: 46.1%) which was computed as total liabilities divided by total assets.

Capital Structure and Financial Resources

As at 31 December 2006, the Group's net asset value was approximately RMB192,892,000 (2005: RMB141,919,000 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. Since the exchange rate of USD against RMB was stable during the year, the Directors consider that 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 RMB44,000,000.

According to the specified use of proceeds, approximately RMB7,090,000 was used for the construction of two asphalt storage tanks with capacity of 10,000 tons in Shanghai Wai Gao Qiao in cooperation with an independent third party. The construction of these two storage tanks have been completed and the tanks have commenced operation in 2006.

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 RMB40,000,000 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 RMB40,000,000.

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. As at 31 December 2006, the Group has applied RMB20,000,000 to establish a storage hub with a capacity of 38,000 tons in Zhengzhou City, Henan Province, with an aim to develop the inland market. Other proceeds have been applied as to (1) RMB6,400,000 for increasing the equity interest in Wuhan Hualong and complete the construction of the storage hub at Wuhan; (2) RMB7,200,000 for purchasing vehicles for the purpose of transportation for Shenhua Logistics. The remaining part is used for working capital.

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 2006 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	Having made due consideration, the Company has terminated this transaction and rearranged the usage of proceeds, the details of which are set out in the paragraph headed "Use of Proceeds from Listing" in this report.

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 two storage tanks with 10,000 tons capacity in Wai Gao Qiao District. The facilities has commissioned in the 2nd quarter of 2006. The Company funds the project with RMB7,090,000 which is above the prior expectation by RMB2,090,000. 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 and met the schedule

PROJECT: SET UP STORAGE CENTRES IN THE INLAND PROVINCES

	Progress as Scheduled	Actual Performance
• Shanxi Province	Ceased negotiation due to Unfavourable terms offered by the third party	Cancelled the previous project and will look for other suitable projects at an appropriate time
• Shaanxi Province	Ceased negotiation due to Unfavourable terms offered by the third party	Cancelled the previous project and will look for other suitable projects at an appropriate time

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:

Shenhua Company

The Group established a professional asphalt delivery fleet through Shenhua Company. 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 32 vehicles and has a total loading capacity of 792 tons. In 2007, 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.

- Storage Centre in Zhengzhou City, Henan Province:

  Huasheng Company, an indirect wholly-owned subsidiary of 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 RMB20,000,000 and is expected to complete in second quarter, 2007. The reasons for the delay of the completion of project are the construction cannot be implemented during the winter owing to the weather reasons and the relative time-consuming approval process of the government.

Progress of Business Objectives *(continued)*

- Storage Centre in Changzhou City, Jiangsu Province:

  Shenhua Company, direct wholly-owned subsidiary of the Company, has leased from an independent third party a storage tank with 15,000 tons capacity situated at Changzhou City. The tanks have been upgraded and commissioned in the second quarter of 2006. In addition, another tank with capacity of 5,000 tons also completed in the 3rd quarter of 2006. As of 31 December 2006, the total capacity of the storage center is 20,000 tons. Changzhou City situates on the Yangtze River coast and its geographical location fits into the Company's expansion plan.

- Storage Centre at Xiangtang District, in Nanchang City, Jiangxi Province:

  Shenhua Company, direct wholly-owned subsidiary of the Company, has leased from an independent third party a storage tank with 15,000 tons capacity situated at Xiangtang District, Nangchang City. The tank has been upgraded and commission in the 3rd quarter of 2006. Xiangtang District 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.

- Acquisition of 25% equity interest in Nantong Highway and Bridge

  On 22 December 2006, the Company entered into the Acquisition Agreement with an independent third party in relation to the acquisition of 25% equity interest in Nantong Highway and Bridge Engineering Limited for a consideration of RMB32,680,000. Nantong Highway and Bridge Engineering Limited is principally engaged in the construction of highways and bridges in PRC which is certified for the first class of highway engineering contract and the first class of multicipal public engineering contract. The Acquisition will enable the Group to expand its asphalt sales business. The Acquisition was subsequently completed in 2007.

- Investment in Quanjiao Puxing

  In the second quarter of 2006, the Company has invested RMB6,500,000 in "Quanjiao Puxing Petrochemical Products Company Limited". The target is to build a storage hub with capacity of 12,000 tons on a piece of land with a site area of approximately 29,673 square meters in Quanjiao county in Anhui Province. The storage hub was completed in the 4th quarter of 2006.

- Storage Centre at Gaogang in Taizhou City, Jiangsu Province:

  Shenhua Company, direct wholly-owned subsidiary of the Company, has purchased from an independent third party a storage tank with 22,000 tons capacity situated at Gaogang District Taizhou City. The asphalt storage centre is well equipped with ancillary facilities and adjacent to the Yangtze River, which will greatly enhance the logistics structure of the Company and the development of the Jiangsu and Yangtze River markets midstream and downstream.

Ocean Carriers

The Company entered into a vessel purchase contract with an independent third party to acquire an ocean carrier at RMB20,880,000 and with 3,250 tons of loading. The vessel has been operated 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.

DONGHUA HONG KONG, direct wholly-owned subsidiary of the Company, entered into a vessel purchase contract with an independent third party to acquire an ocean carrier at HK$18,000,000 and with 3,800 tons of loading. The vessel is expected to finish construction and to operate in the 2nd quarter of 2007.

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 50, 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 上海建築材料保稅貿易行 (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 52, 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. Zhang Jinhua (張金華), aged 42, 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' market development and asphalt transportation.

Ms. Yao Peie (姚培娥), aged 57, graduated from Shanghai Engineering University (上海市機電工業學校) with a diploma in accounting in June 1988. Before joining 上海建築材料保稅貿易行 (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. Li Hongyuan (李鴻源), aged 50, 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.

NON-EXECUTIVE DIRECTOR

Mr. Hsu Chun-min (許群敏), aged 54, 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 Simosa Oil Co., Ltd. (中塑油品股份有限公司). He has over 20 years' experience in finance, investment analysis and system planning.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Lv Renzhi (呂人祉), aged 62, 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.

Profile of Directors, Supervisors and Senior Management

(continued)

Mr. Zhu Shengfu (朱生富), aged 57, 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 Officer 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 61, 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 29, 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 30, 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 26, 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. Jin Xiaohua (金曉華), aged 35, 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 was appointed as a vice general manager of the Company in June 2004. In March 2007, he has been appointed as an executive vice general manager and has been responsible for marketing.

Mr. Mo Luojiang (莫羅江), aged 29, graduated from Shanghai University of Finance and economics (上海財經大學) with a diploma in accountancy in April 2003. He joined the company in April 2003 and was responsible for the preparation of Listing of the Company in Hong Kong. Mr. Mo was appointed as the secretary of the directors' board in 2003. He was appointed as a vice general manager of the Company in May 2006. In March 2007, he has been appointed as an executive vice general manager and has been responsible for corporate governance and capital market finance.

Ms. Ye Zhenghua (葉正華), aged 31, 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 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.

Mr. Shen Linxiang (沈林祥), aged 40, 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 development of modifiable asphalt.

Profile of Directors, Supervisors and Senior Management

(continued)

Mr. Xu Jianwei (許建偉), aged 53, graduated from high school. Mr. Xu possesses more than 30 years of experience in logistics industry. He was the head of delivery department in 上海宜川購物集團公司(Shanghai Yichuan Shopping Group) between 1992 to 2002, responsible for the deployment of vehicles. He joined the Company in August 2005 and was responsible for establishing Shanghai Shenhua Logistic Company Limited, a subsidiary of the Company. He has been appointed as the general manager of Shenhua Logistics and has been responsible for the management and operation of land and inland water transport.

Mr. Chan Chor Ming (陳楚明), aged 48, 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 2005.

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 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 for 2006:

Number of meetings	21	
Executive Directors:		
Qian Wenhua	21/21	100%
Lu Yong	21/21	100%
Li Hongyuan	21/21	100%
Yao Peie	21/21	100%
Zhang Jinhua	21/21	100%
Non-executive Director:		
Hsu Chun-min	4/21	19.04%
Independent Non-executive Directors:		
Lv Renzhi	20/21	95.24%
Zhu Shengfu	20/21	95.24%
Ye Mingzhu	20/21	95.24%
Average attendance rate	89.42%	

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	**1**	
Executive Directors:		
Qian Wenhua	1/1	100%
Independent Non-executive Directors:		
Lv Renzhi	1/1	100%
Zhu Shengfu	1/1	100%
Ye Mingzhu	1/1	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 does not have nomination committee. The Board of Directors reviews the structure, operating scale and composition of the Company on a regular basis. The chief executive officer would look for suitable candidates with the assistance from executive directors for the consideration of the Board of Directors when necessary. The appointment of new directors must be unanimously approved by the Board of Directors, subject to the final approval in the general meeting, considering the expertise, experience, integrity and commitment to the Group of the proposed director.

Approved by the Board of Directors and in general meetings on 10 November 2006 and 17 January 2007 respectively, Ms. Josephine Price (潘佐芬) will be duly appointed as a non-executive director subject to certain conditions. Ms. Price is a member of the Hong Kong Securities Institute and a registered investment adviser in Hong Kong. As at the date of the Report, Ms. Price has not yet been duly appointed.

Except for the above, the term of the existing Board of Directors expired at the end of 2006 and the Company is preparing for the new Board of Directors.

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 RMB1,400,000 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 4 meetings during the year since the listing of the Company. Details of the attendance of the audit committee:

Number of meetings	4	
Independent Non-executive Directors:		
Lv Renzhi	4/4	100%
Zhu Shengfu	4/4	100%
Ye Mingzhu	4/4	100%
Average attendance rate	100%	

The Group's unaudited half year interim results, unaudited quarterly results and annual audited results for the year ended 31 December 2006 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.

Corporate Governance Report *(continued)*

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 30 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.

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 2006, 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 2006, 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, 27 March 2007

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

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 10 to the financial statements.

SEGMENT INFORMATION

Details of segment information are set out in note 5 to the financial statements.

FINANCIAL STATEMENTS, DIVIDENDS AND BONUS SHARES

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 34.

The state of the Group's affairs as at 31 December 2006 is set out in the consolidated balance sheet on page 32.

The Directors have declared and paid an interim dividend of approximately RMB5,007,800 for the six months ended 30 June 2006 (For the six months ended 30 June 2005, a special dividend of RMB0.0066 per share and amounting in total to RMB2,263,800 was declared and paid).

The Directors recommend the payment of a final dividend of RMB0.022 per share (2005: RMB0.0396 per share) amounting in total to approximately RMB15,092,000 (2005: RMB13,582,800) for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group are set out in note 7 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 17 to the financial statements.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2006, 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 RMB75,551,000 (2005: 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 *(continued)*

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Group for the last four 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 Director

Mr. Hsu Chun-min

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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on pages from 15 to 17.

Report of the Directors *(continued)*

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.

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 2006, 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 of the Company:

Name of Directors	Capacity	Number of shares Personal interest	Number of shares Family Interest	Total 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	191,792,000 (domestic shares)	35,854,000 *(Note 1)* (domestic shares)	227,646,000	47.43	33.18
Lu Yong (Executive Director)	Beneficial owner	62,618,000 (domestic shares)	–	62,618,000	13.05	9.13
Yao Peie (Executive Director)	Beneficial owner	34,546,000 (domestic shares)	–	34,546,000	7.20	5.04
Li Hongyuan (Executive Director)	Beneficial owner	18,400,000 (domestic shares)	–	18,400,000	3.83	2.68
Zhang Jinhua (Executive Director)	Beneficial owner	15,152,000 (domestic shares)	–	15,152,000	3.16	2.21

Note 1: The 35,854,000 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 *(continued)*

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

At 31 December 2006, 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 338 of the SFO and who were directly and/or indirectly deem to be interested in 5% 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:

		Number of shares					
Name of Person	**Capacity**	**Personal interest**	**Family Interest**	**Total interest**	**Total short position**	**Approximate percentage of shareholding in such class of shares of the Company**	**Approximate percentage of shareholding in the registered share capital of the Company**
Liu Huiping *(Note 1)*	Beneficial owner	35,854,000 (domestic shares)	191,792,000 *(Note 1)* (domestic shares)	227,646,000	–	47.43	33.18
Simosa Oil Co., Ltd. (中塑油品股份有限公司)	Beneficial owner	28,640,000 (H Shares)	–	28,640,000	–	13.90	4.17
Shenyin Wanguo (H.K.) Ltd	Interest of a controlled corporation	30,720,000 (H Shares)	–	30,720,000	– 12,500,000	14.91 6.06	4.48 1.79
Mumiya Limited and Babylon Limited	Beneficial owner *(Note 2)*	175,000,000 (H Shares)	–	175,000,000	–	84.95	25.51

Notes:

1. Liu Huiping is the wife of Qian Wenhua.

2. In October 2006, the Company entered into a subscription agreement with Mumiya Limited and Babylon Limited to place 175,000,000 new H shares to these two subscribers at a price of HK$1.10 per share and to offer not more than 75,190,000 new H shares to its existing H shareholders at the same price by way of a public offer. CLSA Capital Partners is the adviser to the general partners of Aria Investment Partners II, L.P. and Aria Investment Partners III, L.P., which are the holding companies of the Subscribers.

Report of the Directors *(continued)*

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	17.09%
–	five largest customers combined	44.47%

Purchases

–	the largest supplier	28.89%
–	five largest suppliers combined	78.19%

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 2006.

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 2006 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 2006, 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 32 to the financial statements.

Report of the Directors *(continued)*

RELATED PARTIES TRANSACTIONS

A summary of the related parties transactions are disclosed in note 31 to the financial statements.

STAFF AND REMUNERATION POLICY

The Group staff functions were analyzed as follows:

	Number of staff	
Functions:	**2006**	2005
Human resources	**2**	2
Information system	**6**	5
Sales and marketing	**23**	22
Accounting and finance	**12**	8
Management	**22**	13
Shipping and transportation	**90**	7
Storage centre	**53**	33
Technic and quality	**3**	–
Law	**1**	–
Adminstration	**3**	–
Total	**215**	90

On 31 December 2006, the Group had 215 staff (2005: 90 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 RMB12,627,000 (2005: RMB9,790,000).

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 2006 was RMB1,147,625 (2005: RMB4,031,400).

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.

COMPETING 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 *(continued)*

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 as at 31 December 2006, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital held 5,720,000 H Shares of the Company. SW Capital entered into an underwriting agreement with the Company on 10 November 2006 in relation to the underwriting of the open offer of the Company, details of which are set out in the Circular of the Company dated 1 December 2006. 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, 28 March 2007

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
Shanghai Donghua Petrochemical Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Donghua Petrochemical Co., Ltd. (the "Company") set out on pages 32 to 81, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report *(continued)*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2007

Consolidated Balance Sheet

All amounts in Renminbi unless otherwise stated

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**2,275**	–
Property, plant and equipment	7	**103,942**	21,762
Construction-in-progress	8	**58,055**	34,874
Intangible assets	9	**490**	–
Investments in associates	11	**12,352**	7,604
Available-for-sale financial assets	12	**2,630**	3,152
		179,744	67,392
Current assets			
Inventories	13	**61,990**	27,754
Trade and other receivables	14	**190,582**	70,080
Cash and cash equivalents		**43,256**	97,886
		295,828	195,720
Total assets		**475,572**	263,112
LIABILITIES			
Non-current liabilities			
Borrowings	16	**5,550**	–
Current liabilities			
Trade and other payables	15	**175,386**	81,407
Current income tax liabilities		**4,824**	4,286
Borrowings	16	**96,920**	35,500
		277,130	121,193
Total liabilities		**282,680**	121,193
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	17	**68,600**	34,300
Share premium	18	**–**	34,117
Other reserves	18	**19,705**	14,123
Retained earnings			
– Proposed final dividends	27, 18	**15,092**	13,583
– Others	18	**84,324**	43,861
		187,721	139,984
Minority interest		**5,171**	1,935
Total equity		**192,892**	141,919
Total liabilities and equity		**475,572**	263,112
Net current assets		**18,698**	74,527
Total assets less current liabilities		**198,442**	141,919

Lu Yong
Director

Yao Peie
Director

The notes on pages 37 to 81 are an integral part of these consolidated financial statements.

Balance Sheet

All amounts in Renminbi unless otherwise stated

	Note	As at 31 December **2006** ***RMB'000***	2005 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**56,640**	9,929
Construction-in-progress	*8*	**–**	16,199
Intangible assets	*9*	**490**	–
Investment in subsidiaries	*10*	**68,654**	38,425
Investment in associates	*11*	**6,528**	4,935
Available-for-sale financial assets	*12*	**2,630**	3,152
		134,942	72,640
Current assets			
Inventories	*13*	**60,237**	28,410
Trade and other receivables	*14*	**190,092**	113,185
Cash and cash equivalents		**15,036**	41,739
		265,365	183,334
Total assets		**400,307**	255,974
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**5,550**	–
Current liabilities			
Trade and other payables	*15*	**132,939**	76,247
Current income tax liabilities		**1,824**	3,925
Borrowings	*16*	**95,020**	35,500
		229,783	115,672
Total liabilities		**235,333**	115,672
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	*17*	**68,600**	34,300
Share premium	*18*	**–**	34,117
Other reserves	*18*	**20,823**	14,026
Retained earnings			
– Proposed final dividends	*27, 18*	**15,092**	13,583
– Others	*18*	**60,459**	44,276
Total equity		**164,974**	140,302
Total liabilities and equity		**400,307**	255,974
Net current assets		**35,582**	67,662
Total assets less current liabilities		**170,524**	140,302

Lu Yong
Director

Yao Peie
Director

The notes on pages 37 to 81 are an integral part of these financial statements.

Consolidated Income Statement

All amounts in Renminbi unless otherwise stated

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Revenue	5	**1,064,819**	683,761
Cost of sales		**(929,626)**	(576,425)
Gross profit		**135,193**	107,336
Distribution costs		**(44,332)**	(24,610)
Administrative expenses		**(22,248)**	(20,784)
Other income	19	**13,589**	2,373
Other losses		**(3,068)**	(989)
Operating profit		**79,134**	63,326
Finance costs – net	22	**(5,999)**	(1,890)
Share of profit of associates	11	**3,155**	972
Profit before income tax		**76,290**	62,408
Income tax expense	23	**(9,611)**	(10,036)
Profit for the year		**66,679**	52,372
Attributable to:			
Equity holders of the Company	18	**67,243**	52,372
Minority interest		**(564)**	–
		66,679	52,372
Dividends	27	**20,100**	15,846
Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	26	**0.098**	0.076

The notes on pages 37 to 81 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

All amounts in Renminbi unless otherwise stated

	Note	Share capital RMB'000	Share premium RMB'000	Share issuance costs 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 2005		24,000	–	(4,578)	3,930	1,964	–	20,583	335	46,234
Issuance of H shares	*17*	10,300	34,117	12,512	–	–	–	–	–	56,929
Direct costs attributable to new issuance of shares on the GEM	*18*	–	–	(7,934)	–	–	–	–	–	(7,934)
Currency translation differences		–	–	–	–	–	(19)	–	–	(19)
Profit for the year		–	–	–	–	–	–	52,372	–	52,372
Appropriation	*18*	–	–	–	5,498	2,750	–	(8,248)	–	–
Dividend declared and paid in respect of 2004	*27*	–	–	–	–	–	–	(5,000)	–	(5,000)
Dividend declared and paid in respect of the period from 1 January to 30 June 2005	*27*	–	–	–	–	–	–	(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

	Note	Share capital RMB'000	Share premium 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 2006		**34,300**	**34,117**	**9,428**	**4,714**	**(19)**	**57,444**	**1,935**	**141,919**
Issuance of bonus shares	*17*	34,300	(34,117)	–	–	–	(183)	–	–
Currency translation differences		–	–	–	–	(915)	–	–	(915)
Profit for the year		–	–	–	–	–	67,243	(564)	66,679
Appropriation	*18*	–	–	6,497	–	–	(6,497)	–	–
Transfer of fund according to revised PRC regulations	*18*	–	–	4,714	(4,714)	–	–	–	–
Dividend declared and paid in respect of 2005	*27*	–	–	–	–	–	(13,583)	–	(13,583)
Dividend declared and paid in respect of the period from 1 January to 30 June 2006	*27*	–	–	–	–	–	(5,008)	–	(5,008)
Minority interest – Consolidation of new subsidiaries		–	–	–	–	–	–	3,800	3,800
Balance at 31 December 2006		**68,600**	**–**	**20,639**	**–**	**(934)**	**99,416**	**5,171**	**192,892**

The notes on pages 37 to 81 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

All amounts in Renminbi unless otherwise stated

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash received from customers		**1,127,539**	861,162
Cash payment to suppliers		**(1,046,006)**	(708,032)
Cash paid to and on behalf of employees		**(11,403)**	(5,729)
Other cash received		**1,011**	2,546
Other cash payments		**(82,489)**	(44,453)
Net cash (used in)/from operations	*28*	**(11,348)**	105,494
Interest paid		**(5,913)**	(1,701)
Taxes paid		**(9,073)**	(7,050)
Net cash (used in)/from operating activities		**(26,334)**	96,743
Cash flows from investing activities			
Purchase of property, plant and equipment		**(84,523)**	(38,671)
Proceeds from disposal of property, plant and equipment		**709**	100
Purchase of intangible assets		**(565)**	–
Purchase of land use rights		**(2,309)**	–
Interest received		**899**	292
Acquisition of a subsidiary, net of cash acquired	*29*	**(1,195)**	(3,869)
Investments in and acquisition of associates		**(1,593)**	(4,770)
Disposal/(Acquisition) of available-for-sale financial assets		**553**	(1,030)
Dividends received from unlisted investments		**7,549**	1,280
Net cash used in investing activities		**(80,475)**	(46,668)
Cash flows from financing activities			
Net proceeds from issuance of H shares		**–**	44,417
Proceeds from capital contribution by minority investors of subsidiaries		**3,800**	40
Proceeds from borrowings		**305,852**	39,000
Repayment of borrowings		**(238,882)**	(36,000)
Dividends paid		**(18,591)**	(7,263)
Net cash from financing activities		**52,179**	40,194
Net (decrease)/increase in cash and cash equivalents		**(54,630)**	90,269
Cash and cash equivalents at beginning of the year		**97,886**	7,617
Cash and cash equivalents at end of the year		**43,256**	97,886
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**43,256**	97,886

The notes on pages 37 to 81 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Shanghai Donghua Petrochemical Co., Ltd. ("the Company") and its subsidiaries (together the "Group") is principally engaged in the provision of one-stop asphalt sales and logistics services, which include procurement, storage and delivery of asphalt to its customers in the People's Republic of China ("the PRC"). The Group's logistic services cover vehicle transportation, waterway transportation, inland water transportation and the storage of asphalt.

The Company is a joint stock limited company incorporated in the PRC. The address of the Company's registered office is 706 Renhe Building, 2056 Pudong Road, Pudong New Area, Shanghai, the PRC.

The Company has its primary listing on the Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in units of Renminbi (RMB), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated 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 consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relatively significant to the consolidated financial statements, are disclosed in Note 4.

(a) Standards, amendments and interpretations effective in 2006

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting policies beginning on or after 1 January 2006, or later periods, 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 2006 and 2005.

HKAS 21 (Amendment), New Investment in a Foreign Operation (effective from 1 January 2006). The amendment allows inter-company loans denominated in any currency to be part of a net investment in a foreign operation. This amendment is not relevant to the Group's operations.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations effective in 2006 (continued)

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 during the years ended 31 December 2006 and 2005.

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. This amendment does not have any impact on the classification of the financial instruments of the Group.

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 provide any guarantee to other third parties.

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, 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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.1 Basis of preparation *(continued)*

(a) *Standards, amendments and interpretations effective in 2006 (continued)*

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. HKFRS-Int 4 does not have any impact on the Group.

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.

(b) *Interpretation to existing standards that are not yet effective and have not been early adopted by the Group*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(c) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under IAS/HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.1 Basis of preparation *(continued)*

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations (continued)

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the entities in the Group have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

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 unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets 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 investment 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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.2 Consolidation *(continued)*

(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 consolidated 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.

(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 recognised 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 recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised 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.

Dilution gains and losses in associates are recognised in the consolidated income statement.

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

2.3 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.

2.4 Foreign currency translation

(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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.4 Foreign currency translation *(continued)*

(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 recognised 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;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised 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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment comprising buildings, storage facilities, furniture and fixtures and transportation facilities. Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.5 Property, plant and equipment *(continued)*

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.

Gain or loss on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the consolidated income statement.

2.6 Construction-in-progress

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

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 recognised 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Available-for-sale financial assets

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 recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised 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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.8 Available-for-sale financial assets *(continued)*

The Group's available-for-sale financial assets 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 recognised in the consolidated 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 financial assets, the cumulative loss is recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.10.

2.9 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 (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the consolidated income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2006

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

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised 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 recognised in the consolidated 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 consolidated income statement in the year in which they are incurred.

2.15 Deferred income tax

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 consolidated financial statements. However, the 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 either 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 realised or the deferred income tax liability is settled.

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

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.

2.16 Employee retirement benefits

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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.16 Employee retirement benefits *(continued)*

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.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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 recognised as interest expense.

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.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods*

Revenue from sales 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.

(b) *Sales of services*

Revenue from rendering of asphalt transportation services is recognised upon the completion of services, which generally coincides with the date of receipts of goods by the receiver. Revenue from asphalt storage services is recognised in the period the services are provided.

(c) *Interest income*

Interest income is recognised 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 the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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

2.18 Revenue recognition *(continued)*

(d) Dividend income

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

2.19 Operating leases (as the lessee for operating leases)

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 to the consolidated income statement on a straight-line basis over the period of the lease.

2.20 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 grant relating to income are initially recorded as deferred revenue, and are recognised in the consolidated 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 consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.21 Dividend distribution

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

2.22 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 the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

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 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 written 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 16.

(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 one major customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk (continued)

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		**Company**	
	As at 31 December		**As at 31 December**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
上海興通石油化工有限公司	**33,180**	–	**32,680**	–
武漢華隆公路物資有限公司	**–**	–	**19,673**	–
上海建設機場道路工程有限公司	**11,579**	23,000	**11,220**	23,000
南通興通物資有限公司	**–**	8,197	**–**	8,197
江蘇華源交通工程有限公司	**5,506**	7,337	**5,506**	7,337
	50,265	38,534	**69,079**	38,534

(d) Liquidity risk

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

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management regard capital as the total equity plus non-current borrowings as reflected in the Group's consolidated financial statements, which was RMB198,442,000 (2005: RMB141,919,000) as at 31 December 2006. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, sell assets to reduce debt, or secure additional long-term borrowings to finance its business expansion.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 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 carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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 are discussed 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 2006 was RMB103,942,000 (2005: RMB21,762,000) and RMB56,640,000 (2005: RMB9,929,000) 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 2006, management believes that the provision for impairment for trade and other receivables of RMB1,439,000 (2005: RMB1,365,000) is adequate.

5. SEGMENT INFORMATION

(a) Primary reporting format — business segments

At 31 December 2006, the Group is organised into two main business segments:

(1) Revenue from sales of asphalt; and

(2) Revenue from asphalt transportation and storage services ("logistic services").

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format — business segments *(continued)*

Turnover consists of sales from asphalt and logistics services segments, which totalled RMB1,064,819,000 and RMB683,761,000 for the years ended 31 December 2006 and 2005 respectively.

The segment results for the year ended 31 December 2006 are as follow:

	Sales of asphalt *RMB'000*	**Logistic services** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Total segment revenue	**1,219,879**	**83,609**	**–**	**1,303,488**
Inter-segment revenue	**(196,736)**	**(41,933)**	**–**	**(238,669)**
Revenue	**1,023,143**	**41,676**	**–**	**1,064,819**
Operating profit/Segment results	**55,261**	**13,352**	**10,521**	**79,134**
Finance costs — net *(Note 22)*				**(5,999)**
Share of profit of associates *(Note 11)*	**3,155**	**–**	**–**	**3,155**
Profit before income tax				**76,290**
Income tax expense *(Note 23)*				**(9,611)**
Profit for the year				**66,679**

The segment results for the year ended 31 December 2005 are as follow:

	Sales of asphalt *RMB'000*	Logistic services *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Total segment revenue	712,400	11,013	–	723,413
Inter-segment revenue	(28,639)	(11,013)	–	(39,652)
Revenue	683,761	–	–	683,761
Operating profit/Segment results	61,942	–	1,384	63,326
Finance costs — net *(Note 22)*				(1,890)
Share of profit of associates *(Note 11)*	972	–	–	972
Profit before income tax				62,408
Income tax expense *(Note 23)*				(10,036)
Profit for the year				52,372

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format — business segments *(continued)*

Other segment items included in the consolidated income statement are as follows:

	Year ended 31 December 2006			Year ended 31 December 2005		
	Sales of asphalt	**Logistic services**	**Group**	Sales of asphalt	Logistic services	Group
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation *(Note 7)*	**1,700**	**2,203**	**3,903**	502	503	1,005
Amortisation *(Note 9)*	**75**	**–**	**75**	–	–	–

During 2005, logistics services did not qualify as a separate segment. However, with the expansion of its logistic services through certain subsidiaries of the Group in 2006, logistics services qualifies as a separate segment, and the corresponding figures for 2005 have been restated.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, investment in associates, inventories, trade and other receivables, and cash and cash equivalents. Unallocated assets comprise available-for-sale financial assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation payables and borrowings.

Capital expenditure comprises additions to land use rights (Note 6), property, plant and equipment (Note 7), construction-in-progress (Note 8) and intangible assets (Note 9).

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follow:

	Business segment			
	Sales of asphalt	**Logistic services**	**Unallocated**	**Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets	**372,843**	**87,747**	**2,630**	**463,220**
Associates	**12,352**	**–**	**–**	**12,352**
Total assets	**385,195**	**87,747**	**2,630**	**475,572**
Liabilities	**152,714**	**22,672**	**107,294**	**282,680**
Capital expenditure *(Notes 6 to 9)*	**56,026**	**56,780**	**–**	**112,806**

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format — business segments *(continued)*

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follow:

	Business segment			
	Sales of asphalt	Logistic services	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets	192,919	59,437	3,152	255,508
Associates	7,604	–	–	7,604
Total assets	200,523	59,437	3,152	263,112
Liabilities	79,569	1,838	39,786	121,193
Capital expenditure *(Notes 7, 8 and 9)*	30,725	16,817	–	47,542

(b) Secondary reporting format – geographical segments

No geographical segment information is presented as substantially all sales are derived from customers located in the PRC and substantially all the Group's assets are located in the PRC, which is considered as one geographic location with similar risks and returns.

6. LAND USE RIGHTS

The Group's interests in land use rights, which has a term of 50 years, represent prepaid operating lease payments. As at 31 December 2006, land use rights with a net book value of RMB2,275,000 (original cost of RMB2,309,000) were pledged as security for the Group's short-term bank borrowings amounted to RMB1,900,000 (Note 16).

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

7. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Storage facilities	Furniture and fixtures	Transportation facilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005					
Cost	3,814	2,326	679	3,118	9,937
Accumulated depreciation	(211)	–	(310)	(468)	(989)
Net book amount	3,603	2,326	369	2,650	8,948
Year ended 31 December 2005					
Opening net book amount	3,603	2,326	369	2,650	8,948
Additions	–	–	189	10,080	10,269
Transfer from construction-in-progress *(Note 8)*	–	2,116	–	1,613	3,729
Disposals	–	–	–	(179)	(179)
Depreciation	(179)	(226)	(132)	(468)	(1,005)
Closing net book amount	3,424	4,216	426	13,696	21,762
At 31 December 2005					
Cost	3,814	4,442	863	14,571	23,690
Accumulated depreciation	(390)	(226)	(437)	(875)	(1,928)
Net book amount	3,424	4,216	426	13,696	21,762
Year ended 31 December 2006					
Opening net book amount	3,424	4,216	426	13,696	21,762
Additions	2,207	7,096	1,568	17,330	28,201
Transfer from construction-in-progress *(Note 8)*	19,483	10,187	16,443	12,437	58,550
Disposals	–	–	(3)	(665)	(668)
Depreciation	(738)	(352)	(362)	(2,451)	(3,903)
Closing net book amount	24,376	21,147	18,072	40,347	103,942
At 31 December 2006					
Cost	25,504	21,725	18,817	43,444	109,490
Accumulated depreciation	(1,128)	(578)	(745)	(3,097)	(5,548)
Net book amount	24,376	21,147	18,072	40,347	103,942

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

7. 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*
At 1 January 2005					
Cost	3,814	2,326	679	659	7,478
Accumulated depreciation	(211)	–	(310)	(259)	(780)
Net book amount	3,603	2,326	369	400	6,698
Year ended 31 December 2005					
Opening net book amount	3,603	2,326	369	400	6,698
Additions	–	–	152	–	152
Transfer from construction-in-progress *(Note 8)*	–	2,116	–	1,613	3,729
Depreciation	(179)	(226)	(132)	(113)	(650)
Closing net book amount	3,424	4,216	389	1,900	9,929
At 31 December 2005					
Cost	3,814	4,442	826	2,272	11,354
Accumulated depreciation	(390)	(226)	(437)	(372)	(1,425)
Net book amount	3,424	4,216	389	1,900	9,929
Year ended 31 December 2006					
Opening net book amount	3,424	4,216	389	1,900	9,929
Additions	555	7,096	53	11,179	18,883
Transfer from construction-in-progress *(Note 8)*	18,569	–	–	10,739	29,308
Disposals	–	–	(3)	–	(3)
Depreciation	(711)	(352)	(153)	(261)	(1,477)
Closing net book amount	21,837	10,960	286	23,557	56,640
At 31 December 2006					
Cost	22,938	11,538	822	24,136	59,434
Accumulated depreciation	(1,101)	(578)	(536)	(579)	(2,794)
Net book amount	21,837	10,960	286	23,557	56,640

Depreciation expenses of RMB505,000 (2005: RMB355,000) has been charged in distribution costs, RMB1,660,000 (2005: RMB650,000) in administrative expenses and RMB1,738,000 (2005: nil) in cost of sales.

At 31 December 2006, buildings with a net book value of RMB18,044,000 (original cost of RMB18,483,000) were pledged as security for the Company's bank borrowings amounted to RMB7,350,000 (Note 16).

At 31 December 2005, buildings with a net book value of RMB3,424,000 (original cost of RMB3,814,000) were pledged as security for the Company's bank borrowings amounted to RMB2,500,000 (Note 16).

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For the year ended 31 December 2006

8. CONSTRUCTION-IN-PROGRESS

Group	*RMB'000*
At 1 January 2005	1,330
Additions	37,273
Transfer to property, plant and equipment *(Note 7)*	(3,729)
At 31 December 2005	34,874
Additions	81,731
Transfer to property, plant and equipment *(Note 7)*	(58,550)
At 31 December 2006	58,055

Company	*RMB'000*
At 1 January 2005	1,330
Additions	18,598
Transfer to property, plant and equipment *(Note 7)*	(3,729)
At 31 December 2005	16,199
Additions	13,109
Transfer to property, plant and equipment *(Note 7)*	(29,308)
At 31 December 2006	–

9. INTANGIBLE ASSETS

Group and Company

	Computer software *RMB'000*
Year ended 31 December 2006	
Opening net book amount	–
Additions	565
Amortisation charge	(75)
Closing net book amount	490
At 31 December 2006	
Cost	565
Accumulated depreciation	(75)
Net book amount	490

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

10. INVESTMENT IN SUBSIDIARIES — COMPANY

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**68,654**	38,425

The following is the details of the Group's subsidiaries at 31 December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Equity interests held Direct	Equity interests held Indirect
Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping") *(Note a)*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB6,000,000	–	100%
Wuhan Hualong Highway Resources Company Limited ("Wuhan Hualong") *(Note c)*	PRC, limited liability company	Asphalts trading in the PRC	RMB8,000,000	80%	–
Donghua (Hong Kong) Limited ("Donghua Hong Kong") *(Note b)*	Hong Kong, limited liability company	Asphalts trading to customers in the PRC and provision logistic services	USD2,000,000	100%	–
Shanghai Shenhua Logistics Company Limited ("Shenhua Logistics") *(Note b)*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB20,000,000	100%	–
Zhengzhou Huasheng Petrochemical Company Limited ("Zhengzhou Huasheng") *(Note b)*	PRC, limited liability company	Asphalts trading in the PRC	RMB20,000,000	95%	5%
Quanjiao Puxing Petrochemical Company Limited ("Anhui Quanjiao") *(Note d)*	PRC, limited liability company	Asphalts trading in the PRC	RMB10,000,000	65%	–
Wuhan Shenlong Logistics Company Limited ("Wuhan Shenlong") *(Note f)*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB2,000,000	–	80%
Shanghai Donghe Resources Company Limited ("Shanghai Donghe") *(Note e)*	PRC, limited liability company	Asphalts trading in the PRC	RMB1,000,000	80%	–
Tonva Shipping Limited *(Note e)*	Hong Kong, limited liability company	Provision of marine transportation service in the PRC	HK$100,000	–	100%

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

10. INVESTMENT IN SUBSIDIARIES — COMPANY *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Equity interests held Direct	Equity interests held Indirect
Panva Shipping Limited *(Note e)*	Hong Kong, limited liability company	Provision of marine transportation service in the PRC	HK$100,000	–	100%

Note a: Acquired by the Company in 2003.

Note b: Invested by the Company or its subsidiaries upon the subsidiaries' incorporation in 2005. Zhengzhou Huasheng has not yet commenced commercial operations as at 31 December 2006.

Note c: Acquired by the Company in 2005, details of which are described in Note 29.

Note d: Acquired by the Company in 2006, details of which are described in Note 29.

Note e: Invested by the Company or its subsidiaries upon the subsidiaries' incorporation in 2006. These subsidiaries have not yet commenced commercial operations as at 31 December 2006. The share capital of Tonva Shipping Limited and Panva Shipping Limited has yet to be contributed by Donghua Hong Kong as at 31 December 2006.

Note f: Invested by the Company's subsidiary upon incorporation in 2006.

11. INVESTMENT IN ASSOCIATES — GROUP AND COMPANY

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**7,604**	1,699	**4,935**	1,750
Share of associates' results				
– profit before taxation	**4,731**	1,578	**–**	–
– taxation	**(1,576)**	(606)	**–**	–
	3,155	972	**–**	–
Increase of investment in existing associates and acquisition of new associates	**1,593**	4,933	**1,593**	3,185
End of the year	**12,352**	7,604	**6,528**	4,935
Unlisted equity investments, at cost	**8,272**	6,679	**6,528**	4,935

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(continued)
For the year ended 31 December 2006

11. INVESTMENT IN ASSOCIATES — GROUP AND COMPANY *(continued)*

The followings are the details of the associated companies:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Equity interests held
2006				
Jiangxi Huatong Highway Materials Company Limited ("Jiangxi Huatong") *(Note a)*	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	RMB19,500,000	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%
2005				
Jiangxi Huatong	PRC, limited liability company	Asphalt trading in the PRC	RMB5,000,000	35%
Jiaxing Huatong	PRC, limited liability company	Processing, sale, storage and delivery of asphalt and related products in the PRC	RMB13,000,000	24.5%
Jiangxi Ganbei	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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

11. INVESTMENT IN ASSOCIATES — GROUP AND COMPANY *(continued)*

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

Name	Assets	Liabilities	Revenues	Profit/(loss)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2006				
Jiangxi Huatong	**13,990**	**4,929**	**25,419**	**2,099**
Jiaxing Huatong	**26,261**	**1,930**	**11,576**	**4,102**
Jiangxi Ganbei	**23,486**	**14,245**	**6,876**	**4,044**
	63,737	**21,104**	**43,871**	**10,245**
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)
	35,994	10,073	31,838	3,068

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP AND COMPANY

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Unlisted equity securities	**2,630**	3,152

Unlisted equity securities represent investments in unlisted companies in the PRC.

The Company disposed of certain of its unlisted equity securities amounted to RMB522,000 in 2006. Gain on disposal of the unlisted equity securities amounted to RMB31,000. There were no impairment provisions for available-for-sale financial assets in 2006.

13. INVENTORIES

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Asphalt for resale	**61,990**	27,754	**60,237**	28,410

No inventories were carried at net realisable value.

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For the year ended 31 December 2006

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**139,470**	32,538	**104,520**	31,710
Commercial notes receivable *(Note 16)*	**28,746**	32,099	**28,746**	32,099
	168,216	64,637	**133,266**	63,809
Less: Provision for impairment of receivables	**(1,439)**	(1,365)	**(1,439)**	(1,365)
	166,777	63,272	**131,827**	62,444
Prepayments and deposits	**18,707**	6,074	**14,613**	5,000
Due from related parties *(Note 31)*	**488**	250	**416**	250
Due from subsidiaries	**–**	–	**40,166**	45,417
Other receivables	**4,610**	484	**3,070**	74
	190,582	70,080	**190,092**	113,185

The ageing analysis of trade and notes receivables, arising mainly from sales of asphalt and provision of logistic services to customers and which have credit terms of 30 days to 60 days, is as follow:

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**62,223**	43,363	**44,264**	42,816
31 – 60 days	**66,241**	11,343	**59,374**	11,062
61 – 90 days	**9,724**	3,934	**4,245**	3,934
91 days – one year	**27,536**	4,924	**22,891**	4,924
One year-two years	**2,492**	1,073	**2,492**	1,073
	168,216	64,637	**133,266**	63,809

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 recognised a loss of RMB74,000 (2005: RMB787,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

15. TRADE AND OTHER PAYABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**145,472**	20,025	**104,942**	19,290
Due to related parties *(Note 31)*	**–**	800	**–**	800
Due to subsidiaries	**–**	–	**6,398**	10,990
Advances from customers	**24,640**	46,847	**22,145**	33,662
Other payables	**(521)**	11,530	**(2,251)**	9,764
Accruals	**5,795**	2,205	**1,705**	1,741
	175,386	81,407	**132,939**	76,247

Included in other payables as at 31 December 2006 are value added tax recoverable of the Group and the Company amounted to RMB4,035,000 and RMB3,468,000 (2005: value added tax payable of RMB4,718,000 and RMB4,712,000), respectively.

The ageing analysis of trade payables is as follow:

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**54,348**	18,735	**34,041**	18,638
31 – 60 days	**67,747**	985	**59,615**	347
61 – 90 days	**11,148**	65	**11,180**	65
91 days – one year	**12,123**	131	**–**	131
One year – two years	**97**	109	**97**	109
Two years – three years	**9**	–	**9**	–
	145,472	20,025	**104,942**	19,290

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For the year ended 31 December 2006

16. BORROWINGS — GROUP AND COMPANY

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings:				
Non-current	**5,550**	–	**5,550**	–
Current	**96,920**	35,500	**95,020**	35,500
Total borrowings	**102,470**	35,500	**100,570**	35,500

All of the Group's bank loans were denominated in RMB as at 31 December 2006 and 2005.

As at 31 December 2006, bank borrowings comprised:

(a) short-term bank loans of RMB20,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party, which bore interest at between 5.86% to 6.43% per annum;

(b) short-term bank loans of RMB30,000,000 guaranteed by a subsidiary of the Company, which bore interest at 6.43% per annum;

(c) short-term bank loans of RMB20,000,000 guaranteed by a subsidiary of the Company, which bore interest at 5.86% per annum;

(d) short-term bank loans of RMB1,900,000 secured by land use rights of a subsidiary of the Company (Note 6), which bore interest at 9.72% per annum;

(e) bank loans of RMB7,350,000 (comprise of short-term bank loan of RMB1,800,000 and long-term bank loan of RMB5,550,000) secured by office premises of the Company with a net book value of RMB18,044,000 (original cost of RMB18,483,000) (Note 7), which bore interest at 5.85% per annum; and

(f) commercial notes receivable discounted to commercial banks on a with recourse basis of RMB23,220,000, (Note 14) which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

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 7), 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, (Note 14) which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

The carrying amounts of borrowings approximate their fair value, as the impact of discounting is not significant.

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For the year ended 31 December 2006

16. BORROWINGS — GROUP AND COMPANY *(continued)*

At 31 December 2006, the Group and the Company's borrowings were repayable as follow:

	Group		Company	
	As at 31 December		As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**96,920**	35,500	**95,020**	35,500
Between 1 and 2 years	**–**	–	**–**	–
Between 2 and 5 years	**5,550**	–	**5,550**	–
Wholly repayable within 5 years	**102,470**	35,500	**100,570**	35,500

The Group did not have any undrawn banking facilities as at 31 December 2006 and 31 December 2005.

17. SHARE CAPITAL

	RMB'000
Share capital at 1 January 2005	24,000
Issuance of H shares	10,300
Share capital at 31 December 2005	34,300
Share capital at 1 January 2006	**34,300**
Issuance of bonus shares to domestic shareholders	**24,000**
Issuance of bonus shares to H share shareholders	**10,300**
Share capital at 31 December 2006	**68,600**

As at 1 January 2005, the Company's authorised 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.

As at 31 December 2005, the total authorised number of ordinary shares was 343 million shares with a par value of RMB0.1 per share. All issued shares have been fully paid up.

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

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17. SHARE CAPITAL *(continued)*

Pursuant to a special resolution passed at the Annual General Meeting on 16 May 2006, the Company's authorised share capital was increased from 343 million shares of RMB0.1 each to 686 million shares of RMB0.1 each by distributing 343 million bonus shares of RMB0.1 each to the shareholders of the Company at the ratio of 1 bonus share for every 1 existing share held.

For the purpose of the above bonus shares issue, the Company capitalised an amount of RMB34,117,000 and RMB183,000 from its share premium and retained earnings accounts respectively. A total of an additional 103 million H shares of RMB0.1 each and 240 million domestic shares of RMB0.1 each have been issued to the shareholders. The bonus shares rank pari passu in all material respects with the then existing domestic shares and H shares.

As at 31 December 2006, the total authorised number of ordinary shares was 686 million shares with a par value of RMB0.1 per share. All issued shares have been fully paid up.

On 11 October 2006, the Company entered into a placing agreement with Mumiya Limited and Babylon Limited ("the Subscribers") in respect of the proposed placing to the Subscribers of 175,000,000 new H shares in the Company at an issue price of HK$1.10 per placing share. The 175,000,000 proposed placing shares represent 20.33% of the enlarged issued share capital of the Company.

The Company expects to raise total proceeds of approximately HK$192.5 million, before expenses, from the proposed placing of these new H shares.

In addition, the Board of Directors of the Company proposes to accompany the above placing with an open offer for the existing H shareholders (other than the Subscribers) in order to maintain their respective pro-rata shareholding in the Company. The Company will offer no more than 75,190,000 new H shares ("Offer Shares") at HK$1.10 per H share on the basis of 3.65 Offer Shares for every 10 existing H shares held on the record date. The gross proceeds from the open offer, if fully taken up by the existing H shareholders, will be approximately HK$82.7 million.

The placing shares and Offer Shares to be issued shall rank pari passu in all material respects with all other existing H shares upon completion of the placing of new H shares and allotment of the fully paid Offer Shares.

The open offer will proceed only if the placing has become unconditional, but the placing will not be conditional on the open offer. The placing of new H shares to the Subscribers and the open offer to the existing H shareholders are subject to, amongst others, the approval from the China Securities Regulatory Commission, the approval of shareholders at the extraordinary general meeting, and the approvals of the H shareholders and domestic shareholders of the Company at their respective class meetings. Both of the above proposed placing of new H shares and open offer to existing H shareholders have not been completed as at the date of approval of these consolidated financial statements.

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18. 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 was 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 could only be used to provide staff welfare facilities and other collective benefits to its employees. This fund was non-distributable other than in liquidation.

Pursuant to the revised PRC regulations for the statutory common welfare fund, the statutory common welfare fund as at 31 December 2005 has been transferred to statutory common reserve fund and no further appropriation to statutory common welfare fund is required since 2006.

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18. RESERVES *(continued)*

Group	Share issuance costs	Share premium	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 2005	(4,578)	–	3,930	1,964	–	20,583	21,899
Issuance 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 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 27)*							13,583
Other reserves							92,101
At 31 December 2005							105,684
At 1 January 2006	–	34,117	9,428	4,714	(19)	57,444	105,684
Issuance of bonus shares *(Note 17)*	–	(34,117)	–	–	–	(183)	(34,300)
Currency translation differences	–	–	–	–	(915)	–	(915)
Profit for the year	–	–	–	–	–	67,243	67,243
Appropriation	–	–	6,497	–	–	(6,497)	–
Transfer of fund according to revised PRC regulations	–	–	4,714	(4,714)	–	–	–
Dividend declared in respect of 2005	–	–	–	–	–	(13,583)	(13,583)
Dividend declared in respect of the period from 1 January to 30 June 2006	–	–	–	–	–	(5,008)	(5,008)
At 31 December 2006	–	–	20,639	–	(934)	99,416	119,121
Representing:							
Dividend proposed *(Note 27)*							15,092
Other reserves							104,029
At 31 December 2006							119,121

Notes to the Consolidated Financial Statements

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18. RESERVES *(continued)*

Company	**Share issuance costs** *RMB'000*	**Share premium** *RMB'000*	**Statutory common reserve fund** *RMB'000*	**Statutory common welfare fund** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 January 2005	(4,578)	–	3,881	1,940	20,582	21,825
Issuance 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 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 27)*						13,583
Other reserves						92,419
At 31 December 2005						106,002
At 1 January 2006	–	34,117	9,351	4,675	57,859	106,002
Issuance of bonus shares *(Note 17)*	–	(34,117)	–	–	(183)	(34,300)
Profit for the year	–	–	–	–	43,263	43,263
Appropriation	–	–	6,797	–	(6,797)	–
Transfer of fund according to revised PRC regulations	–	–	4,675	(4,675)	–	–
Dividend declared in respect of 2005	–	–	–	–	(13,583)	(13,583)
Dividend declared in respect of the period from 1 January to 30 June 2005	–	–	–	–	(5,008)	(5,008)
At 31 December 2006	–	–	20,823	–	75,551	96,374
Representing:						
Dividend proposed *(Note 27)*						15,092
Other reserves						81,282
At 31 December 2006						96,374

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For the year ended 31 December 2006

19. OTHER INCOME

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Dividend income from unlisted investments	**7,549**	1,280
Subsidy income *(Note a)*	**2,000**	42
Interest income	**899**	292
Others	**3,141**	759
	13,589	2,373

(a) Subsidy income represents financial subsidies from the local finance bureau, which were received by the Group during the respective years.

20. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(Note 7)*	**3,903**	1,005
Amortisation of land use right	**34**	–
Amortisation of intangible assets *(Note 9)*	**75**	–
Employee benefit expense *(Note 21)*	**12,627**	9,790
Cost of inventories	**897,411**	574,969
Provision for impairment of receivables	**74**	787
Operating lease rental expenses in respect of		
– Land and buildings	**6,883**	5,438
– Transportation facilities	**15,033**	453
Transportation expenses	**28,238**	15,634
Entertainment and promotion expenses	**2,734**	1,826
Heating expenses for vessels and warehouses	**15,511**	1,548
Auditors' remuneration	**1,400**	930
Others	**12,283**	9,439
	996,206	621,819

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

21. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	**11,856**	9,369
Social security costs	**459**	204
Retirement benefit costs — defined contribution plans *(Note a)*	**312**	217
	12,627	9,790
Number of employee	**215**	90

(a) Retirement benefit costs

The employees of the Group participate in a defined contribution 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 2006 and 2005. 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 RMB312,000 and RMB217,000 for the years ended 31 December 2006 and 2005 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	
	2006	2005
	RMB'000	*RMB'000*
Fees	**210**	45
Basic salaries and allowances	**1,849**	1,069
Bonus	**285**	2,616
Retirement scheme contributions	**106**	107
	2,450	3,837

None of the directors waived emoluments during the years ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

21. 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 2006 are as follows:

Name	Fees *RMB'000*	Basic salaries and allowances *RMB'000*	Bonus *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Mr. Qian Wenhua, *Director*	–	586	94	17	697
Mr. Lu Yong, *Director*	–	361	56	17	434
Mr. Li Hongyuan, *Director*	–	249	38	17	304
Mr. Zhang Jinhua, *Director*	–	249	38	17	304
Ms. Yao Peie, *Director*	–	188	31	–	219
Mr. Lv Renzhi, *Independent non-executive director*	30	–	–	–	30
Mr. Zhu Shengfu, *Independent non-executive director*	30	–	–	–	30
Ms. Ye Mingzhu, *Independent non-executive director*	30	–	–	–	30
Mr. Hsu Chun-min, *Non-executive director* [c]	120	–	–	–	120
Mr. Shao Dan, *Supervisor*	–	69	8	13	90
Ms. Gao Xiaolan, *Supervisor*	–	91	12	15	118
Ms. Gu Xiaoqing, *Supervisor* [b]	–	56	8	10	74
	210	1,849	285	106	2,450

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

21. 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* (b)	–	40	13	8	61
	45	1,069	2,616	107	3,837

Notes:

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

(b) Appointed in May 2005

(c) Appointed in February 2006

(c) Five highest paid individuals

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

	Number of individuals	
	2006	2005
Directors and supervisors	**4**	3
Other individuals	**1**	2
	5	5

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

21. EMPLOYEE BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals *(continued)*

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 2006 and 2005 are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**249**	257
Bonus	**38**	694
Retirement scheme contributions	**17**	28
	304	979

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

	Number of individuals	
	2006	2005
HK$1,000,000 (RMB1,004,670) to HK$1,500,000 (RMB1,507,005)	**–**	2

(d) During the years ended 31 December 2006 and 2005, 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.

22. FINANCE COSTS – NET

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**3,850**	821
Interest expense on discounted commercial notes	**2,186**	873
Net foreign exchange (gain)/loss	**(37)**	196
	5,999	1,890

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(continued)
For the year ended 31 December 2006

23. 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	
	2006	2005
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**6,329**	9,888
– Hong Kong profits tax	**3,282**	148
	9,611	10,036

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 10) are as follows:

Name of subsidiary	**Enterprise income tax rate**
Wuhan Hualong	33%
Donghua Hong Kong	17.5%
Shenhua Logistics	33% (exempted from income tax in 2006)
Zhengzhou Huasheng	33%
Anhui Quanjiao	33%
Wuhan Shenlong	18%
Shanghai Donghe	33%
Tonva Shipping Limited	17.5%
Panva Shipping Limited	17.5%

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 onwards.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

23. TAXATION *(continued)*

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted tax rates applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**76,290**	62,408
Tax calculated at tax rate of 15%	**11,444**	9,361
Effect of different tax rates for subsidiaries	**562**	270
Taxable income of a subsidiary exempted in current year	**(952)**	–
Income that is not subject to and expenses that are not deductible for tax purposes	**(1,443)**	405
Taxation charges	**9,611**	10,036

Deferred taxation as at 31 December 2006 and 2005 was not significant.

24. NET FOREIGN EXCHANGE (GAINS)/LOSSES

The exchange differences recognised in the consolidated income statement are included as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Finance costs — net *(Note 22)*	**(37)**	196

25. 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 RMB43,263,000 (2005: RMB52,745,000) (Note 18).

26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The calculation of the earnings per share for the years ended 31 December 2006 and 2005 are based on the Group's profit attributable to the equity holders of the Company of RMB67,243,000 and RMB52,372,000, respectively, and the weighted average number of 686,000,000 ordinary shares deemed to be in issue at the beginning of the respective years, assuming that the issuance of bonus shares as described in Note 17 has been effective since the beginning of these years. The comparative figures for 2005 have been adjusted accordingly.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

26. EARNINGS PER SHARE *(continued)*

Diluted earnings per share have not been calculated, as there were no potential dilutive ordinary shares during the years ended 31 December 2006 and 2005.

27. DIVIDENDS

Dividends declared by the Company during the years ended 31 December 2006 and 2005 are set out as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Dividend in respect of the period from 1 January 2005 to 30 June 2005 *(Note a)*	**–**	2,263
Dividend in respect of the year ended 31 December 2005 *(Note b)*	**–**	13,583
Dividend in respect of the period from 1 January 2006 to 30 June 2006 *(Note c)*	**5,008**	–
Proposed dividend in respect of the year ended 31 December 2006 *(Note d)*	**15,092**	–
	20,100	15,846

(a) 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 form 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.

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

(c) On 10 August 2006, a special dividend of RMB0.0073 per ordinary share, amounted in total to approximately RMB5,007,800, in respect of the period from 1 January 2006 to 30 June 2006 was declared by the directors of the Company and has been paid during the year ended 31 December 2006.

(d) At a meeting held on 27 March 2007, the directors of the Company proposed a final dividend of RMB15,092,000 at RMB0.022 per ordinary share in respect of the year ended 31 December 2006. This proposed dividend was not reflected as a dividend payable as at 31 December 2006, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

28. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Operating profit	**79,134**	63,326
Provision for impairment of receivables *(Note 14)*	**74**	787
Amortisation of land use rights	**34**	–
Depreciation of property, plant and equipment *(Note 7)*	**3,903**	1,005
Amortisation of intangible assets *(Note 9)*	**75**	–
(Gain)/loss on disposal of property, plant and equipment, net	**(41)**	79
Gain on disposal of available-for-sale financial assets	**(31)**	–
Dividends received from unlisted investments *(Note 19)*	**(7,549)**	(1,280)
Interest income *(Note 19)*	**(899)**	(292)
Operating profit before working capital changes	**74,700**	63,625
Increase in inventories	**(34,236)**	(17,295)
(Increase)/decrease in trade and other receivables	**(120,576)**	21,519
Increase in trade and other payables	**68,764**	37,645
Net cash (used in)/from operations	**(11,348)**	105,494

The principal non-cash transaction is the settlement of part of the purchase consideration for the acquisition of the equity interest in Anhui Quanjiao as described in Note 29 by the Group's inventories valued at RMB4,995,000.

29. BUSINESS COMBINATION

In the first half of 2006, the Company acquired 65% equity interests in Anhui Quanjiao at a total consideration of RMB6,500,000, which was settled by the Company by a cash payment of RMB1,505,000 and certain inventory valued at RMB4,995,000. The fair value of Anhui Quanjiao'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	310
Land use rights	2,118
Property, plant and equipment	1,436
Inventories	4,995
Trade and other receivables	2,070
Trade and other payables	(929)
Net assets	10,000
Minority interests (35%)	(3,500)
Net assets acquired	6,500

	RMB'000
Purchase consideration settled in cash	1,505
Cash and cash equivalents in the subsidiary acquired	(310)
Cash outflow on acquisition	1,195

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

29. BUSINESS COMBINATION *(continued)*

In the second half 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

30. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for:		
Property, plant and equipment	**15,260**	47,149
Acquisition of an associate *(Note 32)*	**32,680**	–

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(continued)
For the year ended 31 December 2006

30. COMMITMENTS *(continued)*

(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	
	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**8,065**	35,772
Later than one year and not later than five years	**14,309**	18,383
Later than five years	**35,908**	39,942
	58,282	94,097

31. 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)*

(Note: Mrs. Qian Liu Huiping is the wife of Mr. Qian Wenhua, who is an executive director of the Company.)

(b) Transactions with related parties

The following transactions were carried out with related parties:

(i) Sales of asphalts to

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Jiangxi Huatong	**10,651**	4,209

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(ii) Provision of services to

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Jiangxi Huatong	**78**	630

(iii) Provision of services by

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Jiaxing Huatong	**1,035**	–

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

Due from related parties *(Note 14)*

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Jiaxing Huatong	**488**	250	**416**	250

Due to related parties *(Note 15)*

	Group and Company As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Jiangxi Huatong	**–**	800

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2006

31. RELATED PARTY TRANSACTIONS *(continued)*

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

(v) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**2,832**	1,550
Bonus	**432**	3,789
Retirement scheme contributions	**175**	161
	3,439	5,500

(vi) 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.

32. EVENTS AFTER THE BALANCE SHEET DATE

(a) Subsequent to 31 December 2006, the Group borrowed a short-term bank loan of RMB15,000,000, which is secured by a pledge against its inventories with a total carrying amount of approximately RMB10,391,000. In addition, another short-term loan of RMB20,000,000 is borrowed by the Company, which is guaranteed by China National Building Materials and Equipment Imports & Exports Limited (中建材集團進出口上海公司), an independent third party and a personal guarantee of Mr. Qian Wenhua, an executive director of the Company.

(b) Pursuant to an agreement dated 22 December 2006 executed between the Company and Shanghai Xintong Petrochemical Limited ("Shanghai Xintong") (上海興通石油化工有限公司), a customer of the Company, the Company agreed to acquire a 25% equity interest in Nantong Highway and Bridge Engineering Limited ("Nantong Highway and Bridge") (南通路橋工程有限公司) from Shanghai Xintong at a total consideration of RMB32,680,000. Nantong Highway and Bridge Engineering Limited is principally engaged in the construction of highways and bridges in the PRC.

As at the date of the agreement, the balance of trade receivable owed by Shanghai Xintong to the Company amounted to RMB51,642,103. Pursuant to the above agreement, the consideration would be fully settled by offsetting a portion of the trade receivable amounted to RMB32,680,000 due by Shanghai Xintong. The acquisition was subsequently completed in 2007.

(c) On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (2007). In general, this legislation unifies the corporate income tax rate for domestic enterprises and foreign-invested enterprises at 25%, which will be effective since 1 January 2008. Based on management's initial assessment, this new tax legislation might impact the Group's effective tax rate starting from fiscal 2008, which was approximately 13% for the year ended 31 December 2006 (2005: 16%).

(d) At a Board of Directors' meeting held on 27 March 2007, the directors of the Company proposed a cash dividend of RMB15,092,000 at RMB0.022 per ordinary share in respect of the year ended 31 December 2006.