



上海棟華石油化工股份有限公司

SHANGHAI TONVA PETROCHEMICAL CO., LTD.\*

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

(Stock Code: 8251)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors of Shanghai Tonva Petrochemical Co., Ltd. (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Shanghai Tonva Petrochemical Co., Ltd. (the “Company”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.*

The board of Directors (the “Board”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three and six months ended 30 June 2007 together with comparative unaudited figures for the corresponding periods in 2006.

### CONDENSED UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2007 <b>RMB'000</b>	2006 RMB'000 (restated)	2007 <b>RMB'000</b>	2006 RMB'000 (restated)
Turnover	2	<b>262,443</b>	256,188	<b>415,417</b>	448,521
Cost of sales		<b>(226,990)</b>	(229,131)	<b>(349,717)</b>	(389,620)
Gross profit		<b>35,453</b>	27,057	<b>65,700</b>	58,901
Other revenues	2	<b>1,093</b>	10,569	<b>12,788</b>	10,683
Distribution costs		<b>(14,749)</b>	(4,684)	<b>(22,255)</b>	(10,625)
General and administrative expenses		<b>(5,558)</b>	(4,726)	<b>(11,186)</b>	(8,671)
Other operating expenses		<b>(66)</b>	(5,855)	<b>(578)</b>	(6,415)
Operating profit	4	<b>16,173</b>	22,361	<b>44,469</b>	43,873
Finance costs	5	<b>(3,768)</b>	(1,601)	<b>(7,663)</b>	(2,399)
Share of profit of associated companies		<b>953</b>	288	<b>687</b>	157
Profit before taxation		<b>13,358</b>	21,048	<b>37,493</b>	41,631
Taxation	6	<b>(2,196)</b>	(2,241)	<b>(4,505)</b>	(5,415)
Profit for the period		<b>11,162</b>	18,807	<b>32,988</b>	36,216
Attributable to:					
Equity holders of the Company		<b>11,412</b>	18,760	<b>33,417</b>	36,244
Minority interests		<b>(250)</b>	47	<b>(429)</b>	(28)
		<b>11,162</b>	18,807	<b>32,988</b>	36,216
Earning per share for profit attributable to equity holders of the Company during the period <b>(Expressed in RMB per share)</b>	7	<b>0.017</b>	0.027	<b>0.049</b>	0.053
Dividend	8	-	-	-	5,008

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
	Note		
<b>ASSETS</b>			
Non-current assets			
Land use rights		2,252	2,275
Property, plant and equipment		124,340	103,942
Construction-in-progress		37,916	58,055
Intangible assets		433	490
Investments in associates		45,976	12,352
Available-for-sale financial assets		1,600	2,630
		<b>212,517</b>	179,744
Current assets			
Inventories	9	119,181	61,990
Trade and other receivables	10	341,007	190,582
Cash and cash equivalents		97,388	43,256
		<b>557,576</b>	295,828
Total assets		<b>770,093</b>	475,572
<b>LIABILITIES</b>			
Non-current liabilities			
Borrowings	12	4,650	5,550
Current liabilities			
Trade and other payables	11	390,977	175,386
Current income tax liabilities		5,643	4,824
Borrowings	12	159,134	96,920
		<b>555,754</b>	277,130
Total liabilities		<b>560,404</b>	282,680
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share Capital		68,600	68,600
Reserves		136,547	119,121
		<b>205,147</b>	187,721
Minority interest		4,542	5,171
Total equity		<b>209,689</b>	192,892
Total liabilities and equity		<b>770,093</b>	475,572
Net current assets		<b>1,822</b>	18,698
Total assets less current liabilities		<b>214,339</b>	198,442

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY –  
UNAUDITED**

	Attributable to equity holders of the Company							Total
	Share capital	Share premium	Statutory common reserve fund	Statutory common welfare fund	Currency Translation reserve	Retained earnings	Minority Interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	34,300	34,117	9,428	4,714	(19)	57,444	1,935	141,919
Issuance of bonus shares	34,300	(34,117)	-	-	-	(183)	-	-
Currency translation difference	-	-	-	-	-	(167)	-	(167)
Profit for the period	-	-	-	-	-	36,244	(28)	36,216
Dividend declared and paid in respect of the year 2005	-	-	-	-	-	(13,583)	-	(13,583)
Dividend declared in respect of the period from 1 January 2006 to 30 June 2006	-	-	-	-	-	(5,008)	-	(5,008)
Minority interest – Consolidation of new subsidiaries	-	-	-	-	-	-	3,545	3,545
<b>Balance at 30 June 2006</b>	<b>68,600</b>	<b>-</b>	<b>9,428</b>	<b>4,714</b>	<b>(19)</b>	<b>74,747</b>	<b>5,452</b>	<b>162,922</b>
Balance at 1 January 2007	68,600	-	20,639	-	(934)	99,416	5,171	192,892
Currency translation difference	-	-	-	-	(899)	-	-	(899)
Profit for the period	-	-	-	-	-	33,417	(429)	32,988
Dividend declared and paid in respect of the year 2006	-	-	-	-	-	(15,092)	-	(15,092)
Minority interest – refund to minority shareholder for termination of a subsidiary	-	-	-	-	-	-	(200)	(200)
<b>Balance at 30 June 2007</b>	<b>68,600</b>	<b>-</b>	<b>20,639</b>	<b>-</b>	<b>(1,833)</b>	<b>117,741</b>	<b>4,542</b>	<b>209,689</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED**

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	<i>RMB'000</i>
Net cash from/(used in) operating activities	<b>33,517</b>	(57,190)
Net cash used in investing activities	<b>(35,967)</b>	(63,856)
Net cash from financing activities	<b>56,582</b>	117,773
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>54,132</b>	(3,273)
Cash and cash equivalents at beginning of the period	<b>43,256</b>	97,886
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>97,388</b>	94,613
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>97,388</b>	94,613
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**NOTES:**

**1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements (“interim financial statements”) of the Group for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard No. 34 – Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the GEM Listing Rules. The interim financial statements have been prepared on the basis of historical cost convention, as modified by the revaluation of available-for-sale investments. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**2. TURNOVER AND REVENUE**

Turnover represents the sale of asphalt net of taxes, discounts, returns and allowances, where applicable.

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
		(restated)
Turnover:		
Sales of asphalt	<b>316,038</b>	432,481
Logistic income	<b>99,379</b>	16,040 <sup>1</sup>
	<b>415,417</b>	448,521
Other revenues:		
Dividend income from unlisted investments	<b>9,808</b>	7,549
Subsidy income	<b>2,284</b>	2,000
Interest income	<b>291</b>	403
Others	<b>405</b>	731
	<b>12,788</b>	10,683
Total revenues	<b>428,205</b>	459,204

During the interim of 2006, logistics services did not qualify as a separate segment. However, with the subsequent expansion of logistics services through certain subsidiaries of the Group in 2006, logistics services business qualified as a separate segment by the end of 2006, and the corresponding figures for interim of 2006 have been restated.

<sup>1</sup> The logistic income for the interim of 2006 was included in other revenues.

### 3. SEGMENT INFORMATION

#### (a) Primary reporting format – business segments

At 30 June 2007, the Group is organized into two main business segments:

- (1) Revenue from sales of asphalt; and
- (2) Revenue from asphalt related logistic services.

Turnover consists of sales from asphalt and logistics services segments, which totalled RMB415,417,000 and RMB448,521,000 for the period ended 30 June 2007 and 2006 respectively.

The segment results for the period ended 30 June 2007 are as follow:

	Sales of asphalt RMB'000	Logistic services RMB'000	Unallocated RMB'000	Total RMB'000
Total segment revenue	369,376	101,546	-	470,922
Inter-segment revenue	(53,338)	(2,167)	-	(55,505)
<b>Revenue</b>	<b>316,038</b>	<b>99,379</b>	<b>-</b>	<b>415,417</b>
Operating profit/Segment results	18,714	13,547	12,208	44,469
Finance cost				(7,663)
Share of profit of associates	687	-	-	687
<b>Profit before income tax</b>				<b>37,493</b>
Income tax expenses				(4,505)
<b>Profit for the period</b>				<b>32,988</b>

The segment results for the period ended 30 June 2006 are as follow:

	Sales of asphalt <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Total segment revenue	567,590	17,748	–	585,338
Inter-segment revenue	(135,109)	(1,708)	–	(136,817)
<b>Revenue</b>	<b>432,481</b>	<b>16,040</b>	<b>–</b>	<b>448,521</b>
Operating profit/Segment results	20,837	8,063	14,973	43,873
Finance cost				(2,399)
Share of profit of associates	157	–	–	157
<b>Profit before income tax</b>				<b>41,631</b>
Income tax expenses				(5,415)
<b>Profit for the period</b>				<b>36,216</b>

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

	Period ended 30 June 2007			Period ended 30 June 2006		
	Sales of asphalt <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Total <i>RMB'000</i>	Sales of asphalt <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation	2,431	2,257	4,688	563	936	1,499
Amortisation	57	–	–	–	–	–

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.

The segment assets and liabilities at 30 June 2007 as follow:

	Sales of asphalt RMB'000	Logistic services RMB'000	Unallocated RMB'000	Total RMB'000
Assets	613,446	109,071	1,600	724,117
Associates	45,976	-	-	45,976
<b>Total assets</b>	<b>659,422</b>	<b>109,071</b>	<b>1,600</b>	<b>770,093</b>
Liabilities	376,784	14,193	169,427	560,404

The segment assets and liabilities at 31 December 2006 as follow:

	Sales of asphalt RMB'000	Logistic services RMB'000	Unallocated RMB'000	Total RMB'000
Assets	372,843	87,747	2,630	463,220
Associates	12,352	-	-	12,352
<b>Total assets</b>	<b>385,195</b>	<b>87,747</b>	<b>2,630</b>	<b>475,572</b>
Liabilities	152,714	22,672	107,294	282,680

**(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.

#### 4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Charging:		
Depreciation of fixed assets	<b>4,688</b>	1,499
Staff costs	<b>6,108</b>	4,412
Cost of inventories	<b>272,596</b>	378,197
Operating lease rental expenses in respect of		
– Land and buildings	<b>5,061</b>	1,565
– Transportation facilities	<b>14,906</b>	12,204
	<b><u>          </u></b>	<b><u>          </u></b>

#### 5. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Interest on bank loans	<b>7,663</b>	2,399
	<b><u>          </u></b>	<b><u>          </u></b>

#### 6. TAXATION

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
PRC enterprise income tax	<b>3,221</b>	3,089
Hong Kong profit tax	<b>1,284</b>	2,326
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>4,505</u></b>	<b><u>5,415</u></b>

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 are as follows:

<b>Name of subsidiary</b>	<b>Income tax rate</b>
Wuhan Hualong Highway Resources Company Limited ("Wuhan Hualong")	33%
Donghua (Hong Kong) Limited ("Donghua Hong Kong")	17.5%
Shanghai Shenhua Logistic Company Limited ("Shanghai Shenhua")	15% (50% of income tax is exempted in 2007)
Zhenzhou Huashen Petrochemical Company Limited ("Zhenzhou Huasheng")	33%
Quanjiao Puxing petrochemical Company Limited ("Anhui Quanjiao")	33%
Wuhan Shenlong Logistics Company Limited ("Wuhan Shenlong")	18%
Tonva Shipping Limited ("Tonva Shipping")	17.5%
Panva Shipping Limited ("Panva Shipping")	17.5%

Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping"), a subsidiary of the Company, is classified as a small-scale company for income tax purpose. According to the 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.

Deferred taxation as at 30 June 2007 and 31 December 2006 was not significant.

## **7. EARNINGS PER SHARE**

The calculation of the earnings per share for the three months and six months ended 30 June 2007 is based on the Group's profit attributable to equity holders of the Company of RMB11,412,000 and RMB33,417,000, respectively, and the number of 686,000,000 shares (three months and six months ended 30 June 2006: 686,000,000 shares).

Diluted earnings per share have not been calculated as there were no potential dilutive shares during the periods.

## 8. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB5,007,800).

## 9. INVENTORIES

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
Asphalt for resale	<b>119,181</b>	61,990

No inventories were carried at net realisable value.

## 10. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
Trade receivables	<b>212,429</b>	139,470
Commercial notes receivables	<b>59,039</b>	28,746
	<b>271,468</b>	168,216
Less: Provision for impairment of receivables	<b>(1,439)</b>	(1,439)
	<b>270,029</b>	166,777
Prepayments and deposits	<b>41,132</b>	18,707
Due from related parties	-	488
Other receivables	<b>29,846</b>	4,610
	<b>341,007</b>	190,582

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:

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
0 – 30 days	<b>110,173</b>	62,223
31 – 60 days	<b>32,960</b>	66,241
61 – 90 days	<b>49,150</b>	9,724
91 days – one year	<b>76,593</b>	27,536
One year – two years	<b>2,592</b>	2,492
	<b><u>271,468</u></b>	<b><u>168,216</u></b>

#### 11. TRADE AND OTHER PAYABLE

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
Trade payables	<b>354,071</b>	145,472
Advances from customers	<b>21,407</b>	24,640
Other payables	<b>1,353</b>	(521)
Accruals	<b>3,586</b>	5,795
Dividend payable	<b>10,560</b>	–
	<b><u>390,977</u></b>	<b><u>175,386</u></b>

The ageing analysis of trade payables is as follow:

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
0 – 30 days	<b>279,900</b>	54,348
31 – 60 days	<b>48,869</b>	67,747
61 – 90 days	<b>3,788</b>	11,148
91 days – one year	<b>21,157</b>	12,123
One year – two years	<b>357</b>	97
Two years – three years	<b>–</b>	9
	<b><u>354,071</u></b>	<b><u>145,472</u></b>

## 12. BORROWINGS

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
Bank borrowings:		
Non-current	<b>4,650</b>	5,550
Current	<b>159,134</b>	96,920
Total borrowings	<b>163,784</b>	102,470

All of the Group's bank loans were denominated in RMB as at 30 June 2007 and 31 December 2006.

As at 30 June 2007, 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 6.42% to 6.426% per annum;
- (b) short-term bank loans of RMB20,000,000 guaranteed by an independent third party, which bore interest at 6.12% per annum;
- (c) short-term bank loans of RMB30,000,000 guaranteed by a subsidiary of the Company, which bore interest at 6.426% per annum;
- (d) short-term bank loans of RMB6,900,000 secured by land use rights of a subsidiary of the Company, which bore interest at between 6.39% to 8.1% per annum;
- (e) short-term bank loans of RMB3,000,000 secured by property, plant and equipment of a subsidiary of the Company, which bore interest at 7.8% per annum;
- (f) short-term bank loans of RMB10,000,000 guaranteed by the Company to a subsidiary, which bore interest at 6.237% per annum;
- (g) bank loans of RMB15,000,000 secured by inventories of the Company with a fair value RMB20,480,000, which bore interest at 6.12% per annum;
- (h) bank loans of RMB6,450,000 (comprise of short-term bank loan of RMB1,800,000 and long-term bank loan of RMB4,650,000) secured by office premises of the Company with a net book value of RMB18,139,000 (original cost of RMB19,123,000), which bore interest at 5.85% per annum; and

- (i) commercial notes receivable discounted to commercial banks on a with recourse basis of RMB52,434,000, which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

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, 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, 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.

At 30 June 2007, the Group and the Company's borrowings were repayable as follow:

	<b>As at 30 June 2007 RMB'000</b>	As at 31 December 2006 RMB'000
Within 1 year	<b>159,134</b>	96,920
Between 1 and 2 years	<b>1,800</b>	1,800
Between 2 to 5 years	<b>2,850</b>	3,750
	<hr/>	<hr/>
Wholly repayable within 5 years	<b>163,784</b>	102,470
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## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Asphalt trading business**

The Group's turnover for sales of asphalt for the six months ended 30 June 2007 was approximately RMB316,038,000 (six months ended 30 June 2006: approximately RMB432,481,000), representing a decrease of approximately 26.9% comparing with the corresponding period last year. The decrease was mainly caused by three major factors. The first factor is the weather. The raining season in this year lasted longer and covered wide across the PRC. The heavy rainfall delays in the road construction projects, therefore, affected the sales of asphalt. The second factor is the macroeconomic austerity measures, which resulted in decrease in the fund injection from the financial institutions to the road construction projects when comparing with the corresponding period last year. The third is the decrease in market price. Within the reporting period, the selling price of asphalt has been dropped by approximately 17% and affected the turnover amount. Although the turnover was decreased comparing to the corresponding period, however, the gross profit margin has been raised from approximately 11.1% to approximately 13.7%. The increase in gross profit margin was mainly attributable to the enhancement of the efficiency of logistics operation and applying bulk purchasing strategy which results in a greater decrease in the cost of sales as compared to the decrease in the selling price of asphalt. The Group's gross profit for sales of asphalt for the 6 months ended 30 June 2007 was approximately RMB43,391,000 (six months ended 30 June 2006: approximately RMB48,195,000).

### **Logistic business**

For the six months ended 30 June 2007, the Group recorded logistic revenue of approximately RMB99,379,000 (six months ended 30 June 2006: approximately RMB16,040,000) which representing 23.9% of the total turnover of the Group. The turnover has been increased by approximately 519.6% comparing with the corresponding period last year. Cost of logistic business amounted to approximately RMB77,070,000 (six months ended 30 June 2006: approximately RMB5,334,000), representing 22.0% of the total costs of sales of the Group. The substantial growth of the revenue from the logistics business was principally attributable to the addition of logistics and transportation equipment and the expansion of the Group's logistics business. As at 30 June 2007, the Group's gross profit from the logistic business was approximately RMB22,309,000, representing a gross profit margin of 22.4%.

### **Other revenues**

The Group's other revenues for the six months ended 30 June 2007 were approximately RMB12,788,000 (six months ended 30 June 2006: approximately RMB10,683,000). The increase in other revenue was resulted from the dividend income received from the investment in unlisted company and the increase in the financial subsidy provided by the local government of the PRC.

### **Distribution costs**

The Group's distribution costs for the six months ended 30 June 2007 were approximately RMB22,255,000 (six months ended 30 June 2006: approximately RMB10,625,000). The increase in distribution costs was mainly attributable to the expansion of the scale of logistics business.

### **General and Administration Expenses**

The Group's general and administration expenses for the six months ended 30 June 2007 were approximately RMB11,186,000 (six months ended 30 June 2006: approximately RMB8,671,000). The increase was principally due to the expansion of the Company's scale and the increase in staff costs.

### **Profit attributable to shareholders**

Profit attributable to equity holders of the Company for the six months ended 30 June 2007 was approximately RMB33,417,000 (six months ended 30 June 2006: approximately RMB36,244,000), representing a decrease of approximately 7.8% comparing with the corresponding period last year. The decrease was due to the decrease of asphalt trading business that resulted from the effect of extreme weather, the macroeconomic austerity measures and fall in asphalt selling price during the period under review comparing with the corresponding period last year.

## **Business operations**

The Group is principally engaged in the provision of one-stop asphalt sales and logistics services, including procurement, storage and delivery services to its customers through its constantly improving logistics system. At present, asphalt is the Group's only product of trading business, and the Group's logistics services cover vehicle transportation, ocean transportation, inland water transportation and the storage of asphalt.

The business of the Group covers the downstream region of Yangtze River and some inland provinces of the PRC, including Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Hubei Province and Henan Province. The Group currently operates 11 asphalt storage hubs of total capacity of 114,000 tons, while another two asphalt storage hubs of total capacity of 38,000 tons and 22,000 tons are under construction.

With the view to providing better quality and efficient delivery services to its customers, the Group operates 32 delivery vehicles, 4 ocean carriers and 3 river carriers with a total loading capacity of 18,946 tons. In order to enhance its delivery capacity and reduce procurement and distribution cost, the Group may acquire more vehicles and vessels.

## **PROSPECTS**

Although the market has encountered certain impact from the extreme weather and the macroeconomic austerity measures, the Group considers that such impact were temporary, and the Group maintain its positive outlook of the asphalt market in long term. At present, the number of roads in China are very low comparing with China existing economic development, urbanization and population. The overall quality of road are also low and the roads are not evenly spread in China and thus it is still far to fulfill the market needs in China. In long term, the demand for roads in China maintains to be strong. As such, the demand of asphalt will keep rising as well.

The Group will seek to minimize the negative impact from the extreme weather and the macroeconomic austerity measures through various means. For example, by enhancing the economy of scale and service capability in logistic business, the Group would be able to reduce the cost in transportation of asphalt, increase the stock turnovers and increase the gross profit in asphalt trading business.

The Group is confident that the asphalt business will continue to grow in light of the fading negative impact in macroeconomic austerity measures.

## **CAPITAL STRUCTURE**

As at 30 June 2007, the Group had total assets less current liabilities of approximately RMB214,339,000 (31 December 2006: RMB198,442,000), comprising non-current assets of about RMB212,517,000 (31 December 2006: RMB179,744,000), net current assets of about RMB1,822,000 (31 December 2006: RMB18,698,000).

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group had total cash and bank balances of approximately RMB97,388,000 and RMB43,256,000 as at 30 June 2007 and 31 December 2006 respectively; and total bank loans of approximately RMB163,784,000 and RMB102,470,000 as at 30 June 2006 and 31 December 2006 respectively. The debt to equity ratio as at 30 June 2007 and 31 December 2006 was 79.9% and 54.6% respectively. The Group regards that it has sufficient working capital to fund its operations.

## **FOREIGN EXCHANGE EXPOSURE**

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

## **PLEDGE OF ASSETS**

As at 30 June 2007, the Group's property, plant and equipment, land use rights, inventories and receivables have been pledged to secure banking facilities granted to the Group.

## **CONTINGENT LIABILITIES**

As at 30 June 2007, the Company has executed guarantees in favour of a bank in respect of facilities granted to subsidiaries amounting to RMB28,000,000 (31 December 2006: RMB28,000,000), of which RMB10,000,000 (31 December 2006: nil) have been utilized.

The Company has executed guarantees in favour of a bank in respect of facilities granted to associated companies amounting to RMB40,000,000 (31 December 2006: RMB25,000,000), of which RMB39,464,000 (31 December 2006: RMB22,964,000) have been utilized.

## **EMPLOYEE INFORMATION**

As at 30 June 2007, the Group employed about 223 employees. Total employee remuneration, including that of the Directors and mandatory provident fund contributions, for the period under review amounted to approximately RMB6,108,000.

Employees are remunerated according to their performance and work experience. In addition to basic salaries, discretionary bonus may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

## **DISCLOSURE UNDER GEM LISTING RULES 17.15 TO 17.21**

The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules as at 30 June 2007.

## **FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

The Group adheres strictly to its development targets to build up its networks along the Yangtze River as well as in the central mainland provinces and coastal areas. The Group is committed to improve its logistic facilities to provide its customers with one-stop asphalt sales and delivery services by increasing asphalt vehicles, vessels and train wagons.

## USE OF PROCEEDS FROM LISTING

The Company has been listed on the GEM Board of the 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 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 Prospectus described the business objectives and their expected progress of development 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**

Acquire pier, storage tanks and land use rights upgrade the facilities and operations

##### **Actual Performance**

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**

Acquire storage facilities, upgrade the facilities and operations

##### **Actual Performance**

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.

**Project: set up Storage Centres along the Yangtze River Coastal Area**

	<b>Progress as Scheduled</b>	<b>Actual Performance</b>
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**

	<b>Progress as Scheduled</b>	<b>Actual Performance</b>
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 following in 2007:**

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

In the first quarter of 2007, 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 municipal public engineering contract. The Acquisition will enable the Group to expand its asphalt sales business.

**DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS**

At 30 June 2007, 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		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
		Personal interest	Family interest			
Qian Wenhua (Executive Director)	Beneficial owner	191,792,000 (domestic shares)	35,854,000 (Note 1) (domestic Shares)	227,646,000	47.23	33.18
Lu Yong (Executive Director)	Beneficial owner	62,618,000 (domestic shares)	-	62,618,000	13.05	9.13
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.

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

At 30 June 2007, 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 deemed 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:

Name of Person	Capacity	Number of shares		Total long position	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
		Personal interest	Family interest				
Liu Huiping (Note 1)	Beneficial owner	35,854,000 (domestic shares)	191,792,000 (Note 1) (domestic Shares)	227,646,000	-	47.23	33.18
Yao Peie	Beneficial owner	34,546,000 (domestic shares)	-	34,546,000	-	7.20	5.04
Simosa Oil Co., Ltd (中塑油品股份有限公司)	Beneficial owner	28,204,000 (H Shares)	-	28,204,000	-	13.69	4.11
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.

### **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 subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2007.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2007, the Company had 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. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

### **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. Li Li. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2007, and was of an opinion that the preparation of such results complied with the applicable accounting and reporting standards.

### **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

## **DIRECTORS' INTEREST IN A COMPETING BUSINESS**

None of the Directors and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

## **COMPLIANCE ADVISER'S INTEREST**

Pursuant to the compliance adviser agreement dated 12 July 2005 entered into between the Company and Shenyn 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, that as at 30 June 2007, Shenyn 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.

## **CORPORATE GOVERNANCE**

Throughout the period under review, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules, except that a nomination committee to nominate board members to the Group has not yet been established. The Company will consider setting up the nomination committee when necessary.

**Qian Wenhua**  
*Chairman*

Shanghai, the PRC, 9 August 2007

*As at the date of this report, the Board comprises five executive Directors: Qian Wenhua, Lu Yong, Mo Luojiang, Zhang Jinhua and Li Hongyuan; one non-executive Director: Hsu Chun-min and three independent non-executive Directors: Zhu Shengfu, Li Li and Ye Mingzhu.*