Annual Report 2007

TONVA
上海栋华

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)

* *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				
	2007	2006	2005	2004	2003
Turnover	**1,018,919**	1,064,819	683,761	530,698	310,890
Profit before income tax	**48,692**	76,290	62,408	28,778	17,341
Profit attributable to equity holders of the Company	**46,105**	67,243	52,372	24,014	14,746
Net profit margins	**4.52%**	6.31%	7.66%	4.52%	4.74%
Earnings per shares (RMB)	**0.064**	0.098	0.076	0.100	0.071

AUDITED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2007	2006	2005	2004	2003
Non-current assets	**222,613**	179,744	67,392	14,099	9,580
Current assets	**704,379**	295,828	195,720	99,415	51,108
Non-current liabilities	**(3,750)**	(5,550)	–	–	–
Current liabilities	**(452,773)**	(277,130)	(121,193)	(67,280)	(29,307)
Minority interests	**(7,379)**	(5,171)	(1,935)	(335)	(118)
Capital and reserves attributable to the Company's equity holders	**463,090**	187,721	139,984	45,899	31,263

Corporate Information

EXECUTIVE DIRECTORS

Qian Wenhua – Chairman
Lu Yong – Vice Chairman
Mo Luojiang
Zhang Jinhua
Li Hongyuan

NON-EXECUTIVE DIRECTORS

Josephine Price
Hsu Chun-min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Li
Zhu Shengfu
Ye Mingzhu

SUPERVISORS

Gu Xiaoqing
Shao Dan
Lao Yihua

COMPLIANCE ADVISOR

Shenyin Wanguo Capital (H.K.) Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADDRESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 904-05
Tai Yip Building
No. 141 Thomson Road
Wanchai
Hong Kong

COMPANY WEBSITE

www.tonva.com

COMPLIANCE OFFICER

Mo Luojiang

COMPANY SECRETARY

Tsui Kan Chun, *CPA, CPA(Aust.), HKICS, ICS*

AUTHORISED REPRESENTATIVIES

Mo Luojiang
Tsui Kan Chun, *CPA, CPA(Aust.), HKICS, ICS*

QUALIFIED ACCOUNTANT

Tsui Kan Chun, *CPA, CPA(Aust.), HKICS, ICS*

MEMBERS OF THE AUDIT COMMITTEE

Li Li
Zhu Shengfu
Ye Mingzhu

MEMBERS OF THE REMUNERATION COMMITTEE

Mo Luojiang
Li Li
Zhu Shengfu
Ye Mingzhu

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Minsheng Bank
China CITIC Bank
Standard Chartered Bank
Bank of Communication

Chairman's Statement

In 2007, Shanghai Tonva encountered certain difficulties in its business expansion under various unfavorable factors, such as the macroeconomic austerity measures imposed by the PRC government and severe market competition. Nevertheless, the Group overcame such hurdles and persisted in investing in the storage and sales network to strengthen its one-stop sales capability. While expanding its asphalt business, the Group also carried out its stated plans in the diversification of products and achieved expansion into the fuel oil trading business.

RESULTS OF THE YEAR

As the PRC government has imposed financial restrictions on banks since 2006, the number of road construction projects undertaken were reduced owing to the lack of funds. In terms of the Group's financial performance, this translated into a lower than expected demand for asphalt and hence the Company had fall short of the target for its annual results. Furthermore, due to the continuous appreciation of RMB, the Group's profit was adversely affected by the foreign exchange losses arising from the proceeds from the placing and open offer.

The Group's operating profit decreased 22.3% as compared with 2006 to RMB61,453,000 in 2007. Profit attributable to the Company's equity holders fell by 31.4% to RMB46,105,000. In return for the shareholder's unremitting support for the Company, the Board recommended to distribute a final dividend of RMB0.015 per share, which amounted to approximately RMB14,043,000 in total (2006: final dividends of RMB15,092,000) and presents an amount to approximately equivalent to 30% of the Group's net profit for the year 2007.

BUSINESS OVERVIEW

Trading of asphalt remained the major source of revenue. Due to the lack of funds available for road projects resulting from the government's macroeconomic austerity measures, the price of asphalt declined as the supply surpassed demand. As a result, income for the year ended 31 December 2007 amounted to approximately RMB849,280,000, representing a decrease of 17.0% from 2006.

As for the logistics services business, income increased by 125% to approximately RMB93,782,000 as compared with 2006, attributable to the facts that the Group has strengthened the market development of logistics business and has increased the utilisation rate of the logistics facilities.

In addition, the Group commenced the fuel oil trading business in the third quarter of 2007 and this new business recorded an income of approximately RMB75,857,000 for the year ended 31 December 2007.

MAJOR FACTORS AFFECTING THE PROFIT

Asphalt Trading Business

Currently, trading of asphalt is the major of revenue of the Group. Since 2006, the PRC government has continued with its restrictions on bank financing. This resulted in the reduction in the number of road construction projects as well as the demand for asphalt, and the development of the asphalt business was affected. Such macroeconomic austerity measures also resulted in a decline of asphalt price and cutting the original profit margin of asphalt stocks.

Logistic Services Business

The logistic services business became another important source of revenue for the Group during the year. The substantial increase in revenue from the logistic service business was attributable to the facts that the Group has strengthened the market development of logistics service business and has increased the utilisation rate of the logistics facilities. However, gross profit margin was affected by negative factors such as the rise in fuel oil price and depreciation expenses of additional oil depots and transportation vehicles.

Chairman's Statement *(continued)*

Fuel Oil Trading Business

Trading of fuel oil was a newly developed business and its contribution to the Group's profit for 2007 was minimal.

CAPITAL STRUCTURE

In November 2007, the Company completed the placing and open offer of new H shares successfully, pursuant to which the Company placed 175,000,000 new H shares at a price of HK$1.10 per share to Mumiya Limited and Babylon Limited (the "Subscribers") and offered 75,190,000 H shares to its existing H shareholders by way of a public offer at the price of HK$1.10 per share in a proportion of 3.65 H shares for every 10 shares held. CLSA Capital Partners (HK) Ltd. is the investment 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 open offer recorded an oversubscription of approximately 1.32 times. The total proceeds from the placing and open offer (before expenses) amounted to approximately HK$275,209,000.

PROSPECTS

The Group has expanded its main profit base from asphalt sales to the logistics services as well as trading of asphalt and fuel oil. It will simultaneously persist in the development of its principal asphalt trading business and reasonably allocate internal resources with a view to maximizing returns.

In the past two years, demand of the PRC asphalt market was below expectation caused by the PRC government macro-economic policies. However, the PRC economy continues to grow rapidly will drive the needs for infrastructures such as highways in the medium to long-term. While the existing quality and length of highways were lagging far behind demand, and as a result, many large-scale public highway projects will be put into implementation. Furthermore, asphalt, as a major material for road surface, has the economies of scale which cannot be replaced in the foreseeable future. Therefore, the demand for asphalt in the PRC will sustain continuous growth. On the other hand, the Company will seize the opportunity from the peak construction period of infrastructures in the current and coming years for the 2010 Shanghai Expo.

The asphalt market price has maintained in high since 2008 due to some of the oil-refining plants reducing asphalt production and the soaring of the crude oil price to historical high. However, the Group is able to source asphalt at a competitive cost due to the Group as long-term relationship with our suppliers and bulk purchasing strategy. Should the asphalt price maintain its growing momentum, the Group would enjoy an edge with its asphalt trading.

In 2007, the Group has centralized the management and operation on oil tanks, vessels, vehicles and other logistics facilities under Shanghai Shenhua Logistics Company Limited ("Shenhua Logistics"), a wholly-owned subsidiary of the Company. Such arrangements would help Shenhua Logistics expand its business to third parties and reduce the operating cost in 2008.

With the experienced operation team and the synergy as manifested by the Group's existing logistics facilities, the Group fuel oil trading business developed rapidly though its operation was only commenced in August 2007. It is expected the business will become a growth driver of the Group in 2008.

After the completion of the acquisition of the 25% equity interest in Nantong Highway and Bridge Engineering Limited ("Nantong Highway") by the Company, Nantong Highway has adopted and implemented the suggested improvement plan on internal control and business development by the Company. The business of Nantong Highway has achieved substantial improvement. It is expected the profit contribution will be raised from Nantong Highway and Bridge Engineering Limited to the Group. Meanwhile, asphalt business of the Group will be benefited from Nantong Highway due to its demand of asphalt on its highway and bridge construction contracts.

APPRECIATION

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

QIAN WENHUA
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

Asphalt Trading Business

The Group is principally engaged in one stop-asphalt sales and provision of related logistic services. After purchasing asphalt both domestically and from overseas, the Group distributes the asphalt to ultimate users through its distribution network.

The Group's distribution network is established mainly along the Yangtze River and other inland rivers, and extends to the inland regions gradually. The Group has set up 10 storage network locations mainly in Shanghai, Jiangsu Province (Taizhou and Changzhou), Anhui Province (Hefei, Quanjiao and Anqing), Nanchang in Jiangxi Province and Wuhan in Hubei Province as well as Zhengzhou in Henan Province in the inland region, with a total storage capacity of 152,000 tons. Besides, oil tanks with a storage capacity of approximately 20,000 tons are under expansion and are expected to be put into operation in the first half of 2008.

For the year ended 31 December 2007, the Group's asphalt sales amounted to approximately RMB849,280,000 (2006: RMB1,023,143,000), representing a year-on-year decrease of around 17.0%. The decrease in the Group's sales of asphalt was mainly due to weak market demand and falling prices of asphalt caused by the lack of funds for highway projects under the PRC government macroeconomic austerity measures policies. In 2007, the average selling price of asphalt decreased by approximately 8.6% from 2006 to RMB2,600 per ton, while the sales volume also reduced by approximately 33,000 tons as compared with 2006.

For the year ended 31 December 2007, the Group's cost of sales of asphalt was approximately RMB743,852,000 (2006: RMB897,119,000), representing a year-on-year decrease of around 17.1%. The decrease in cost of sales of the Company was mainly attributable to the decrease of sales volume and average asphalt sales price in 2007. The average asphalt sales price decreased by approximately 8.7% against 2006 to RMB2,300 per ton.

For the year ended 31 December 2007, the Group's gross profit from the sales of asphalt was approximately RMB105,448,000. The gross profit margin was 12.4%, which approximates that for 2006 of 12.3%.

Logistic Services Business

The Group has actively developed its logistic services business in 2007. The Group caters mainly to the purchase and distribution of asphalt procured both from domestically and from overseas. By the end of 2007, the Group has 32 vehicles, 2 river carriers and 4 ocean carriers, of which 2 are time-charter carriers. The total loading capacity of vehicles and carriers are 792 tons and 18,136 tons respectively, representing an increase of 3,800 tons as compared with 2006.

For the year ended 31 December 2007, the Group has logistic services income from independent third parties of approximately RMB93,782,000, representing an increase of 125% from the previous year. The increase in logistic services income was mainly due to the Group strengthened the market development of logistic business and increased the utilisation rate of the logistic facilities in 2007. Cost of transportation in 2007 amounted to approximately RMB79,574,000, representing an increase of 144.8% over the previous year and mainly attributable to the additional operating costs for expansion of logistic services business.

For the year ended 31 December 2007, the Group's gross profit from the logistic services business was approximately RMB14,208,000. Gross profit margin decreased from 22.0% in 2006 to 15.2% in 2007.

Fuel Oil Trading Business

The Group engaged in the fuel oil trading business in 2007 and duly commenced the operation of this business in August 2007. The Yangtze River Delta region, where the Group operates, is one of the major fuel oil consumption area in the PRC.

For the year ended 31 December 2007, the Group recorded revenue from the sales of fuel oil of approximately RMB75,857,000, representing 7% of the total sales revenue of the Group. Costs of sales of fuel oil was approximately RMB71,358,000, representing around 8% of the total costs of sales of the Group.

For the year ended 31 December 2007, the Group's gross profit margin from the fuel oil business was approximately 5.9%.

Management Discussion and Analysis *(continued)*

INVESTMENT INCOME

Investment income increased from approximately RMB7,549,000 for the year ended 31 December 2006 to approximately RMB17,946,000 for the year ended 31 December 2007. 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 2007, which remained stable as compared with the last year, was approximately RMB46,380,000.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2007, the general and administrative expenses increased 42.8% to RMB31,766,000. The increase in administrative expenses was due to the rise of staff costs from rise in salary level and new operations of two subsidiaries in 2007. Moreover, RMB5,495,000 impairment charge on trade and notes receivables was recognised.

FINANCE COSTS

The finance costs for the year were about RMB14,696,000, representing an year-on-year increase of 145%. The increase in finance costs was mainly attributable to rise in level of borrowings and increase of RMB interest rate in 2007.

PROFIT FOR THE YEAR

For the year ended 31 December 2007, the Group recorded profit attributable to shareholders for the year of approximately RMB46,105,000 (2006: RMB67,243,000), representing a decline of approximately 31.4% over last year. The decrease in the Group's profit was mainly attributable to the shrink of the asphalt trading business and the rise in financial costs, as well as the foreign exchange loss arising from the proceeds in Hong Kong Dollars from placing and open offer in the amount of approximately RMB4,688,000 due to the appreciation of RMB. Moreover, the Group has recognized RMB5,495,000 impairment in trade and notes receivables as the balance has increased from RMB168,216,000 in 2006 to RMB339,952,000 in 2007. The aging of trade and notes receivables aged above one year also increased by RMB12,487,000 in 2007. By the end of February 2008, the balance of trade and notes receivables has been reduced to RMB158,371,000. The directors of the Company has confidence to collect those long outstanding trade and notes receivables in 2008 and recover the impairment recognized in 2007.

Immediate Plans

The Group will adhere to its stated plan to develop its principal asphalt trading business and increase marketing efforts and market shares in the regions with established networks. In addition, the Group intends to further expand the scale of its fuel oil and logistics business by establishing storage centers, purchasing transportation vehicles, improving the integrated servicing capability of the logistics business and exploring the third parties logistics market.

Substantial Investments

On 12 January 2007, the Company completed the acquisition of 25% equity interest in Nantong Highway for a consideration of RMB32,680,000. Nantong Highway 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.

In the 2nd quarter of 2007, the Company invested RMB3,250,000 or 65% of equity interests in Shanghai Taihua Petrochemical Co., Ltd. The Group intends to operate the fuel oil trading business through this company.

In addition, Shenhua Logistics, a wholly owned subsidiary of the Company, entered into an agreement with an independent third party on 4 December 2007 to establish Wuhan Datonghuali Shipping Limited ("Datonghuali"). Upon its establishment on 23 January 2008, Shenhua Logistics would contribute 40% of equity interest in Datonghuali. Shenhua Logistics planned to further expand its logistics servicing capacity through Datonghuali.

Management Discussion and Analysis *(continued)*

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets Value

As at 31 December 2007, the Group had a total net current assets of approximately RMB251,606,000 (2006: RMB18,698,000). The current assets comprised: cash and cash equivalents amounting to RMB275,455,000 (2006: RMB43,256,000), restricted bank deposits of RMB14,500,000 (2006: nil), trade and other receivables of approximately RMB404,626,000 (2006: RMB190,582,000), inventories of approximately RMB9,798,000 (2006: RMB61,990,000). The current liabilities comprised: borrowings of approximately RMB166,027,000 (2006: RMB96,920,000), trade and other payables of approximately RMB289,105,000 (2006: RMB175,386,000), income tax recoverable of approximately RMB2,359,000 (2006: income tax liabilities RMB4,824,000). The net current asset value increased from RMB18,698,000 in 2006 to RMB251,606,000 in 2007.

Working Capital

As at 31 December 2007, the Group had restricted bank deposits and cash and cash equivalents of approximately RMB289,955,000 (2006: RMB43,256,000) in total. The net cash generated from financing activities was approximately RMB299,500,000 (2006: RMB52,179,000).

Borrowings

As at 31 December 2007, the Group had long-term borrowings of RMB3,750,000 (2006: RMB5,550,000) and short-term borrowings of approximately RMB166,027,000 (2006: RMB96,920,000). All of the Group's borrowings were RMB bank loans.

Charges of Assets

As at 31 December 2007, land use rights with a net book value of RMB10,400,000 (original cost of RMB10,647,000) 2006: RMB2,275,000 (original cost of RMB2,309,000) were pledged as security for the Group's short-term bank borrowings amounted to RMB6,000,000 (2006: RMB1,900,000).

As at 31 December 2007, buildings with a net book value of RMB17,761,000 (original cost of RMB19,123,000) were pledged as security for the Company's bank borrowings amounted to RMB5,550,000, and storage facilities with a net book value of RMB7,118,000 (original cost of RMB7,118,000) were pledged as security for the Company's bank borrowings amounted to RMB3,000,000.

Debt to Asset Ratio

The debt to asset ratio as at 31 December 2007 was 49.3% (2006: 59.4%) which was computed as total liabilities divided by total assets.

Capital Structure and Financial Resources

As at 31 December 2007, the Group's net assets attributable to the Company's equity holders was approximately RMB463,090,000 (2006: RMB187,721,000). The Group's operation and investments were basically financed by internal resources, bank borrowings and the share capital.

Foreign Currency Risk

The Group operates mainly in the PRC, but sources its products both domestically and overseas. It is exposed to various foreign currency exposures, primarily with respect to United States Dollar (USD) and Hong Kong Dollar (HKD). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. 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.

The Company and most of its subsidiaries' functional currency is Renminbi, so that the bank balances denominated in foreign currencies are subject to retranslation at each reporting date. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations. At 31 December 2007, the Company's cash and cash equivalents amounted to approximately RMB250,383,000 were denominated in HKD. Substantially all of these bank deposits represented proceeds from the Company's additional H shares issuance in November 2007 and were subsequently remitted into the PRC and converted into RMB in February 2008.

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 2007 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 had 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 had 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 commissioned in the 2nd quarter of 2006. The Company funded 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 actual investment 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

For the year ended 31 December 2007, besides the above business objectives, the Company has implemented the followings:

- Storage Centre in Zhengzhou City, Henan Province, construction completed and commenced to operate

  In the 4th quarter of 2007, Zhengzhou Huasheng Petrochemical Limited, an indirect wholly-owned subsidiary of the Company, completed 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.

Progress of Business Objectives *(continued)*

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

  In the 1st quarter of 2007, the Company acquired 25% equity interest in Nantong Highway from an independent third party. The consideration was RMB32,680,000. Nantong Highway is principally engaged in the construction of highways and bridges in the PRC which is certified for the first class of highway engineering contract and the first class of multicipal public engineering contract. The acquisition enables the Group to expand its asphalt sales business.

- Expansion of Storage Centre at Gaogang in Taizhou City, Jiangsu Province

  In December 2006, Shenhua Logistics, a direct wholly-owned subsidiary of the Company, purchased from an independent third party a storage tank with 22,000 tons capacity situated at Gaogang District Taizhou City. To enhancing the Group's logistic business and developing the downstream market of Yangtze River, the Company is constructing a new storage tank with 20,000 tons capacity in the same area. It is expected to complete and commencing to operate in the 2nd quarter of 2008.

- Ocean Carrier started to operate

  Donghua (Hong Kong) Limited, a direct wholly-owned subsidiary of the Company, purchased a vessel from an independent third party for an ocean carrier with 3,800 tons of loading at HK$18,000,000 in 2006. The construction of the vessel was completed in the 1st quarter of 2007 and commenced to operate. The vessel facilitates the Group's direct overseas asphalt purchase and lowers the overall asphalt purchase costs of the Group.

Profile of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Qian Wenhua (錢文華), aged 51, 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 53, 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. From June 2004 to August 2007, Mr. Lu has been appointed as the general manager of the Company. Mr. Lu is the Vice Chairman of the Company currently.

Mr. Mo Luojiang (莫羅江), aged 30, 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.

Mr. Zhang Jinhua (張金華), aged 43, graduated from Yangzhou Education College (楊州師範學院) 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.

Mr. Li Hongyuan (李鴻源), aged 51, 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 from December 2003 to August 2007. He is responsible for the Group's crude oil business currently.

NON-EXECUTIVE DIRECTOR

Ms. Josephine Price, aged 54, is the Deputy Chief Executive Officer of CLSA Capital Partners (HK) Ltd. She joined CLSA in 1995 after leaving NatWest Markets where she was one of the joint-heads of the corporate finance division. She has been in Hong Kong for over 20 years. She is a graduate of the University of Kent at Canterbury, the United Kingdom and a member of the Law Societies of England & Wales and Hong Kong. She is also a fellow member of the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute, and a registered investment adviser in Hong Kong.

Mr. Hsu Chun-min (許群敏), aged 55, 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.

Profile of Directors, Supervisors and Senior Management
(continued)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Li Li (李立), age 29, he is now worked in Macquarie Capital Advisers. Mr. Li graduated from Shanghai University of Finance and Economics (上海財經大學). He worked at PricewaterhouseCoopers Ltd. as an auditor from 2003 to 2005. From 2005 to 2007, he worked in the finance consultation department of KPMG to undertake the financial due diligent services.

Mr. Zhu Shengfu (朱生富), aged 58, 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 62, 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. Lao Yihua (勞逸華), aged 27, graduated from Shanghai University of Finance and Economics (上海財經大學). Mr. Lao worked at PricewaterhouseCoopers Ltd. from 2003 to 2005 as an auditor. From June 2006 onwards, he has worked for Deloitte Touche Tohmatsu Corporate Finance Co. Ltd. as a senior consultant.

Mr. Shao Dan (邵丹), aged 30, 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. Gu Xiaoqing (顧曉慶), aged 27, 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 36, 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. Since August 2007, Mr. Jin has been appointed as the general manager of the Company.

Mr. Xu Jianwei (許建偉), aged 54, 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.

Profile of Directors, Supervisors and Senior Management

(continued)

Mr. Tsui Kan Chun (徐勤進), aged 35, joined the Company on May 2007. He is the Company secretary, qualified accountant and authorized representative of the Company. Mr. Tsui is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Certified Practising Accountants in Australia and a member of the Hong Kong Institute of Chartered Secretaries. He holds a Bachelor degree in Accountancy from the University of Wollongong in Australia and a Master degree in Corporate Governance from Hong Kong Polytechnic University. He has more than 10 years of experience in auditing, finance and accounting.

Ms. Ye Zhenghua (葉正華), aged 32, 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 41, 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.

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 10 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. Jin Xiaohua is the general manager 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 two non-executive Directors, Josephine Price and 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 2007:

Number of meetings	13	
Executive Directors:		
Qian Wenhua	13/13	100%
Lu Yong	13/13	100%
Mo Luojiang[1]	9/13	69.23%
Li Hongyuan	13/13	100%
Zhang Jinhua	13/13	100%
Yao Peie[2]	4/13	30.77%
Non-executive Directors:		
Josephine Price[3]	0/13	0%
Hsu Chun-min	7/13	53.85%
Independent Non-executive Directors:		
Li Li[1]	7/13	53.85%
Zhu Shengfu	11/13	84.62%
Ye Mingzhu	12/13	92.31%
Lv Renzhi[2]	4/13	30.77%
Average attendance rate	90.60%	

REMUNERATION COMMITTEE

The remuneration committee was established in 2005. The majority of the committee members are independent non-executive Directors and the committee chairman is Mr. Li Li. Other committee members are Ms. Ye Mingzhu, Mr. Zhu Shengfu and Mr. Mo Luojiang.

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:		
Mo Luojiang	1/1	100%
Independent Non-executive Directors:		
Li Li[1]	0/1	0%
Zhu Shengfu	1/1	100%
Ye Mingzhu	1/1	100%
Lv Renzhi[2]	1/1	100%
Average attendance rate	100%	

Corporate Governance Report *(continued)*

Notes:

1. Mr. Mo Luojiang and Mr. Li Li were being appointed as executive director and independent non-executive director of the Company respectively on 21 May 2007.

2. Ms. Yao Peie and Mr. Lv Renzhi were retired as as executive director and independent non-executive director of the Company respectively on 21 May 2007.

3. Ms. Josephine Price was being appointed as non-executive director of the Company on 14 December 2007.

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 chairman 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.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors, including whether such non-auditing services could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of approximately RMB1,650,000 to the external auditors 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. Li Li. The audit committee held 4 meetings during the year.

Details of the attendance of the audit committee:

Number of meetings	4	
Independent Non-executive Directors:		
Li Li[1]	2/4	50%
Zhu Shengfu	4/4	100%
Ye Mingzhu	4/4	100%
Lv Renzhi[2]	2/4	50%
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 2007 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 29 of this report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the internal control system is effective and adequate. 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 2007, the supervisory committee of Shanghai Tonva 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 2007, 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

Mr. Lao Yihua
Chairman of the Supervisory Committee

Shanghai, 26 March 2008

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007.

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 2007 are set out in the consolidated income statement on page 33.

The state of the Group's affairs as at 31 December 2007 is set out in the consolidated balance sheet on page 31.

The Board did not recommend interim dividend for the six months ended 30 June 2007 (For the six months ended 30 June 2006, RMB5,007,800 was declared and paid).

The Directors recommend the payment of a final dividend of RMB0.015 per share (2006: RMB0.022 per share) amounting in total to approximately RMB14,043,000 (2006: RMB15,092,000) 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 20 to the financial statements.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007, 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 RMB88,279,000 (2006: RMB75,551,000).

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-rata basis to existing shareholders.

Report of the Directors *(continued)*

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Group for the last five 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
Mr. Mo Luojiang (appointed on 21 May 2007)
Mr. Zhang Jinhua
Mr. Li Hongyuan
Ms. Yao Peie (retired on 21 May 2007)

Non-executive Director

Ms. Josephine Price (appointed on 14 December 2007)
Mr. Hsu Chun-min

Independent Non-executive Directors

Mr. Zhu Shengfu
Mr. Li Li (appointed on 21 May 2007)
Ms. Ye Mingzhu
Mr. Lv Renzhi (retired on 21 May 2007)

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.

Report of the Directors *(continued)*

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on pages from 13 to 15.

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 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: Personal interest	Number of shares: Family interest	Total long 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
Qian Wenhua *(Executive Director)*	Beneficial owner	191,792,000 (domestic shares)	35,854,000 *(Note 1)* (domestic Shares)	227,646,000	47.43	24.32
Lu Yong *(Executive Director)*	Beneficial owner	62,618,000 (domestic shares)	–	62,618,000	13.05	6.69
Li Hongyuan *(Executive Director)*	Beneficial owner	18,400,000 (domestic shares)	–	18,400,000	3.83	1.96
Zhang Jinhua *(Executive Director)*	Beneficial owner	15,152,000 (domestic shares)	–	15,152,000	3.16	1.62

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 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 336 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 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**
Liu Huiping *(Note 1)*	Beneficial owner	35,854,000 (domestic shares)	191,792,000 *(Note 1)* (domestic Shares)	227,646,000	–	47.43	24.32
Yao Peie	Beneficial owner	34,546,000 (domestic shares)	–	34,546,000	–	7.20	3.69
Simosa Oil Co., Ltd (中塑油品股份有限公司)	Beneficial owner	38,498,460 (H Shares)	–	38,498,460	–	8.44	4.11
Shenyin Wanguo (H.K.) Ltd.	Interest of a controlled corporation	8,166,752 (H shares)	–	8,166,752	–	1.79	0.87
Calyon Capital Markets Asia B.V.	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Calyon Capital Markets International SA	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Calyon S.A. (previously known as Credit Agricole Indosuez)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA B.V.	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA Capital Partners Limited (formerly known as CLSA Funds Limited)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA Private Equity Management Limited	Investment manager	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69

Report of the Directors *(continued)*

Name of Person	Capacity	Number of shares: Personal interest	Number of shares: Family interest	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
Credit Agricole S.A.	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
SAS Rue la Boetie	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Aria Investment Partners III, L.P. ("Aria III")	Interest in a controlled corporation	140,000,000 (H shares)	–	140,000,000 *(Note 2)*	–	30.69	14.95
Babylon Limited	Beneficial owner	140,000,000 (H shares)	–	140,000,000 *(Note 2)*	–	30.69	14.95
Aria Investment Partners II, L.P. ("Aria II")	Interest in a controlled corporation	35,000,000 (H shares)	–	35,000,000 *(Note 2)*	–	7.67	3.74
Mumiya Limited	Beneficial owner	35,000,000 (H shares)	–	35,000,000 *(Note 2)*	–	7.67	3.74

Note:

1. Liu Huiping is the wife of Qian Wenhua.

2. Mumiya Limited and Babylon Limited hold 35,000,000 and 140,000,000 H shares of the Company respectively. As Aria II controls more than one-third of the voting power at general meetings of Mumiya Limited, Aria II is deemed to be interested in 35,000,000 H shares held by Mumiya Limited pursuant to the SFO. Aria III controls more than one-third of the voting power at general meetings of Babylon Limited and is thus deemed to be interested in 140,000,000 H shares held by Babylon Limited pursuant to the SFO. As CLSA Private Equity Management Ltd. is the investment manager of Aria II and Aria III, it is deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO. Credit Agricole S.A. controls more than one-third of the voting power at general meetings of Calyon S.A., which in turn controls more than one-third of the voting power at general meetings of Calyon Capital Markets International SA, which in turn controls more than one-third of the voting power at general meetings of Calyon Capital Markets Asia B.V., which in turn controls more than one-third of the voting power at general meetings of CLSA B.V., which in turn controls more than one-third of the voting power at general meetings of CLSA Capital Partners Limited, which in turn controls more than one-third of the voting power at general meetings of CLSA Private Equity Management Ltd. Therefore, Credit Agricole S.A., Calyon S.A., Calyon Capital Markets International SA, Calyon Capital Markets Asia B.V., CLSA B.V. and CLSA Capital Partners Limited are deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO.

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	10.63%
– five largest customers combined	34.25%

Purchases

– the largest supplier	16.61%
– five largest suppliers combined	54.34%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers disclosed above.

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 2007.

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 consolidated results for the year ended 31 December 2007 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.

Report of the Directors *(continued)*

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2007, 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 36 to the financial statements.

RELATED PARTIES TRANSACTIONS

A summary of the related parties transactions are disclosed in note 35 to the financial statements.

STAFF AND REMUNERATION POLICY

The Group staff functions were analyzed as follows:

	Number of staff	
	2007	2006
Functions:		
Management	**30**	22
Sales and marketing	**29**	23
Accounting and finance	**15**	12
Administration and human resources	**14**	5
Legal	**1**	1
Information system	**4**	6
Technical and quality control	**3**	3
Shipping and transportation	**78**	90
Storage centre	**70**	53
Total	**244**	215

On 31 December 2007, the Group had 244 staff (2006: 215 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 RMB13,993,000 (2006: RMB12,627,000).

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 PRC.

The Group's bonus to the staff (including Directors and senior management staff) for the year ended 31 December 2007 was RMB1,192,830 (2006: RMB1,147,625).

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 2007, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital held 8,166,752 H Shares of the Company. Save as disclosed above, none of SW Capital, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDITORS OF THE COMPANY

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

On behalf of the Board

Qian Wenhua
Chairman

Shanghai, The PRC, 26 March 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SHANGHAI TONVA PETROCHEMICAL CO., LTD.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Tonva Petrochemical Co., Ltd. (formerly known as "Shanghai Donghua Petrochemical Co., Ltd.") (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 93, which comprise the consolidated and Company balance sheets as at 31 December 2007, 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 2007 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, 27 March 2008

Consolidated Balance Sheet

All amounts in Renminbi unless otherwise stated

	Note	As at 31 December **2007** ***RMB'000***	2006 *RMB'000*
ASSETS			
Non-current assets			
Land use rights	6	**10,400**	2,275
Property, plant and equipment	7	**149,741**	103,942
Construction-in-progress	8	**12,555**	58,055
Intangible assets	9	**377**	490
Investments in associates	11	**45,668**	12,352
Available-for-sale financial assets	12	**1,600**	2,630
Deferred tax assets	19	**2,272**	–
		222,613	179,744
Current assets			
Inventories	13	**9,798**	61,990
Trade and other receivables	14	**404,626**	190,582
Restricted bank deposits	15	**14,500**	–
Cash and cash equivalents	16	**275,455**	43,256
		704,379	295,828
Total assets		**926,992**	475,572
LIABILITIES			
Non-current liabilities			
Borrowings	18	**3,750**	5,550
Current liabilities			
Trade and other payables	17	**289,105**	175,386
Current income tax (recoverable)/liabilities		**(2,359)**	4,824
Borrowings	18	**166,027**	96,920
		452,773	277,130
Total liabilities		**456,523**	282,680
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	**93,619**	68,600
Capital reserve	21	**221,766**	–
Other reserves	21	**21,864**	19,705
Retained earnings			
—Proposed final dividends	30,21	**14,043**	15,092
—Others	21	**111,798**	84,324
		463,090	187,721
Minority interest in equity		**7,379**	5,171
Total equity		**470,469**	192,892
Total liabilities and equity		**926,992**	475,572
Net current assets		**251,606**	18,698
Total assets less current liabilities		**474,219**	198,442

Lu Yong
Director

Mo Luojiang
Director

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

Balance Sheet

All amounts in Renminbi unless otherwise stated

		As at 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**31,463**	56,640
Construction-in-progress	*8*	**578**	–
Intangible assets	*9*	**377**	490
Investment in subsidiaries	*10*	**71,105**	68,654
Investment in associates	*11*	**39,208**	6,528
Available-for-sale financial assets	*12*	**1,600**	2,630
Deferred tax assets	*19*	**2,351**	–
		146,682	134,942
Current assets			
Inventories	*13*	**1,850**	60,237
Trade and other receivables	*14*	**402,979**	190,092
Restricted bank deposits	*15*	**14,500**	–
Cash and cash equivalents	*16*	**259,848**	15,036
		679,177	265,365
Total assets		**825,859**	400,307
LIABILITIES			
Non-current liabilities			
Borrowings	*18*	**3,750**	5,550
Current liabilities			
Trade and other payables	*17*	**246,291**	132,939
Current income tax (recoverable)/liabilities		**(284)**	1,824
Borrowings	*18*	**147,027**	95,020
		393,034	229,783
Total liabilities		**396,784**	235,333
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*20*	**93,619**	68,600
Capital reserve	*21*	**221,766**	–
Other reserves	*21*	**25,411**	20,823
Retained earnings			
– Proposed final dividends	*30,21*	**14,043**	15,092
– Others	*21*	**74,236**	60,459
Total equity		**429,075**	164,974
Total liabilities and equity		**825,859**	400,307
Net current assets		**286,143**	35,582
Total assets less current liabilities		**432,825**	170,524

Lu Yong
Director

Mo Luojiang
Director

The notes on pages 36 to 93 are an integral part of these financial statements.

Consolidated Income Statement

All amounts in Renminbi unless otherwise stated

		As at 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**1,018,919**	1,064,819
Cost of sales		**(894,764)**	(929,626)
Gross profit		**124,155**	135,193
Distribution costs		**(46,380)**	(44,332)
Administrative expenses		**(31,766)**	(22,248)
Other income	*22*	**24,040**	13,589
Other losses	*27*	**(8,596)**	(3,068)
Operating profit		**61,453**	79,134
Finance costs – net	*25*	**(14,696)**	(5,999)
Share of profit of associates	*11*	**1,935**	3,155
Profit before income tax		**48,692**	76,290
Income tax expense	*26*	**(2,429)**	(9,611)
Profit for the year		**46,263**	66,679
Attributable to:			
Equity holders of the Company	*21*	**46,105**	67,243
Minority interest		**158**	(564)
		46,263	66,679
Dividends	*30*	**14,043**	20,100
Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	*29*	**0.064**	0.098

The notes on pages 36 to 93 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

All amounts in Renminbi unless otherwise stated

	Note	Attributable to equity holders of the Company							
		Share capital RMB'000	Capital reserve 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
Balance at 1 January 2006		34,300	34,117	9,428	4,714	(19)	57,444	1,935	141,919
Issuance of bonus shares	20	34,300	(34,117)	–	–	–	(183)	–	–
Currency translation differences		–	–	–	–	(915)	–	–	(915)
Profit for the year		–	–	–	–	–	67,243	(564)	66,679
Appropriation	21	–	–	6,497	–	–	(6,497)	–	–
Transfer of fund according to revised PRC regulations	21	–	–	4,714	(4,714)	–	–	–	–
Dividend declared and paid in respect of 2005	30	–	–	–	–	–	(13,583)	–	(13,583)
Dividend declared and paid in respect of 2006	30	–	–	–	–	–	(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

	Note	Attributable to equity holders of the Company						
		Share capital RMB'000	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Currency translation reserve RMB'000	Retained earnings RMB'000	Minority Interest RMB'000	Total RMB'000
Balance at 1 January 2007		68,600	–	20,639	(934)	99,416	5,171	192,892
Issuance of additional H shares	20	25,019	237,530	–	–	–	–	262,549
Direct costs attributable to issuance of additional H shares	20	–	(15,764)	–	–	–	–	(15,764)
Currency translation differences		–	–	–	(2,429)	–	–	(2,429)
Profit for the year		–	–	–	–	46,105	158	46,263
Appropriation	21	–	–	4,588	–	(4,588)	–	–
Dividend declared and paid in respect of 2006	30	–	–	–	–	(15,092)	–	(15,092)
Minority interest – Consolidation of new subsidiaries		–	–	–	–	–	2,050	2,050
Balance at 31 December 2007		**93,619**	**221,766**	**25,227**	**(3,363)**	**125,841**	**7,379**	**470,469**

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

All amounts in Renminbi unless otherwise stated

		Year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash used in operations	*31*	**(22,975)**	(11,348)
Interest paid		**(14,696)**	(5,913)
Taxes paid		**(11,884)**	(9,073)
Net cash used in operating activities		**(49,555)**	(26,334)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(43,006)**	(84,523)
Proceeds from disposal of property, plant and equipment	*31*	**3,601**	709
Purchase of intangible assets		**–**	(565)
Purchase of land use rights		**–**	(2,309)
Interest received		**1,504**	899
Acquisition of a subsidiary, net of cash acquired	*32*	**15**	(1,195)
Investments in and acquisition of associates	*31*	**–**	(1,593)
Proceeds from disposal of available-for-sale financial assets		**1,400**	553
Dividends received from an associate		**1,005**	–
Dividends received from unlisted investments		**17,946**	7,549
Others		**(211)**	–
Net cash used in investing activities		**(17,746)**	(80,475)
Cash flows from financing activities			
Net proceeds from issuance of additional H shares		**246,785**	–
Proceeds from capital contribution by minority investors of subsidiaries		**500**	3,800
Proceeds from borrowings		**203,818**	305,852
Repayment of borrowings		**(136,511)**	(238,882)
Dividends paid		**(15,092)**	(18,591)
Net cash from financing activities		**299,500**	52,179
Net increase/(decrease) in cash and cash equivalents	*16*	**232,199**	(54,630)
Cash and cash equivalents at beginning of the year		**43,256**	97,886
Cash and cash equivalents at end of the year		**275,455**	43,256

The notes on pages 36 to 93 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1 GENERAL INFORMATION

Shanghai Tonva Petrochemical Co., Ltd. ("the Company") and its subsidiaries (together the "Group") is principally engaged in one-stop asphalt sales and provision of related 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 and related products.

The Company's previous name was Shanghai Donghua Petrochemical Co., Ltd., which was formally changed to the present name with effect from 18 July 2007.

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 26 March 2008.

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, as modified by the revaluation of available-for-sale financial assets, other financial assets and financial liabilities, as appropriate.

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 2007

HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments. The standard does not have any impact on the classification and valuation of the Group's financial instruments, but requires additional disclosures in relation to the Group's financial instruments. The main additional disclosures include certain quantitative information of the Group's exposure to credit risk, liquidity risk and market risk, as well as qualitative information of the Group's capital risk management.

HK(IFRIC) – Int 8, "Scope of HKFRS 2", 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) *Standards, amendments and interpretations effective in 2007 but not relevant for the Group's operations*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HK(IFRIC)-Int 11, "HKFRS 2 – Group and treasury share transactions" (effective for annual periods beginning on or after 1 March 2007). It provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, and the expected impact is still being assessed in detail by management.

- HK(IFRIC)-Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements as it does not have any defined benefit retirement arrangement for its employees.

(d) Interpretations 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 and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IRFIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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 recognised 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 is stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

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

(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. Investment in associates is 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(c) Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the 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 income statement.

In the Company's balance sheet the investment in associates is stated at cost less provision for impairment losses (Note 2.7). 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.

(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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(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.

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, as a percentage of the cost, are as follows:

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

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

The assets' 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 income in the 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 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. The Group does not have such assets as at 31 December 2007 and 2006.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

(c) Available-for-sale financial assets

Available-for-sale financial assets 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 financial assets within 12 months of the balance sheet date.

Regular purchases and sales of available-for-sale financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transactions costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other (losses)/gains – net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for–sale, the fair value of which can be reliably measured, are recognised in equity. 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 financial assets are subsequent measured at cost less any provision for impairment losses. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

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

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.9 Derivative financial instruments

The Group has no derivative financial instrument designated as a hedging instrument. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value are recognised immediately in the income statement within other income/(losses), net.

2.10 Inventories

Inventories represent asphalt and fuel oil 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 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 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 income statement within administrative expenses. 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 administrative expenses in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

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

2.14 Trade payables

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

2.15 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 income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

2.17 Employee retirement benefits

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

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC 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.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of Hong Kong Dollar 1,000 per person per month and any excess contributions are voluntary.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

2.19 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.

(d) Dividend income

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

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

2.21 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 income statement over the period necessary to match them with the costs they are intended to compensate.

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

2.22 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.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. 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 Company's Finance Department under policies approved by the Board of Directors. The Company's 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, credit risk and investing of excess liquidity.

(a) Foreign exchange risk

The Group operates mainly in the PRC, but sources its products both domestically and overseas. It is exposed to various foreign currency exposures, primarily with respect to United States Dollar (USD) and Hong Kong Dollar (HKD). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Foreign exchange risk (continued)

The Company and most of its subsidiaries' functional currency is Renminbi, so that the bank balances denominated in foreign currencies are subject to retranslation at each reporting date. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations. At 31 December 2007, the Group's cash and cash equivalents amounted to approximately RMB250,383,000 were denominated in HKD. Substantially all of these bank deposits represented proceeds from the Company's additional H shares issuance in November 2007 (Note 20), and were subsequently remitted into the PRC and converted into RMB in February 2008.

As at 31 December 2007, if Renminbi had strengthened/weakened by 6% against USD and HKD with all other variables held constant, net assets and post-tax profit as at and for the year ended 31 December 2007 would have been RMB13,274,000 (2006: RMB403,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated trade receivables and USD and HKD denominated bank balances.

(b) Cash flow and fair value interest rate risk

Although the Group had a substantial bank deposits balance at 31 December 2007, the interest rates on such deposits were relatively low. Other than such deposits, the Group has no significant interest-bearing assets. Accordingly, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not entered into any financial derivative instruments to hedge its exposure to interest rate risk. The interest rates and maturity of the bank borrowings of the Group are described in Note 18.

If interest rates on bank borrowings had been 15% lower/higher from the year end rates with all other variables held constant (for instance, average bank borrowing rate for 2007 would be 5.20% or 7.04% instead of 6.12%), net assets and post-tax profit as at and for the year ended 31 December 2007 would have been RMB1,364,000 (2006: RMB770,000) higher/lower, mainly as a result of lower/higher interest expenses on floating rate borrowings.

(c) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, restricted bank deposits, trade receivables and other receivables. Credit risk with respect to trade receivables are limited because the Group regularly reviews the credit standing, credit terms and credit limits granted to individual customers. 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk (continued)

Trade and notes receivable

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counterparty default rates. The Group categorises its trade and notes receivable into the following:

- Group 1 – Commercial notes receivables;
- Group 2 – Trade receivables due from customers with no defaults in the past; and
- Group 3 – Trade receivables due from customers with some defaults in the past. All defaults were fully recovered.

	2007	2006
Group 1	**83,003**	28,746
Group 2	**241,970**	136,978
Group 3	**14,979**	2,492
	339,952	168,216

Cash and cash equivalents and restricted bank deposits

As at 31 December 2007, counterparties for cash transactions and the bank deposits are limited to financial institutions with high credit ratings. The table below shows the bank deposits balances (including restricted bank deposits) with financial institutions as at 31 December 2007. Management does not expect any losses from non-performance by these financial institutions. The Group has no policy to limit the amount of credit exposure to any financial institution.

The Group categorises its cash in banks into the following:

- Group 1 – Major international banks (HSBC and Standard Chartered);
- Group 2 – Top 4 banks in the PRC (China Construction Bank, Bank of China, Agriculture Bank of China, and Industrial and Commercial Bank of China); and
- Group 3 – Other local banks in the PRC.

	Group		**Company**	
	2007	2006	**2007**	2006
Group 1	**16,805**	16,217	**4,849**	2,826
Group 2	**3,093**	4,369	**1,746**	1,482
Group 3	**269,843**	22,503	**267,747**	10,699
	289,741	43,089	**274,342**	15,007

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(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.

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and business commitments.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group				
At 31 December 2007				
Bank borrowings	166,027	1,800	1,950	169,777
Trade and other payables	289,105	–	–	289,105
At 31 December 2006				
Bank borrowings	96,920	1,800	3,750	102,470
Trade and other payables	175,386	–	–	175,386
Company				
At 31 December 2007				
Bank borrowings	147,027	1,800	1,950	150,777
Trade and other payables	246,291	–	–	246,291
At 31 December 2006				
Bank borrowings	95,020	1,800	3,750	100,570
Trade and other payables	132,939	–	–	132,939

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings as shown on the balance sheet. The Group regards its equity attributable to the Company's equity holders as its capital.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Total borrowings	**169,777**	102,470	**150,777**	100,570
Equity attributable to the Company's equity holders	**463,090**	187,721	**429,075**	164,974
Debt-to-equity ratio	**36.7%**	54.6%	**35.1%**	61.0%

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 2007 was RMB149,741,000 (2006: RMB103,942,000) and RMB31,463,000 (2006: RMB56,640,000) 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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the entity's accounting policies

(a) *Impairment of trade and other receivables*

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 2007, management estimated that the impairment provision for trade and other receivables of the Group amounted to RMB6,934,000 (2006: RMB1,439,000). The amount of the provision is the difference between the carrying amount of the assets and the present value of estimated future cash flows, discounted at the original effective interest rate.

(b) *Impairment of investment in associates*

The Group reviews its investment in associates for impairment whenever events or changes in circumstances indicate that the carrying amount of these investments may not be recoverable, in accordance with the accounting policy described in Note 2.7. These investments are tested for impairment by comparing its recoverable amount (higher of value-in-use and fair value less costs to sell) with its carrying amount.

In determining the value in use of the investments, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investments. These calculations require the Group to estimate the expected future cash flows generated by the operations of these associates and also apply a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2007, the Group is organised into two main business segments:

(1) Sales of asphalt; and

(2) Asphalt transportation and storage services ("logistic services").

Turnover consists of revenue from asphalt sales and service income from logistic services, which totalled RMB943,062,000 and RMB1,064,819,000 for the years ended 31 December 2007 and 2006 respectively.

Other group operations mainly comprise sales of fuel oil. It does not constitutes a separately reportable segment.

The segment results for the year ended 31 December 2007 are as follow:

	Sales of asphalt *RMB'000*	**Logistic services** *RMB'000*	**Others** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Total segment revenue	849,280	115,325	78,200	–	1,042,805
Inter-segment revenue	–	(21,543)	(2,343)	–	(23,886)
Revenue	849,280	93,782	75,857	–	1,018,919
Operating profit/Segment results	36,459	9,671	2,163	13,160	61,453
Finance costs – net *(Note 25)*					(14,696)
Share of profit of associates *(Note 11)*	3,186	–	(1,251)	–	1,935
Profit before income tax					48,692
Income tax expense *(Note 26)*					(2,429)
Profit for the year					46,263

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2007

5 SEGMENT INFORMATION *(continued)*

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

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	1,023,143	83,609	–	1,106,752
Inter-segment revenue	–	(41,933)	–	(41,933)
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 25)*				(5,999)
Share of profit of associates *(Note 11)*	3,155	–	–	3,155
Profit before income tax				76,290
Income tax expense *(Note 26)*				(9,611)
Profit for the year				66,679

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

	Year ended 31 December 2007				Year ended 31 December 2006		
	Sales of asphalt ***RMB'000***	**Logistic services** ***RMB'000***	**Others** ***RMB'000***	**Group** ***RMB'000***	Sales of asphalt *RMB'000*	Logistic services *RMB'000*	Group *RMB'000*
Depreciation *(Note 7)*	**4,879**	**6,809**	**–**	**11,688**	1,700	2,203	3,903
Amortisation *(Notes 6 and 9)*	**326**	**–**	**–**	**326**	75	–	75

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).

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2007

5 SEGMENT INFORMATION *(continued)*

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

The segment assets and liabilities at 31 December 2007 and capital expenditures for the year then ended are as follow:

	Business segment				
	Sales of asphalt	**Logistic services**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	746,922	106,800	23,730	3,872	881,324
Associates	14,239	–	31,429	–	45,668
Total assets	761,161	106,800	55,159	3,872	926,992
Liabilities	270,883	11,958	3,905	169,777	456,523
Capital expenditures *(Notes 6 to 9)*	13,523	8,964	–	–	22,487

The segment assets and liabilities at 31 December 2006 and capital expenditures 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 expenditures *(Notes 7 to 9)*	56,026	56,780	–	112,806

(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.

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

6 LAND USE RIGHTS – GROUP

	RMB'000
At 31 December 2005	–
Additions	2,309
Amortisation	(34)
At 31 December 2006	2,275
Transfer from construction in progress *(Note 8)*	8,338
Amortisation	(213)
At 31 December 2007	10,400

The Group's interests in land use rights, which have a term of 50 years and are located in the PRC, represent prepaid operating lease payments. As at 31 December 2007, land use rights with a net book value of RMB10,400,000 (original cost of RMB10,647,000) (2006: RMB2,275,000 (original cost of RMB2,309,000)) were pledged as security for the Group's short-term bank borrowings amounted to RMB6,000,000 (2006: RMB1,900,000) (Note 18).

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

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 2006					
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
Year ended 31 December 2007					
Opening net book amount	24,376	21,147	18,072	40,347	103,942
Additions	–	–	2,374	2,770	5,144
Transfer from construction-in-progress *(Note 8)*	1,506	32,941	2,616	17,442	54,505
Reclassification	4,713	7,163	(11,876)	–	–
Disposals	(1,109)	–	(31)	(1,022)	(2,162)
Depreciation	(1,352)	(3,974)	(1,285)	(5,077)	(11,688)
Closing net book amount	28,134	57,277	9,870	54,460	149,741
At 31 December 2007					
Cost	30,367	61,829	11,518	62,277	165,991
Accumulated depreciation	(2,233)	(4,552)	(1,648)	(7,817)	(16,250)
Net book amount	28,134	57,277	9,870	54,460	149,741

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

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 2006					
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
Year ended 31 December 2007					
Opening net book amount	21,837	10,960	286	23,557	56,640
Disposals	(1,109)	–	(20)	(21,920)	(23,049)
Depreciation	(1,099)	(688)	(106)	(235)	(2,128)
Closing net book amount	19,629	10,272	160	1,402	31,463
At 31 December 2007					
Cost	21,582	11,538	425	2,216	35,761
Accumulated depreciation	(1,953)	(1,266)	(265)	(814)	(4,298)
Net book amount	19,629	10,272	160	1,402	31,463

Depreciation expenses of RMB1,961,000 (2006: RMB505,000) has been charged in distribution costs, RMB3,580,000 (2006: RMB1,660,000) in administrative expenses and RMB6,147,000 (2006: RMB1,738,000) in cost of sales.

At 31 December 2007, buildings with a net book value of RMB17,761,000 (original cost of RMB19,123,000) were pledged as security for the Company's bank borrowings amounted to RMB5,550,000 (Note 18), and storage facilities with a net book value of RMB7,118,000 (original cost of RMB7,118,000) were pledged as security for the Company's bank borrowings amounted to RMB3,000,000 (Note 18).

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 18).

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

8 CONSTRUCTION-IN-PROGRESS

Group	*RMB'000*
At 1 January 2006	34,874
Additions	81,731
Transfer to property, plant and equipment *(Note 7)*	(58,550)
At 31 December 2006	58,055
Additions	17,343
Transfer to property, plant and equipment *(Note 7)*	(54,505)
Transfer to land use rights *(Note 6)*	(8,338)
At 31 December 2007	12,555

Company	*RMB'000*
At 1 January 2006	16,199
Additions	13,109
Transfer to property, plant and equipment *(Note 7)*	(29,308)
At 31 December 2006	–
Additions	578
Transfer to property, plant and equipment *(Note 7)*	–
At 31 December 2007	578

9 INTANGIBLE ASSETS – GROUP AND COMPANY

	Computer software *RMB'000*
Year ended 31 December 2007	
Opening net book amount	490
Amortisation charge	(113)
Closing net book amount	377
At 31 December 2007	
Cost	565
Accumulated amortisation	(188)
Net book amount	377

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

10 INVESTMENT IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	**71,105**	68,654

The following is the details of the Group's subsidiaries at 31 December 2007:

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")	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB6,000,000	–	100%
Wuhan Hualong Highway Resources Company Limited ("Wuhan Hualong")	PRC, limited liability company	Asphalts trading in the PRC	RMB8,000,000	80%	–
Donghua (Hong Kong) Limited ("Donghua Hong Kong")	Hong Kong, limited liability company	Asphalts trading to customers in the PRC and logistic services	USD 2,000,000	100%	–
Shanghai Shenhua Logistics Company Limited ("Shenhua Logistics")	PRC, limited liability company	Provision of land transportation service in the PRC	RMB20,000,000	100%	–
Zhengzhou Huasheng Petrochemical Company Limited ("Zhengzhou Huasheng")	PRC, limited liability company	Asphalts trading in the PRC	RMB20,000,000	95%	5%
Quanjiao Puxing Petrochemical Company Limited ("Anhui Quanjiao") *(Note a)*	PRC, limited liability company	Asphalts trading in the PRC	RMB10,000,000	65%	–
Wuhan Shenlong Logistics Company Limited ("Wuhan Shenlong") *(Note c)*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB2,000,000	–	80%
Tonva Shipping Limited *(Note c)*	Hong Kong, limited liability company	Provision of marine transportation service in the PRC	HKD100,000	–	100%

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

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	Indirect
Panva Shipping Limited *(Note b)*	Hong Kong, limited liability company	Provision of marine transportation service in the PRC	HKD100,000	–	100%
Shanghai Taihua Petrochemical Co., Ltd. ("Shanghai Taihua") *(Note d)*	PRC, limited liability company	Fuel oil trading in the PRC	RMB5,000,000	65%	–
Shanghai Huayang Shipping Technical Service Limited ("Huayang Shipping") *(Note e)*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB100,000	–	100%
Taizhou Henghua Asphalts Company Limited ("Taizhou Henghua") *(Note e)*	PRC, limited liability company	Asphalts trading in the PRC	RMB6,000,000	–	58.3%
Taizhou Huaye Petrochemical Company Limited ("Taizhou Huaye") *(Note f)*	PRC, limited liability company	Asphalts and fuel oil processing and trading in the PRC	USD14,000,000	–	100%
Shanghai Donghe Resources Company Limited ("Shanghai Donghe") *(Note g)*	PRC, limited liability company	Asphalts trading in the PRC	RMB1,000,000	80%	–

Note a: Acquired by the Company in 2006, details of which are described in Note 32.

Note b: Invested by Donghua Hong Kong upon the subsidiary's incorporation in 2006. The subsidiary has not yet commenced commercial operations as at 31 December 2007. The share capital of this subsidiary has yet to be contributed by Donghua Hong Kong as at 31 December 2007.

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

Note d: Acquired by the Company in 2007, details of which are described in Note 32.

Note e: Invested by Shenhua Logistics upon incorporation in 2007.

Note f: Invested by Shenhua Logistics and Donghua Hong Kong upon incorporation in 2007. The registered capital of this subsidiary has yet to be contributed as at 31 December 2007.

Note g: Dormant since incorporation and liquidated in 2007.

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For the year ended 31 December 2007

11 INVESTMENT IN ASSOCIATES

	Group As at 31 December		Company As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**12,352**	7,604	**6,528**	4,935
Share of profit	**1,935**	3,155	**–**	–
Dividends received from an associate	**(1,005)**	–	**–**	–
Exchange difference	**(294)**	–	**–**	–
Increase of investment in existing associates and acquisition of new associates	**32,680**	1,593	**32,680**	1,593
End of the year	**45,668**	12,352	**39,208**	6,528
Unlisted equity investments, at cost	**40,781**	8,272	**39,208**	6,528

The followings are the details of the associates:

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**
2007					
Jiangxi Huatong Highway Materials Company Limited ("Jiangxi Huatong")	PRC, limited liability company	Asphalt trading in the PRC	RMB5,000,000	35%	–
Jiaxing Huatong Asphalt Company Limited ("Jiaxing Huatong")	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")	PRC, limited liability company	Processing, sale, storage and delivery of asphalt in the PRC	RMB5,000,000	–	35%
Nantong Highway and Bridge Engineering Limited ("Nantong Highway") *(Note a)*	PRC, limited liability company	Construction of highways and bridges in the PRC	RMB86,000,000	25%	–

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2007

11 INVESTMENT IN ASSOCIATES *(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
2006					
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	RMB19,500,000	24.5%	–
Jiangxi Ganbei	PRC, limited liability company	Processing, sale, storage and delivery of asphalt in the PRC	RMB5,000,000	–	35%

Note a: Acquired by the Company in 2007.

The Group's share of the results of its associates, all of which are unlisted, and its aggregated assets (including goodwill) and liabilities, were as follow:

Name	**Assets** *RMB'000*	**Liabilities** *RMB'000*	**Revenues** *RMB'000*	**Profit/(Loss)** *RMB'000*
2007				
Jiangxi Huatong	**4,072**	**768**	**4,827**	**133**
Jiaxing Huatong	**7,747**	**510**	**2,634**	**2,309**
Jiangxi Ganbei	**6,995**	**2,984**	**27,561**	**744**
Nantong Highway	**126,393**	**95,577**	**86,560**	**(1,251)**
	145,207	**99,839**	**121,582**	**1,935**
2006				
Jiangxi Huatong	4,897	1,725	8,897	735
Jiaxing Huatong	6,434	473	2,836	1,005
Jiangxi Ganbei	8,220	4,986	2,407	1,415
	19,551	7,184	14,140	3,155

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For the year ended 31 December 2007

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP AND COMPANY

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Unlisted equity securities	**1,600**	2,630

Available-for-sale financial assets represent investments in unlisted companies in the PRC and are denominated in Renminbi.

The Company disposed of certain of its unlisted equity securities amounted to RMB1,030,000 in 2007. Gain on disposal of the unlisted equity securities amounted to RMB370,000.

None of the financial assets is either past due or impaired.

13 INVENTORIES

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Asphalt for resale	**4,420**	61,990	**1,850**	60,237
Fuel oil for resale	**5,378**	–	**–**	–
	9,798	61,990	**1,850**	60,237

No inventories were carried at net realisable value.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**256,949**	139,470	**162,266**	104,520
Commercial notes receivable *(Note 18)*	**83,003**	28,746	**83,003**	28,746
	339,952	168,216	**245,269**	133,266
Less: Provision for impairment of receivables	**(6,934)**	(1,439)	**(4,915)**	(1,439)
	333,018	166,777	**240,354**	131,827
Prepayments and deposits	**53,169**	18,707	**49,051**	14,613
Due from related parties *(Note 35)*	**3,946**	488	**–**	416
Due from subsidiaries	**–**	–	**103,759**	40,166
Other receivables	**8,395**	4,610	**3,717**	3,070
Other assets	**6,098**	–	**6,098**	–
	404,626	190,582	**402,979**	190,092

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

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

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**130,197**	62,223	**103,391**	44,264
31 – 60 days	**58,331**	66,241	**52,906**	59,374
61 – 90 days	**50,574**	9,724	**34,082**	4,245
91 days – one year	**85,871**	27,536	**43,820**	22,891
One year – two years	**13,393**	2,492	**9,484**	2,492
Two years – three years	**1,586**	–	**1,586**	–
	339,952	168,216	**245,269**	133,266

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, the Group's trade and notes receivable of RMB183,019,000 (2006: RMB78,502,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The credit quality of trade and notes receivable neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

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(continued)

For the year ended 31 December 2007

14 TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of trade and notes receivable which were past due but not impaired is as follow:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**112,425**	62,109	**78,519**	51,520
91 days – one year	**70,594**	16,393	**39,667**	6,615
	183,019	78,502	**118,186**	58,135

As at 31 December 2007, trade and notes receivable of RMB14,979,000 (2006: RMB2,492,000) were impaired. The amount of the provision was RMB6,934,000 (2006: RMB1,439,000). The individual impaired receivables mainly relate to highway and road construction companies, which are in unexpected difficult economic situations such that the amounts are either uncollectible or collectible only after on extended period of time. The ageing analysis of trade and notes receivable is as follow:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
One year – two years	**13,393**	2,492	**9,484**	2,492
Two years – three years	**1,586**	–	**1,586**	–
	14,979	2,492	**11,070**	2,492

The carrying amounts of the Group's and the Company's trade and notes receivable are denominated in the following currencies:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Renminbi	**332,564**	168,216	**245,269**	133,266
USD	**7,388**	–	**–**	–
	339,952	168,216	**245,269**	133,266

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For the year ended 31 December 2007

14 TRADE AND OTHER RECEIVABLES *(continued)*

Movements on the provision for impairment of trade and notes receivable are as follow:

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**1,439**	1,365	**1,439**	1,365
Additional impairment provisions	**5,495**	234	**3,476**	234
Reversal of provisions	**–**	(160)	**–**	(160)
At 31 December	**6,934**	1,439	**4,915**	1,439

The Group has recognised an impairment charge of RMB5,495,000 (2006: RMB74,000) for its trade and notes receivable during the year ended 31 December 2007. The charge has been included in administrative expenses in the income statement.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

15 RESTRICTED BANK DEPOSITS – GROUP AND COMPANY

Restricted bank deposits were all denominated in Renminbi and pledged for issuance of bank acceptance notes. The weighted average effective interest rate on restricted bank deposits was 0.81% per annum for the year ended 31 December 2007 (2006: 0.72% per annum).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**214**	167	**6**	29
Bank deposits				
– Term deposits with initial term of over three months	**8,767**	–	**–**	–
– Other bank deposits	**266,474**	43,089	**259,842**	15,007
	275,455	43,256	**259,848**	15,036
Cash and cash equivalents denominated in:				
– Renminbi	**14,103**	29,760	**10,570**	15,036
– HKD	**250,383**	2,679	**249,278**	–
– USD	**10,969**	10,817	**–**	–
	275,455	43,256	**259,848**	15,036

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(continued)
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16 CASH AND CASH EQUIVALENTS *(continued)*

The weighted average effective interest rate on bank deposits was 1.79% per annum for the year ended 31 December 2007 (2006: 1.27% per annum).

The Group's cash and cash equivalents denominated in Renminbi are deposited with banks in the PRC. The conversion of Renminbi denominated balances into foreign currencies and the remittance of funds out of these bank accounts are subject to the rules and regulations promulgated by the PRC government.

The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty's default rates as disclosed in Note 3.1(c). The existing counterparties do not have defaults in the past.

17 TRADE AND OTHER PAYABLES

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**107,644**	145,472	**74,242**	104,942
Notes payable	**145,000**	–	**145,000**	–
Due to subsidiaries	**–**	–	**2,739**	6,398
Advances from customers	**7,168**	24,640	**5,038**	22,145
Other payables	**14,242**	(521)	**8,714**	(2,251)
Accruals	**15,051**	5,795	**10,558**	1,705
	289,105	175,386	**246,291**	132,939

Included in other payables as at 31 December 2007 are value added tax payable of the Group and the Company amounted to RMB1,419,000 and RMB3,429,000 (2006: value added tax recoverable of RMB4,035,000 and RMB3,468,000), respectively.

The ageing analysis of trade and notes payable is as follow:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 30 days	**153,352**	54,348	**139,257**	34,041
31 – 60 days	**62,302**	67,747	**61,765**	59,615
61 – 90 days	**14,168**	11,148	**13,977**	11,180
91 days – one year	**18,415**	12,123	**4,243**	–
One year – two years	**4,124**	97	**–**	97
Two years – three years	**283**	9	**–**	9
	252,644	145,472	**219,242**	104,942

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For the year ended 31 December 2007

18 BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings:				
Non-current	**3,750**	5,550	**3,750**	5,550
Current	**166,027**	96,920	**147,027**	95,020
Total borrowings	**169,777**	102,470	**150,777**	100,570

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

As at 31 December 2007, bank borrowings comprised:

(a) short-term bank loans of RMB50,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party, which bore interest at between 6.43% to 7.34% per annum;

(b) short-term bank loans of RMB20,000,000 guaranteed by China National Building Materials and Equipment Import&Export Limited (中建材集團進出口上海公司), an independent third party, a subsidiary of the Company and a personal guarantee of Mr. Qian Wenhua, an executive director of the Company, which bore interest at 6.12% per annum;

(c) short-term bank loans guaranteed by the Company of RMB10,000,000, which were borrowed by a subsidiary and bore interest at 7.29% per annum;

(d) short-term bank loans of RMB6,000,000 borrowed by a subsidiary, which were secured by land use rights of the subsidiary (Note 6) and bore interest at between 7.67% to 9.36% per annum;

(e) short-term bank loans of RMB3,000,000 borrowed by a subsidiary, which were secured by storage facilities of the subsidiary (Note 7) and bore interest at 9.36% per annum;

(f) bank loans of RMB5,550,000 (comprised of short-term bank loan of RMB1,800,000 and long-term bank loan of RMB3,750,000) secured by office premises of the Company (Note 7), which bore interest at 5.85% per annum; and

(g) commercial notes receivable discounted to commercial banks on a with recourse basis of RMB75,227,000 (Note 14), which were treated as collateral for short-term bank borrowings of the same amount under HKFRS.

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For the year ended 31 December 2007

18 BORROWINGS *(continued)*

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 borrowed by a subsidiary, which were secured by land use rights of the subsidiary (Note 6) and bore interest at 9.72% per annum;

(e) bank loans of RMB7,350,000 (comprised 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 (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.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follow:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**125,127**	50,620	**116,127**	50,620
6 – 12 months	**40,900**	46,300	**30,900**	44,400
1 – 5 years	**3,750**	5,550	**3,750**	5,550
	169,777	102,470	**150,777**	100,570

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 2007

18 BORROWINGS *(continued)*

At 31 December 2007, the Group and the Company's borrowings were repayable as follow:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**166,027**	96,920	**147,027**	95,020
Between 1 and 2 years	**–**	–	**–**	–
Between 2 and 5 years	**3,750**	5,550	**3,750**	5,550
	169,777	102,470	**150,777**	100,570

The Group did not have any undrawn banking facilities as at 31 December 2007 and 31 December 2006.

19 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities when the deferred income taxes related to the same fiscal authorities.

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**348**	–	**712**	–
– Deferred tax asset to be recovered within 12 months	**1,924**	–	**1,639**	–
	2,272	–	**2,351**	–

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19 DEFERRED INCOME TAX *(continued)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follow:

Deferred tax assets (Group):

	Impairment provision for receivables	**Pre-operating expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	–	–	–	–
Credited to income statement	1,707	136	429	2,272
At 31 December 2007	1,707	136	429	2,272

Deferred tax assets (Company):

	Impairment provision for receivables	**Pre-operating expenses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	–	–	–	–
Credited to income statement	1,228	–	1,123	2,351
At 31 December 2007	1,228	–	1,123	2,351

20 SHARE CAPITAL – GROUP AND COMPANY

	RMB'000
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
Share capital at 1 January 2007	**68,600**
Issuance of shares through placing and open offer to H share shareholders	**25,019**
Share capital at 31 December 2007	**93,619**

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20 SHARE CAPITAL – GROUP AND COMPANY *(continued)*

As at 1 January 2006, the Company's authorised and issued share capital was RMB34,300,000, divided into 240,000,000 domestic shares of RMB0.10 each and 103,000,000 H shares of RMB0.10 each. 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.

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 capital reserve 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, which have all been issued and 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.

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 planned to offer no more than 75,190,000 new H shares ("Offer Shares") at HK$1.10 per share on the basis of 3.65 Offer Shares for every 10 existing H shares held on the record date.

The placing and open offers were duly approved by the shareholders at the extraordinary general meeting and class meetings of the Company held on 17 January 2007. On 21 September 2007, the Company has obtained the approval from China Securities Regulatory Commission for the issue of the placing shares and the Offer Shares.

On 13 November 2007, the Company issued 175,000,000 placing shares and 75,190,000 Offer Shares to the Subscribers and the existing H shareholders, respectively, at an issue price of HK$1.10 per share. The total number of 250,190,000 H shares issued represents 26.72% of the total issued ordinary share capital of the Company. The gross proceeds arising from the placing and open offer of the H shares amounted to approximately RMB262,549,000. The related transaction costs of RMB15,764,000 have been netted off with the proceeds. The placing shares and Offer Shares rank pari passu in all material respects with all other existing H shares.

As at 31 December 2007, the total authorised number of ordinary shares was 936,190,000 shares with a par value of RMB0.1 per share, which have all been issued and fully paid up.

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21 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 a 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 PRC 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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21 RESERVES *(continued)*

Group	Capital reserve	Statutory common reserve fund	Statutory common welfare fund	Currency translation reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	34,117	9,428	4,714	(19)	57,444	105,684
Issuance of bonus shares *(Note 20)*	(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 2006	–	–	–	–	(5,008)	(5,008)
At 31 December 2006	–	20,639	–	(934)	99,416	119,121
At 1 January 2007	–	20,639	–	(934)	99,416	119,121
Issuance of additional H shares *(Note 20)*	237,530	–	–	–	–	237,530
Direct costs attributable to issuance of additional H shares	(15,764)	–	–	–	–	(15,764)
Currency translation differences	–	–	–	(2,429)	–	(2,429)
Profit for the year	–	–	–	–	46,105	46,105
Appropriation	–	4,588	–	–	(4,588)	–
Dividend declared in respect of 2006	–	–	–	–	(15,092)	(15,092)
At 31 December 2007	221,766	25,227	–	(3,363)	125,841	369,471

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21 RESERVES *(continued)*

Company	Capital reserve	Statutory common reserve fund	Statutory common welfare fund	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	34,117	9,351	4,675	57,859	106,002
Issuance of bonus shares *(Note 20)*	(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 2006	–	–	–	(5,008)	(5,008)
At 31 December 2006	–	20,823	–	75,551	96,374
At 1 January 2007	–	20,823	–	75,551	96,374
Issuance of additional H shares *(Note 20)*	237,530	–	–	–	237,530
Direct costs attributable to issuance of additional H shares	(15,764)	–	–	–	(15,764)
Profit for the year	–	–	–	32,408	32,408
Appropriation	–	4,588	–	(4,588)	–
Dividend declared in respect of 2006	–	–	–	(15,092)	(15,092)
At 31 December 2007	221,766	25,411	–	88,279	335,456

22 OTHER INCOME

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Dividend income from unlisted investments	**17,946**	7,549
Subsidy income *(a)*	**2,284**	2,000
Interest income	**1,504**	899
Others	**2,306**	3,141
	24,040	13,589

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

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23 EXPENSES BY NATURE

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

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment (Note 7)	**11,688**	3,903
Amortisation of land use right (Note 8)	**213**	34
Amortisation of intangible assets (Note 9)	**113**	75
Employee benefit expense (Note 24)	**13,993**	12,627
Cost of inventories	**812,673**	897,411
Provision for impairment of receivables (Note 14)	**5,495**	74
Operating lease rental expenses in respect of		
– Land and buildings	**9,177**	6,883
– Transportation facilities	**26,050**	15,033
Transportation expenses	**32,650**	28,238
Entertainment and promotion expenses	**2,451**	2,734
Heating expenses for vessels and warehouses	**29,446**	15,511
Auditors' remuneration	**1,650**	1,400
Others	**27,311**	12,283
	972,910	996,206

24 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Wages and salaries	**13,010**	11,856
Social security costs	**502**	459
Retirement benefit costs – defined contribution plans *(Note a)*	**481**	312
	13,993	12,627
Number of employee	**244**	215

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For the year ended 31 December 2007

24 EMPLOYEE BENEFIT EXPENSE *(continued)*

(a) Retirement benefit costs

The PRC employees of the Group participate in a defined contribution plan organised by government authorities 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 2007 and 2006. 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 RMB481,000 and RMB312,000 for the years ended 31 December 2007 and 2006 respectively.

(b) Directors' and senior management's emoluments

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

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Fees	**215**	210
Basic salaries and allowances	**1,732**	1,849
Bonus	**423**	285
Retirement scheme contributions	**129**	106
	2,499	2,450

None of the directors waived emoluments during the years ended 31 December 2007 and 2006.

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24 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 2007 are as follow:

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	–	468	47	19	534
Mr. Lu Yong, Director	–	292	28	19	339
Mr. Li Hongyuan, Director	–	204	19	19	242
Mr. Zhang Jinhua, Director	–	246	300	19	565
Ms. Yao Peie, Director[(a)]	–	78	15	–	93
Mr. Mo Luojiang, Director[(d)]	–	190	–	13	203
Mr. Lv Renzhi, Independent non-executive director[(b)]	12	–	–	–	12
Mr. Zhu Shengfu, Independent non-executive director	30	–	–	–	30
Ms. Ye Mingzhu, Independent non-executive director	30	–	–	–	30
Mr. Li Li, Independent non-executive director[(d)]	18	–	–	–	18
Mr. Hsu Chun-min, Non-executive director[(e)]	120	–	–	–	120
Ms. Josephine Price Non-executive director[(f)]	5	–	–	–	5
Mr. Shao Dan, Supervisor	–	78	4	12	94
Ms. Gao Xiaolan, Supervisor[(c)]	–	102	6	17	125
Ms. Gu Xiaoqing, Supervisor	–	63	4	11	78
Mr. Lao Yihua, Supervisor[(d)]	–	11	–	–	11
	215	1,732	423	129	2,499

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24 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 follow:

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[(a)]	–	188	31	–	219
Mr. Lv Renzhi Independent non-executive director[(b)]	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[(e)]	120	–	–	–	120
Mr. Shao Dan, Supervisor	–	69	8	13	90
Ms. Gao Xiaolan, Supervisor[(c)]	–	91	12	15	118
Ms. Gu Xiaoqing, Supervisor	–	56	8	10	74
	210	1,849	285	106	2,450

Notes:

(a) Appointed in December 2003 and resigned in May 2007

(b) Appointed in August 2004 and resigned in May 2007

(c) Appointed in July 2004 and resigned in May 2007

(d) Appointed in May 2007

(e) Appointed in February 2006

(f) Appointed in December 2007

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24 EMPLOYEE BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals

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

	Number of individuals	
	2007	2006
Directors and supervisors	**3**	4
Other individuals	**2**	1
	5	5

Emoluments paid to directors and supervisors are reflected in the analysis presented in (b). The emoluments paid to the remaining highest paid individuals are as follow:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Basic salaries and allowances	**545**	249
Bonus	**300**	38
Retirement scheme contributions	**38**	17
	883	304

The emoluments of each of these highest paid individuals were lower than HK$1,000,000 (equivalent to RMB936,400).

(d) During the years ended 31 December 2007 and 2006, 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.

25 FINANCE COSTS – NET

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**7,254**	3,850
Interest expense on discounted commercial notes	**7,442**	2,186
Net foreign exchange gain	**–**	(37)
	14,696	5,999

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26 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	
	2007	2006
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**4,564**	6,329
– Hong Kong profits tax	**137**	3,282
Deferred income tax (Note 19)	**(2,272)**	–
	2,429	9,611

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 for the Company was 15% on the assessable profit up to 31 December 2007.

The enterprise income tax rates of the Company's subsidiaries (Note 10) were as follow:

Name of subsidiary	**Enterprise income tax rate**
Wuhan Hualong	33%
Donghua Hong Kong	17.5%
Shenhua Logistics	15% (50% tax reduction in 2007)
Zhengzhou Huasheng	33%
Anhui Quanjiao	33%
Wuhan Shenlong	33%
Tonva Shipping Limited	17.5%
Panva Shipping Limited	17.5%
Shanghai Taihua	15% (exempted from income tax in 2007)
Huayang Shipping	33%
Taizhou Henghua	33%
Taizhou Huaye	33%

Suzhong Shipping, the subsidiary of the Company, is classified as a small-scale company for income tax purpose. According to a 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.

Effective from 1 January 2008, the Company and its PRC subsidiaries shall determine and pay corporate income taxes in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable to the Company and its subsidiaries located in the PRC would be changed to 25% from 1 January 2008 onwards.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

26 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 follow:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**48,692**	76,290
Tax calculated at tax rate of 15%	**7,304**	11,444
Effect of different tax rates for subsidiaries	**(881)**	562
Deferred tax assets previously not recognised but recognised in current year	**(631)**	–
Effect of change of applicable tax rate to 25% on deferred tax assets pursuant to the new CIT Law	**(661)**	–
Income and expense items that are not subject to tax	**(3,485)**	(2,395)
Others	**783**	–
Taxation charges	**2,429**	9,611

27 OTHER LOSSES

The other losses recognised in the income statement are included as follow:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Foreign exchange losses/(gains)	**4,629**	(37)
Others	**3,967**	3,105
	8,596	3,068

28 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 RMB32,408,000 (2006: RMB43,263,000) (Note 21).

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

29 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.

	Year ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company (RMB'000)	**46,105**	67,243
Weighted average number of ordinary shares in issue (thousands)	**718,902**	686,000
Basic earnings per share (RMB per share)	**0.064**	0.098

The calculation of the earnings per share for the year ended 31 December 2006 is based on the weighted average number of 686,000,000 ordinary shares deemed to be in issue at the beginning of 2006, assuming that the issuance of bonus shares as described in Note 20 had been effective since the beginning of 2006.

Diluted earnings per share was equal to basic earnings per share, as there were no potential dilutive ordinary shares during the years ended 31 December 2007 and 2006.

30 DIVIDENDS

Dividends declared by the Company during the years ended 31 December 2007 and 2006 are set out as follow:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Dividend in respect of the period from 1 January 2006 to 30 June 2006 *(Note a)*	**–**	5,008
Dividend in respect of the year ended 31 December 2006 *(Note b)*	**–**	15,092
Proposed dividend in respect of the year ended 31 December 2007 *(Note c)*	**14,043**	–
	14,043	20,100

(a) 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.

(b) 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 dividend was not reflected as a dividend payable as at 31 December 2006, but was reflected as an appropriation of retained earnings for the year ended 31 December 2007.

(c) At a meeting held on 26 March 2008, the directors of the Company recommended the payment of a final dividend of RMB14,043,000 at RMB0.015 per ordinary share in respect of the year ended 31 December 2007. Such dividend is to be approved by the shareholders at the Annual General Meeting on 22 May 2008. These financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

31 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Profit before tax	**48,692**	76,290
Adjustments for:		
Finance costs – net	**14,696**	5,999
Share of profit of associates	**(1,935)**	(3,155)
Provision for impairment of receivables *(Note 14)*	**5,495**	74
Amortisation of land use rights	**213**	34
Depreciation of property, plant and equipment *(Note 7)*	**11,688**	3,903
Amortisation of intangible assets *(Note 8)*	**113**	75
Gain on disposal of property, plant and equipment, net (see below)	**(1,439)**	(41)
Gain on disposal of available-for-sale financial assets	**(370)**	(31)
Loss on liquidation of a subsidiary	**11**	-
Dividends received from unlisted investments *(Note 22)*	**(17,946)**	(7,549)
Interest income *(Note 22)*	**(1,504)**	(899)
Operating profit before working capital changes	**57,714**	74,700
Decrease/(Increase) in inventories	**55,031**	(34,236)
Increase in trade and other receivables	**(249,582)**	(120,576)
Increase in trade and other payables	**128,362**	68,764
Increase in restricted deposits	**(14,500)**	–
Net cash used in operations	**(22,975)**	(11,348)

In the cash flow statement, proceeds from sale of property, plant and equipment comprised:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net book amount *(Note 7)*	**2,162**	668
Gain on disposal of property, plant and equipment	**1,439**	41
Proceeds from disposal of property, plant and equipment	**3,601**	709

The principal non-cash transaction is the settlement of the purchase consideration for the acquisition of the equity interest in Nantong Highway as described in Note 11 by setting off against the Group's accounts receivable of RMB32,680,000 due from the seller.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

32 BUSINESS COMBINATION

(a) In the second half of 2007, the Company acquired 65% equity interests in Shanghai Taihua at a cash consideration of RMB3,250,000. The fair value of Shanghai Taihua's net assets acquired approximated the cash consideration paid by the Company.

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

	Fair value
	RMB'000
Cash and cash equivalents	3,265
Trade and other receivables	2,638
Inventories	2,839
Trade and other payables	(3,742)
Net assets	5,000
Minority interests (35%)	(1,750)
Net assets acquired	3,250

	RMB'000
Purchase consideration settled in cash	3,250
Cash and cash equivalents in the subsidiary acquired	(3,265)
Cash inflow on acquisition	(15)

(b) 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.

Notes to the Consolidated Financial Statements

(continued)
For the year ended 31 December 2007

32 BUSINESS COMBINATION *(continued)*

(b) The assets and liabilities arising from the acquisition are as follow:

	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

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33 CONTINGENCIES

As at 31 December 2007, the Company had entered into guarantee agreements with commercial banks in the PRC to provide financial guarantees to one of the Company's subsidiaries, an associate, and one of the associate's subsidiaries for certain banking facilities totalled approximately RMB110,000,000, of which:

- Approximately RMB45,000,000 were provided to an associate of the Company, Nantong Highway. Such financial guarantees of RMB25,000,000 and RMB20,000,000 provided will expire on 2 June 2010 and 17 September 2010, respectively. As at 31 December 2007, a total amount of RMB35,000,000 had been utilised out of such banking facilities;

- Approximately RMB15,000,000 were provided to a subsidiary of Nantong Highway, Nantong Jiuzhou Highway Machinery Maintenance Engineering Limited ("Nantong Jiuzhou"). The financial guarantee provided will expire on 7 August 2010. As at 31 December 2007, an amount of RMB 15,000,000 had been utilised out of such banking facilities; and

- Approximately RMB50,000,000 were provided to a subsidiary of the Company, Wuhan Hualong. The financial guarantee provided will expire on 11 March 2011. As at 31 December 2007, an amount of RMB10,000,000 had been utilised out of such banking facilities.

The directors of the Company are of the opinion that such guarantees will not result in any outflow of resources of, nor will any loss be incurred by, the Group and the Company.

34 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Contracted but not provided for:		
Investment in an associate *(Note 36(c))*	**20,000**	–
Land use rights	**12,120**	–
Property, plant and equipment	**3,828**	15,260
	35,948	15,260
Acquisition of Nantong Highway	**–**	32,680

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

34 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 follow:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**6,223**	8,065
Later than one year and not later than five years	**10,456**	14,309
Later than five years	**14,817**	35,908
	31,496	58,282

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(a) Name and relationship with related parties

Name	**Relationship**
Jiangxi Huatong	Associate
Jiaxing Huatong	Associate
Jiangxi Ganbei	Associate
Shanghai Wenhong Enterprises Development Company Limited ("Shanghai Wenhong")	Controlled by Mrs. Qian Liu Huiping *(Note)*
Nantong Highway	Associate
Nantong JiuZhou	Subsidiary of Nantong Highway

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

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

35 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with related parties

The following transactions were carried out with related parties:

(i) Sales of asphalts to

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Jiangxi Ganbei	**21,910**	–
Jiangxi Huatong	**2,934**	10,651
Nantong Highway	**1,111**	–
	25,955	10,651

(ii) Provision of services to

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Nantong Highway	**3,946**	–
Jiangxi Huatong	**79**	78
	4,025	78

(iii) Provision of services by

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Jiaxing Huatong	**–**	1,035

(iv) Provision of financial guarantees to (Note 33)

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Nantong Highway	**45,000**	–
Nantong Jiuzhou	**15,000**	–
	60,000	–

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2007

35 RELATED PARTY TRANSACTIONS *(continued)*

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

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

Due from related parties *(Note 14)*

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Nantong Highway	**3,946**	–	**–**	–
Jiaxing Huatong	**–**	488	**–**	416
	3,946	488	**–**	416

(vi) Key management compensation

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Basic salaries and allowances	**2,239**	2,832
Bonus	**723**	432
Retirement scheme contributions	**166**	175
	3,128	3,439

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For the year ended 31 December 2007

36 EVENTS AFTER THE BALANCE SHEET DATE

(a) At a Board of Director's meeting held on 15 February 2008, the directors of the Company agreed to provide a financial guarantee to Zhengzhou Huasheng, a subsidiary of the Company, for the latter's banking facilities of RMB19,500,000.

(b) On 19 March 2008, the Company entered into an agreement with third parties to acquire an additional 6% equity interest in Shanghai Taihua, the Company's subsidiary, at a cash consideration of RMB551,000. After the completion of this acquisition, the Company's equity interest in Shanghai Taihua will be increased to 71%.

(c) On 4 December 2007, a subsidiary of the Company, Shenhua Logistics, entered into an agreement with third parties to establish a new entity in the PRC, Wuhan Datonghuali Shipping Limited ("Datonghuali"). Pursuant to the agreement, Shenhua Logistics agreed to contribute paid-in capital of RMB20,000,000 or 40% equity interest in Datonghuali. Datonghuali was subsequently incorporated on 23 January 2008. Datonghuali is principally engaged in the provision of marine transportation service in the PRC.

(d) At a Board of Directors' meeting held on 26 March 2008, the directors of the Company recommended the payment of a final dividend of RMB14,043,000 at RMB0.015 per ordinary share in respect of the year ended 31 December 2007. Such dividend is to be approved by the shareholders at the Annual General Meeting on 22 May 2008.