



TONVA
上海 炼 华

上海 炼 华 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

Interim Report 2008

* For identification purposes only

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

The board of Directors (the “Board”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three and six months ended 30 June 2008 together with comparative unaudited figures for the corresponding periods in 2007:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	2	320,476	262,443	552,927	415,417
Cost of sales		(278,317)	(226,990)	(486,327)	(349,717)
Gross profit		42,159	35,453	66,600	65,700
Other income	2	2,830	1,093	15,468	12,788
Distribution costs		(10,618)	(14,749)	(18,547)	(22,255)
Administrative expenses		(5,923)	(5,558)	(11,036)	(11,186)
Other losses		(631)	(66)	(4,671)	(578)
Operating profit	4	27,817	16,173	47,814	44,469
Finance costs – net	5	(5,951)	(3,768)	(11,504)	(7,663)
Share of profit of associates		467	953	(1,809)	687
Profit before income tax		22,333	13,358	34,501	37,493
Income tax expenses	6	(4,743)	(2,196)	(5,763)	(4,505)
Profit for the period		17,590	11,162	28,738	32,988
Attributable to:					
Equity holders of the Company		17,316	11,412	27,630	33,417
Minority interests		274	(250)	1,108	(429)
		17,590	11,162	28,738	32,988
Basic and diluted earning per share for profit attributable to equity holders of the Company during the period (Expressed in RMB per share)	7	0.018	0.017	0.030	0.049
Dividend	8	-	-	-	-

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

		As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Land use rights		25,414	10,400
Property, plant and equipment		151,733	149,741
Construction-in-progress		16,753	12,555
Intangible assets		320	377
Investments in associates		56,501	45,668
Available-for-sale financial assets		1,600	1,600
Deferred income tax assets		2,272	2,272
		<u>254,593</u>	<u>222,613</u>
Current assets			
Inventories	9	118,774	9,798
Trade and other receivables	10	498,975	404,626
Restricted bank deposits		44,495	14,500
Cash and cash equivalents		67,872	275,455
		<u>730,116</u>	<u>704,379</u>
Total assets		<u>984,709</u>	<u>926,992</u>

		As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	12	<u>2,850</u>	<u>3,750</u>
Current liabilities			
Trade and other payables	11	336,367	289,105
Current income tax recoverable		(101)	(2,359)
Borrowings	12	<u>140,842</u>	<u>166,027</u>
		<u>477,108</u>	<u>452,773</u>
Total liabilities		<u>479,958</u>	<u>456,523</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share Capital		93,619	93,619
Reserves		<u>381,065</u>	<u>369,471</u>
		474,684	463,090
Minority interest		<u>30,067</u>	<u>7,379</u>
Total equity		<u>504,751</u>	<u>470,469</u>
Total liabilities and equity		<u>984,709</u>	<u>926,992</u>
Net current assets		<u>253,008</u>	<u>251,606</u>
Total assets less current liabilities		<u>507,601</u>	<u>474,219</u>

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

	Attributable to equity holders of the Company						Total
	Share capital	Capital reserve	Statutory common reserve fund	Currency Translation reserve	Retained earnings	Minority Interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	68,600	-	20,639	(934)	99,416	5,171	192,892
Currency translation difference	-	-	-	(899)	-	-	(899)
Profit for the period	-	-	-	-	33,417	(429)	32,988
Dividend declared and paid in respect of the year 2006	-	-	-	-	(15,092)	-	(15,092)
Minority interest – return to minority shareholder for windup of a subsidiary	-	-	-	-	-	(200)	(200)
Balance at 30 June 2007	68,600	-	20,639	(1,833)	117,741	4,542	209,689
Balance at 1 January 2008	93,619	221,766	25,227	(3,363)	125,841	7,379	470,469
Currency translation difference	-	-	-	(1,993)	-	-	(1,993)
Profit for the period	-	-	-	-	27,630	1,108	28,738
Dividend declared in respect of the year 2007	-	-	-	-	(14,043)	-	(14,043)
Minority interest – capital contribution from minority shareholders to subsidiaries	-	-	-	-	-	21,580	21,580
Balance at 30 June 2008	93,619	221,766	25,227	(5,356)	139,428	30,067	504,751

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

	For the six months ended 30 June	
	2008	2007
	RMB'000	<i>RMB'000</i>
Net cash (used in)/from operating activities	(21,805)	33,517
Net cash used in investing activities	(159,693)	(35,967)
Net cash (used in)/from financing activities	(26,085)	56,582
Net (decrease)/increase in cash and cash equivalents	(207,583)	54,132
Cash and cash equivalents at beginning of the period	275,455	43,256
Cash and cash equivalents at the end of the period	67,872	97,388

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements ("interim financial statements") of the Group for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard No. 34 – Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the GEM Listing Rules. The interim financial statements have been prepared on the basis of historical cost convention, with fair values of available-for-sale investments reflected in the income statement. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

2. REVENUE

Revenue represents the sale of asphalt and fuel oil and income from logistic services net of taxes, discounts, returns and allowances, where applicable.

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Revenue:		
Sales of asphalt	262,136	367,516
Sales of fuel oil	268,642	–
Logistic income	22,149	47,901
	552,927	415,417
Other revenue:		
Dividend income from unlisted investments	6,393	9,808
Subsidy income	940	2,284
Agency income	4,745	–
Interest income	778	291
Others	2,612	405
	15,468	12,788
Total revenue	568,395	428,205

3. SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 30 June 2008, the Group is organised into three main business segments:

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

Turnover consists of segment revenue from sales of asphalt, fuel oil and logistics services, which totalled RMB552,927,000 and RMB415,417,000 for the periods ended 30 June 2008 and 30 June 2007 respectively.

The segment results for the period ended 30 June 2008 are as follows:

	Sales of asphalt <i>RMB'000</i>	Sales of fuel oil <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Unallocated <i>RMB'000</i>	The Group <i>RMB'000</i>
Total segment revenue	375,903	307,190	23,204	-	706,297
Inter-segment revenue	<u>(113,767)</u>	<u>(38,548)</u>	<u>(1,055)</u>	<u>-</u>	<u>(153,370)</u>
Revenue	<u>262,136</u>	<u>268,642</u>	<u>22,149</u>	<u>-</u>	<u>552,927</u>
Operating profit/ Segment results	25,862	9,639	4,980	7,333	47,814
Finance costs					(11,504)
Share of profit of associates	(75)	-	-	(1,734)	<u>(1,809)</u>
Profit before income tax					34,501
Income tax expenses					<u>(5,763)</u>
Profit for the period					<u>28,738</u>

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

	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	Unallocated RMB'000	The Group RMB'000
Total segment revenue	420,854	–	50,068	–	470,922
Inter-segment revenue	(53,338)	–	(2,167)	–	(55,505)
Revenue	367,516	–	47,901	–	415,417
Operating profit/ Segment results	24,307	–	7,954	12,208	44,469
Finance costs					(7,663)
Share of profit of associates	687	–	–	–	687
Profit before income tax					37,493
Income tax expenses					(4,505)
Profit for the period					32,988

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

	For the period ended 30 June 2008				For the period ended 30 June 2007			
	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	The Group RMB'000	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	The Group RMB'000
Depreciation	2,306	10	3,675	5,991	2,431	–	2,257	4,688
Amortisation	57	–	–	57	57	–	–	57

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

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

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

The segment assets and liabilities at 30 June 2008 are as follows:

	Sales of asphalt <i>RMB'000</i>	Sales of fuel oil <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Unallocated <i>RMB'000</i>	The Group <i>RMB'000</i>
Assets	646,344	72,808	205,184	3,872	928,208
Associates	11,806	-	15,000	29,695	56,501
Total assets	<u>658,150</u>	<u>72,808</u>	<u>220,184</u>	<u>33,567</u>	<u>984,709</u>
Liabilities	<u>306,021</u>	<u>3,267</u>	<u>26,978</u>	<u>143,692</u>	<u>479,958</u>

The segment assets and liabilities at 31 December 2007 are as follows:

	Sales of asphalt <i>RMB'000</i>	Sales of fuel oil <i>RMB'000</i>	Logistic services <i>RMB'000</i>	Unallocated <i>RMB'000</i>	The Group <i>RMB'000</i>
Assets	746,922	23,730	106,800	3,872	881,324
Associates	14,239	-	-	31,429	45,668
Total assets	<u>761,161</u>	<u>23,730</u>	<u>106,800</u>	<u>35,301</u>	<u>926,992</u>
Liabilities	<u>270,883</u>	<u>3,905</u>	<u>11,958</u>	<u>169,777</u>	<u>456,523</u>

(b) Secondary reporting format – geographical segments

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

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Charging:		
Depreciation of fixed assets	5,991	4,688
Staff costs	8,171	6,108
Cost of inventories	467,003	318,531
Operating lease rental expenses in respect of		
– Land and buildings	3,602	5,061
– Transportation facilities	3,255	14,906
	<u>3,255</u>	<u>14,906</u>

5. FINANCE COSTS – NET

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans	11,504	7,663
	<u>11,504</u>	<u>7,663</u>

6. TAXATION

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
PRC enterprise income tax	5,563	3,221
Hong Kong profits tax	200	1,284
	<u>5,763</u>	<u>4,505</u>

The Company is subject to the Income Tax Law of the PRC. Being a company incorporated in Pudong New Area of Shanghai, the relevant PRC enterprise income tax rate is 25% on the estimated assessable profit for the period.

The income tax rates of the Company's subsidiaries are as follows:

Name of subsidiary	Income tax rate
Wuhan Hualong Highway Resources Company Limited	25%
Donghua (Hong Kong) Limited	17.5%
Shanghai Shenhua Logistic Company Limited	25%
Zhenzhou Huasheng Petrochemical Company Limited	25%
Quanjiao Puxing petrochemical Company Limited	25%
Wuhan Shenlong Logistics Company Limited	25%
Tonva Shipping Limited	17.5%
Panva Shipping Limited	17.5%
Shanghai Taihua Petrochemical Co., Ltd.	25%
Shanghai Huayang Shipping Technical Service Limited	25%
Taizhou Henghua Asphalts Company Limited	25%
Taizhou Huaye Petrochemical Company Limited	25%

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

7. EARNINGS PER SHARE

The calculation of the earnings per share for the three months and six months ended 30 June 2008 is based on profit attributable to equity holders of the Company of RMB17,316,000 and RMB27,630,000, respectively, divided by 936,190,000 shares (three months and six months ended 30 June 2007: 686,000,000 shares).

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

8. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

9. INVENTORIES

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Asphalt for resale	113,517	4,420
Fuel oil for resale	5,257	5,378
	<u>118,774</u>	<u>9,798</u>

No inventories were carried at net realisable value.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade receivables	283,860	256,949
Commercial notes receivables	82,133	83,003
	<u>365,993</u>	<u>339,952</u>
Less: Provision for impairment of receivables	(5,852)	(6,934)
	360,141	333,018
Prepayments and deposits	46,223	53,169
Other receivables	91,766	12,341
Other assets	845	6,098
	<u>498,975</u>	<u>404,626</u>

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

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
0 – 30 days	93,471	130,197
31 – 60 days	72,048	58,331
61 – 90 days	20,236	50,574
91 days – one year	166,429	85,871
One year – two years	12,560	13,393
Two years – three years	1,249	1,586
	<u>365,993</u>	<u>339,952</u>

11. TRADE AND OTHER PAYABLES

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade payables	106,211	107,644
Notes payables	184,310	145,000
Advances from customers	17,009	7,168
Other payables	5,871	14,242
Accruals	8,923	15,051
Dividend payable	14,043	–
	<u>336,367</u>	<u>289,105</u>

The ageing analysis of trade payables is as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
0 – 30 days	167,210	153,352
31 – 60 days	28,741	62,302
61 – 90 days	17,423	14,168
91 days – one year	65,807	18,415
One year – two years	11,340	4,124
Two years – three years	–	283
	290,521	252,644

12. BANK BORROWINGS

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Bank borrowings:		
Non-current	2,850	3,750
Current	140,842	166,027
Total borrowings	143,692	169,777

All of the Group's bank loans were denominated in RMB as at 30 June 2008 and 31 December 2007.

As at 30 June 2008, bank borrowings comprised:

- (a) short-term bank loans of RMB30,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party, which bore interest at 6.57% 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 7.227% per annum;
- (c) short-term bank loans of a subsidiary of RMB10,000,000, guaranteed by the Company, which bore interest at 7.29% per annum;

- (d) short-term bank loans of RMB6,900,000 secured by land use rights of a subsidiary of the Company, which bore interest at between 7.67% to 8.7% per annum;
- (e) short-term bank loans of RMB3,000,000 secured by fixed assets of a subsidiary of the Company, which bore interest at 8.7% per annum;
- (f) bank loans of RMB4,650,000 (comprise of short-term bank loans of RMB1,800,000 and long-term bank loans of RMB2,850,000) secured by office premises of the Company with a net book value of RMB17,231,000 (original cost of RMB19,123,000), which bore interest at 5.85% per annum; and
- (g) commercial notes receivable of RMB69,142,000 discounted to commercial banks with recourse, which were accounted as collateral for short-term bank borrowings in the equivalent amount under HKFRS.

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 7.227% per annum;
- (c) short-term bank loans of a subsidiary of RMB10,000,000 guaranteed by the Company, and bore interest at 7.29% per annum;
- (d) short-term bank loans of RMB6,000,000 secured by land use rights of a subsidiary of the Company and bore interest at between 7.67% to 9.36% per annum;
- (e) short-term bank loans of RMB3,000,000 secured by storage facilities of a subsidiary of the Company 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 loans of RMB3,750,000) secured by office premises of the Company with a net book value of RMB17,685,000 (original cost of RMB19,123,000), which bore interest at 5.85% per annum; and
- (g) commercial notes receivable of RMB75,227,000 discounted to commercial banks with recourse, which were accounted as collateral for short-term bank borrowings in the equivalent amount under HKFRS.

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

At 30 June 2008, the Group and the Company's borrowings were repayable as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Within 1 year	140,842	166,027
Between 1 and 2 years	1,800	1,800
Between 2 to 5 years	1,050	1,950
	<hr/>	<hr/>
Wholly repayable within 5 years	143,692	169,777
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MANAGEMENT DISCUSSION AND ANALYSIS

Business operations

The Group is principally engaged in the sales of asphalt and fuel oil and the provision of logistic services in the PRC, by way of offering one-stop services to its clients from procurement, storage and delivery services through its logistic system. The coverage of the Group mainly focuses the downstream of Yangtze River and some inland provinces, including Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Hubei Province and Henan Province.

The operation of asphalt and fuel oil storage facilities of the Group currently consists of 10 asphalt storage hubs with a total capacity of 152,000 tons and one fuel oil storage hub with a capacity of 10,000 tons, while another asphalt storage hub located at Taizhou City, Jiangsu Province with a capacity of 20,000 tons is under construction.

In respect of the transportation facilities, the Group currently operates 2 ocean carriers, 6 river carriers and 32 asphalt delivery vehicles with a total loading capacity of 11,118 tons.

FINANCIAL AND BUSINESS REVIEW

During the first half of 2008, although the global economy and financial market were relatively volatile, the PRC economy was still able to maintain steady growth. During the period, the GDP of China increased 10.4% from the corresponding period last year to RMB13.06 trillion, representing a decrease of 1.8% in growth rate when compared to the corresponding period in 2007. During the period, the national fixed asset investment maintained rapid growth, reaching RMB6.84 trillion, representing an increase of 26.3% from the corresponding period last year, and a growth of 0.4% when compared to the first half of 2007.

Due to the natural disasters in broad regions among the PRC during the first half of the year and the continuous implementation of macroeconomic austerity measures by the government, the Group's three main operations including asphalt trading, fuel oil trading and logistic were affected. However, the Board expects that the Group's business performances will be stabilized in the second half of the year.

Asphalt Trading Business

For the six months ended 30 June 2008, the Group's turnover for asphalt trading business amounted to approximately RMB262,136,000 (six months ended 30 June 2007: approximately RMB367,516,000), representing a decrease of 28.7% comparing with the corresponding period last year. The income from asphalt trading business attributed around 47% of the Group's total turnover. According to the asphalt market data for the six months ended 30 June 2008, nationwide production volume only reached approximately 3.8 million tons, representing a decrease of approximately 28% comparing with the corresponding period last year. Jiangsu Province and Shanghai City, which together accounted for over 50% of the Group's asphalt trading, imported 460,000 tons and 30,000 tons of asphalt respectively, representing a decrease of approximately 21% and 50% comparing with the corresponding period last year. The decrease in asphalt turnover was mainly due to the lack of market demand as a result of natural disasters and macroeconomic austerity measures. The natural disasters such as snow storm and heavy rain in broad regions among the PRC during the first half of 2008 caused deferred and minimized in the progress of road construction. Meanwhile, the macroeconomic austerity measures by the government caused financial institutions to tighten up their credit facilities granted to corporates, which resulted in the decrease in funding for highway projects, thereby affecting the overall demand for asphalt.

Furthermore, the Beijing Olympic Games and the surging crude oil price also affected the demand for asphalt to a certain extent. During and prior to the Olympic Games, restrictions for construction works would be imposed in major cities like Shanghai, which had deferred the road construction works that scheduled for the first half of 2008 of approximately 300 km in Shanghai to after the Beijing Olympic Games. The asphalt required for the aforesaid road construction were around 75,000 tons or equal to a sales value of approximately RMB280,000,000. On the other hand, the surging crude oil price leads to an increase of average asphalt prices (net of VAT) from RMB2,320/ton in June 2007 to RMB3,900/ton in June 2008. The increase of asphalt price lower the demand for asphalt from the relevant construction sectors.

The gross profit margin of the asphalt trading business increased from approximately 13.3% for the corresponding period last year to approximately 18.9% during the reporting period. The increase in the gross profit margin was

mainly due to the surging price for asphalt since the end of last year, while the rise of selling price exceeded the increase in cost. For the six months ended 30 June 2008, the Group's gross profit from the sales of asphalt was approximately RMB49,631,000, which is similar to the corresponding period last year.

In order to expand our asphalt trading business, the Group has invested in the following projects during the first half of 2008:

In May 2008, the Group made agreement with an independent third party to establish a joint venture known as Jiangsu Donghua Communication Materials Co., Ltd ("Jiangsu Donghua"). The Company will contribute RMB5,500,000 and hold 55% equity interest of Jiangsu Donghua. Jiangsu Donghua is principally engaged in asphalt sales in Jiangsu province. Having a partner with extensive experience in the Jiangsu asphalt market, this investment would enable the Group to further expand its market share in the Jiangsu province.

In June 2008, the Group entered into an agreement with Shanghai Pudong Road and Bridge Construction Co., Ltd (an independent third party whose shares are listed on the Shanghai Stock Exchange, and a contractor for road and bridge construction in Shanghai Region) in respect of the further investment to Shanghai Pudong Road and Bridge Asphalt Materials Co., Ltd. ("Pudong Materials"), pursuant to which the Group will contribute RMB17,050,000. Upon the completion of the investment, the Group will hold 49% equity interest in Pudong Materials. Pudong Materials is principally engaged in the production and sale of modifiable asphalt. Such investment would enhance the Group's asphalt product line and thus increase its competitiveness and further tap into the potential of the modifiable asphalt market.

Logistic Business

For the six months ended 30 June 2008, the Group's turnover for logistic services was approximately RMB22,149,000 (six months ended 30 June 2007: approximately RMB47,901,000), representing a decrease of 53.8% comparing with the corresponding period last year. The income from logistic business attributed to around 4% of the Group's total turnover. The decrease in income from the logistic business was mainly due to the deep impact caused by the snow storms and flood in broad regions among the PRC during the first half of

2008, and the trading volume of the logistic business decreased as a result. On the other hand, taking the high rental cost into account, the Group did not renew the lease for 2 ocean carriers in January 2008 and as a result of which significant decrease in income of the logistic business.

Gross profit margin for logistic business decreased from 34.9% of the corresponding period last year to 12.8% in this reporting period. The decrease in gross profit margin was mainly attributable to the decrease in trading volume of our logistic business and the surging fuel costs, while the fixed cost such as depreciation of logistic facilities and rental cost had not decreased accordingly. For the six months ended 30 June 2008, the gross profits of our logistic business amounted to approximately RMB2,825,000, representing a decrease of 83.1% when compared with the corresponding period last year.

Fuel Oil Trading Business

For the six months ended 30 June 2008, the Group's turnover for fuel oil trading business was approximately RMB268,642,000. The Group had not commenced its fuel oil trading business during the six months ended 30 June 2007. The income from fuel oil trading business contributed around 49% to the Group's total turnover. For the six months ended 30 June 2008, gross profit margin for the Group's fuel oil trading business was approximately 5.3%, while the gross profit was approximately RMB14,145,000.

The Group's fuel oil trading business focus mainly in Eastern China, the primary fuel oil consumption region in the PRC. Our clients principally include customers from power plants, glassworks, construction materials manufacturers and steel sectors. Although the Group is a new comer in the fuel oil industry, the Group has secured steady fuel oil supply channel, as fuel oil and asphalt are both crude oil refined downstream products, and most of our asphalt manufacturers and suppliers are also fuel oil manufacturers and suppliers. Moreover, leveraging on the Group's existing logistic system in July 2008, it is expected that the composite cost of the fuel oil trading business will be lowered and our competitiveness in the industry will be enhanced.

Other income

For the six months ended 30 June 2008, the Group's other income was approximately RMB15,468,000 (six months ended 30 June 2007: approximately RMB12,788,000), representing an increase of 21.0% comparing with the corresponding period last year. The increase was mainly attributed to an agency income of approximately RMB4,745,000 from logistic business and the gain on disposal of a property of the Group of approximately RMB2,375,000.

Distribution costs

The Group's distribution costs for the six months ended 30 June 2008 were approximately RMB18,547,000 (six months ended 30 June 2007: approximately RMB22,255,000), representing a decrease of 16.7% from the corresponding period last year.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2008 were approximately RMB11,036,000 (six months ended 30 June 2007: approximately RMB11,186,000) which is similar to those for the corresponding period last year.

Other losses

The Group's other losses for the six months ended 30 June 2008 were approximately RMB4,671,000 (six months ended 30 June 2007: approximately RMB578,000). The increase was mainly due to the appreciation of RMB, which gave rise to an exchange loss of approximately RMB3,577,000 in the first quarter of 2008 in relation to the proceeds of placing and open offer in 2007 which were denominated in Hong Kong Dollars. As the Group had converted all the Hong Kong Dollars into Renminbi during the first quarter of 2008, no such losses will be incurred in the remaining periods of 2008.

Profit attributable to shareholders

Profit attributable to equity holders of the Group for the six months ended 30 June 2008 was approximately RMB27,630,000 (six months ended 30 June 2007: approximately RMB33,417,000), representing a decrease of

approximately 17.3% comparing with the corresponding period last year. The basic and diluted earnings per share for profit attributable to equity holders of the Company during the reporting period was RMB0.03 (six months ended 30 June 2007: approximately RMB0.049), representing a decrease of approximately 38.8% comparing with the corresponding period last year. The greater decrease of earning per share than profit attributable to equity holders is due to the increase in the Company's issued shares from 686,000,000 shares to 936,190,000 shares after the completion of placing and public offer in November 2007.

Capital Structure

As at 30 June 2008, the Group had total assets less current liabilities of approximately RMB507,601,000 (31 December 2007: RMB474,219,000), comprising non-current assets of approximately RMB254,593,000 (31 December 2007: RMB222,613,000) and net current assets of approximately RMB253,008,000 (31 December 2007: RMB251,606,000).

Liquidity and financial resources

The Group had total cash and bank balances of approximately RMB67,872,000 and RMB275,455,000 as at 30 June 2008 and 31 December 2007 respectively; and total bank loans of approximately RMB143,692,000 and RMB169,777,000 as at 30 June 2008 and 31 December 2007 respectively. The debt to equity ratio as at 30 June 2008 and 31 December 2007 was 30.3% and 36.7% respectively. The Group regards that it has sufficient working capital to fund its operations.

Trade Receivables

As at 30 June 2008, trade receivables amounted to approximately RMB283,860,000 (31 December 2007: RMB256,949,000), representing an increase of 10.47%. Turnover days for the first six months of 2008 and the whole year of 2007 were both 92 days. Due to the impact of macroeconomic austerity measures on the overall PRC asphalt market during 2008, the Group has taken corresponding measures to ensure timely recovery of receivables, which will in turn minimize the Group's risk on bad debts and maintain healthy cash flows. Those measures include close monitoring of market and client status; supply products to selective customers with good reputation, long trading history with the Group and good payment records; and payment on delivery for other smaller scale clients.

Foreign exchange exposure

The Group's trade receivables were denominated in Renminbi whereas purchases were either denominated in Renminbi or United States Dollar. As such, the Group did not have significant foreign exchange risks. The management of the Group considers that no hedging or other relevant measure is necessary currently.

Pledge of assets

As at 30 June 2008, the Group's property, plant and equipment, land use rights, inventories and receivables have been pledged to secure banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2008, the Company has executed guarantees in favour of a bank in respect of facilities granted to subsidiaries amounting to RMB50,000,000 (31 December 2007: RMB50,000,000), of which RMB10,000,000 (31 December 2007: RMB10,000,000) have been utilized.

As at 30 June 2008, the Company has executed guarantees in favour of a bank in respect of facilities granted to associated companies amounting to RMB35,000,000 (31 December 2007: RMB60,000,000), of which RMB35,000,000 (31 December 2007: RMB50,000,000) have been utilized.

Employee information

As at 30 June 2008, the Group had about 215 employees. Total employee remuneration, including that of the Directors and mandatory provident fund contributions, for the period under review amounted to approximately RMB8,171,000.

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

Prospects

There are some uncertainties surrounding the operating environment during the first half of the year, which includes the snow storms and heavy rain as well as the macroeconomic austerity measures, causing the Group's operating result to drop comparing with the corresponding period last year. However, the management believes that the impacts of those natural disasters are only temporary and in view of the sign of slowdown in the economic development of the PRC, it is expected that the government will fine tune the macroeconomic austerity measures to ensure stable and healthy growth of the economy. With the resumption of road constructions and the upcoming World Expo Shanghai 2010, road construction and maintenance works in Shanghai and nearby regions will be accelerated after the Olympic Games. The PRC economy will continue to grow steady in medium to long term, which will drive the needs for infrastructures such as road, therefore the growth of demand for asphalt in the PRC will keep on. The Group will seize this good opportunity and provide reasonable returns to investors.

Starting from August 2007, the Group expanded its business to fuel oil trading business. We believe that this new business will broaden the Group's revenue and profit for the current year. Since seasonal factor has mild impact on fuel oil trading business and this business may generate steady demand to our logistic services business, it is expected to be the growth drive for revenue and profit of the Group in the future.

On the other hand, the Group proposed to acquire a further 37.44% equity interest in Nantong Highway and Bridge Engineering Limited ("Nantong Highway"), which is currently 25% owned by the Group. Upon the completion of the acquisition, 62.44% equity interest in Nantong Highway will be directly held by the Group. The proposed acquisition had been approved by the shareholders at the Extraordinary General Meeting held on 11 August 2008, and the acquisition is expected to be completed before 31 August 2008. Following the completion of the proposed acquisition, Nantong Highway's accounts will be consolidated as a subsidiary of the Group. As at 30 June 2008, the contract amount of construction works not yet completed of Nantong Highway stood at approximately RMB740,000,000, and most of these contracts are expected to be completed by 2008. The Group believes that the highway business will create synergies with our existing asphalt sales, logistic and fuel oil trading business, thereby improving the Group's overall profitability.

Disclosure under GEM Listing Rules 17.15 to 17.21

The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules as at 30 June 2008.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

As at 30 June 2008, the interests of long or short position of the Directors, chief executives and supervisors of the Company (the "Supervisors") in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) was required, (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part V of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept therein, pursuant to section 352 of the SFO; or (c) to notify to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors referred to in Rule 5.46 of the GEM Listing Rules are as follows:

Long position in the shares of the Company:

Name of Directors	Capacity	Number of shares		Total 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
		Personal interest	Family interest			
Qian Wenhua (Executive Director)	Beneficial owner	191,792,000 (domestic shares)	35,854,000 (Note 1) (domestic shares)	227,646,000	47.23	24.32
Lu Yong (Executive Director)	Beneficial owner	62,618,000 (domestic shares)	- (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.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2008, the persons (not being a Director, Supervisor or chief executive of the Company) or companies that 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 or recorded in the register required to be kept under section 338 of the SFO and who were directly and/or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of shareholders	Capacity	Personal interest	Number of shares		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
			Family interest	Total long position			
Liu Huiqing (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	Beneficial owner	38,498,460 (H shares)	-	38,498,460	-	8.44	4.11
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
Calyon Capital Markets International SA	Interest of a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
Caylon S.A. (previously known as Credit Agricole Indosuez)	Interest of a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69

Name of shareholders	Capacity	Personal interest	Number of shares		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
			Family interest	Total long position			
CLSA B.V.	Interest of 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 of 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
Credit Agricole S.A.	Interest of a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
SAS Rue la Boetie	Interest of 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 of 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 of a controlled corporation	35,000,000 (H shares)	-	35,000,000 (Note 2)	-	7.67	3.74
Mumlya Limited	Beneficial owner	35,000,000 (H shares)	-	35,000,000 (Note 2)	-	7.67	3.74

Notes:

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 Limited 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.

Directors' and Supervisors' right to acquire shares or debentures

None of the Directors and Supervisors or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2008.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2008, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.29 of the GEM Listing Rules, the Company has 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, namely Ms. Ye Mingzhu, Mr. Zhu Shengfu and Mr. Li Li. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2008, and opined that such results have been prepared in accordance with the applicable accounting and reporting standards.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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

CORPORATE GOVERNANCE

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

The Company aims at maintaining a comprehensive, effective and transparent internal control system so as to manage its business operation effectively and meet the following targets:

- To reach the Group's business goals and safeguard the Company's assets as well as shareholders' investment;

- To ensure the filing of appropriate accounting records which provide reliable financial information for internal and publication purposes; and
- To ensure the compliance of relevant laws, regulations and certain internal policies of the Company.

For the above purposes, the Company has established an executive committee and an internal audit team to conduct the operation review and internal audit.

Executive Committee

In order to study the Company's business strategies and significant operational issues, review the general business performance as well as effectiveness of its corporate governance, and to identify and control business risks, the Board has established an executive committee in December 2007. The executive committee comprises 6 members, including the head of each operation and persons in charge of business operations, financial and corporate governance.

The executive committee shall meet at least once every month to discuss significant issues, management reports, major operational statistical data and the results of each business unit, and to evaluate/explain the difference between actual and estimated results.

Internal Audit Team

In order to review the effectiveness of internal control system, an internal audit team has been established specifically under the audit committee by the Company in December 2007. Internal audit team comprises 6 members, who among themselves possess a wealth of financial, contract management, project management and legal experience. During this reporting period, the duties of the internal audit team principally include:

- To monitor the operational process and business risk;
- To oversee the execution and implementation of contracts;
- To oversee the management programme and the implementation of internal control system, including (among others) finance, authorization and procurement;

- To monitor the Group's environmental conservation function; and
- To hold meeting with the management so as to discuss the audit results and make recommendations.

The internal audit team meets and prepares the internal audit report on a regular basis, and the report provides reference for the management to review the operation control and business operation. The management will also give feedback on the business strategy, policy, risk and management process, operating method, system and information, and to introduce initiatives in view of the recommendation to enhance internal control.

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 past half year, and to the shareholders, suppliers and the customers for their continuous support for the Group.

By Order of the Board
Qian Wenhua
Chairman

Shanghai, the PRC, 11 August 2008

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