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

Third Quarterly 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.

HIGHLIGHTS

1. The Group's turnover for the 9 months ended 30 September 2008 was approximately RMB954,341,000 (9 months ended 30 September 2007: approximately RMB716,377,000). A growth of approximately 33.2% was recorded year-on-year.

2. Profit attributable to the equity holders of the Company for the 9 months ended 30 September 2008 was approximately RMB32,745,000 (9 months ended 30 September 2007: approximately RMB54,867,000). A decrease of approximately 40.3% was recorded year-on-year.

3. The Board did not recommend an interim dividend for this quarter.

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 nine months ended 30 September 2008 together with comparative unaudited figures for the corresponding periods in 2007.

UNAUDITED CONSOLIDATED RESULTS

		For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	*2*	**401,414**	300,960	**954,341**	716,377
Cost of sales		**(367,050)**	(265,388)	**(853,377)**	(615,105)
Gross profit		**34,364**	35,572	**100,964**	101,272
Other income	*2*	**1,611**	9,478	**17,079**	22,266
Distribution costs		**(7,518)**	(13,736)	**(26,065)**	(35,991)
Administrative expenses		**(12,705)**	(5,877)	**(23,741)**	(17,063)
Other losses		**(867)**	(815)	**(5,538)**	(1,393)
Operating profit		**14,885**	24,622	**62,699**	69,091
Finance costs – net		**(6,100)**	(3,186)	**(17,604)**	(10,849)
Share of profit/(loss) of associates		**1,499**	1,686	**(310)**	2,373
Profit before income tax		**10,284**	23,122	**44,785**	60,615
Income tax expenses	*3*	**(1,979)**	(1,572)	**(7,742)**	(6,077)
Profit for the period		**8,305**	21,550	**37,043**	54,538
Attributable to:					
Equity holders of the Company		**5,115**	21,450	**32,745**	54,867
Minority interest		**3,190**	100	**4,298**	(329)
		8,305	21,550	**37,043**	54,538
Earning per share for profit attributable to equity holders of the Company during the period (Expressed in RMB per share)	*4*	**0.005**	0.031	**0.035**	0.080
Dividends	*5*	**–**	–	**–**	–

MOVEMENT TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Capital reserve	Statutory common reserve fund	Currency Translation reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007	–	20,639	(934)	99,416	119,121
Currency translation difference	–	–	(992)	–	(992)
Profit for the period	–	–	–	54,867	54,867
Dividend declared and paid in respect of 2006	–	–	–	(15,092)	(15,092)
Balance at 30 September 2007	–	20,639	(1,926)	139,191	157,904
Balance at 1 January 2008	221,766	25,227	(3,363)	125,841	369,471
Currency translation difference	–	–	(2,090)	–	(2,090)
Profit for the period	–	–	–	32,745	32,745
Dividend declared and paid in respect of 2007	–	–	–	(14,043)	(14,043)
Balance at 30 September 2008	221,766	25,227	(5,453)	144,543	386,083

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group's annual audited consolidated financial statements for the year ended 31 December 2007.

2. REVENUE

Revenue represents of sales from asphalt and fuel oil, revenue from logistic services and road and bridge constructions net of taxes, discounts, returns and allowances, where applicable and after eliminating sales with the Group.

	For the nine months ended 30 September	
	2008	2007
	RMB'000	*RMB'000*
Revenue:		
Sales of asphalt	**454,113**	652,029
Sales of fuel oil	**349,660**	9,486
Logistic services	**33,721**	54,862
Road and bridge constructions	**116,847**	–
	954,341	716,377
Other income:		
Dividend income from unlisted investments	**6,393**	17,946
Subsidy income	**1,249**	2,284
Agency income	**5,074**	–
Interest income	**1,500**	971
Others	**2,863**	1,065
	17,079	22,266
Total revenues	**971,420**	738,643

3. TAXATION

	For the nine months ended 30 September	
	2008	2007
	RMB'000	*RMB'000*
PRC enterprise income tax	**7,456**	4,447
Hong Kong profit tax	**286**	1,630
	7,742	6,077

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 18% on the assessable profit for the period (2007: 15%).

The enterprise 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	16.5%
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	16.5%
Panva Shipping Limited	16.5%
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%
Jiangsu Donghua Communication Materials Company Limited	25%

Jiangsu 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, 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 PRC subsidiaries of the Company 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 subsidiaries of the Company located in the PRC would be changed to 25% from 1 January 2008 onwards.

4. EARNINGS PER SHARE

The calculation of the earnings per share for the three and nine months ended 30 September 2008 is based on the profit attributable to equity holders of the Company of RMB5,115,000 and RMB32,745,000 and the weighted average number of 936,190,000 shares (three months and nine months ended 30 September 2007: 686,000,000 shares).

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

5. DIVIDEND

The Board did not recommend an interim dividend for the 9 months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

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. Its principal areas of operation are in the midstream and downstream regions of the Yangtze River and some inland areas, including Shanghai, Jiangsu Province, Jiangxi Province, Anhui Province, Zhejiang Province, Hubei Province and Henan Province.

In August 2008, the Group increased its shareholding in Nantong Highway and Bridge Engineering Limited ("Nantong Highway") to 62.44% for the purpose of expanding the Group's road and bridge construction business in the PRC. Nantong Highway is principally engaged in construction of highways and bridges, and holds a "Main Contractor for Road Construction – First Grade" qualification in the PRC. This qualification enables Nantong Highway to undertake road and bridge construction projects of individual contract value up to 5 times of its registered capital, and tunnel construction projects of tunnel length up to 3,000 meters.

Currently, the asphalt and fuel oil storage facilities operated by the Group include: 10 asphalt storage hubs with a total capacity of 172,000 tons, one fuel oil storage hub with a capacity of 10,000 tons. Another asphalt storage hub located at Taizhou City, Jiangsu Province with a capacity of 20,000 tons was completed in the third quarter.

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

Financial and Business Review

The global economies and financial markets were extremely volatile in the third quarter of 2008. As the sub-prime mortgage woes in the United States were deepening, the global economies were noticeably hit. The volatility in crude oil price had also caused a lot of fluctuation in downstream petrochemical price. As a result, China's economy was unavoidably affected. Its GDP growth in the third quarter of this year slowed down to 9%, making the national economy achieve just a 9.9% growth in the first 3 quarters of 2008, a decrease of 2.3 percentage points when compared with the same period last year.

Natural calamities became more frequent in China in the first half of this year. On top of that, the Chinese government continued to carry out various marco-economic austerity measures to rein in the over-heated economy. The principal operations of the Group were adversely affected. Meanwhile, the Beijing Olympic Games in August led to delays of construction works in the host city and the co-host cities, causing the substantial decrease in demand for asphalt during the otherwise traditional peak season of infrastructure projects. During the review period, both of asphalt sales and logistic services operation of the Group were negatively affected.

Asphalt trading business

For the nine months ended 30 September 2008, the Group's turnover for asphalt trading business amounted to approximately RMB454,113,000 (for the nine months ended 30 September 2007: approximately RMB652,029,000), representing a decrease of 30.4% when compared with the corresponding period last year. The quantities of asphalt sales during the review period was approximately 120,000 tons, representing a decreasing of 50% comparing with the corresponding period last year. The revenue from asphalt trading business accounted for about 48% of the Group's total turnover in the review period.

The gross profit margin of the asphalt trading business increased to 14.8% from 13.6% in the corresponding period last year. The increase was mainly due to the fact that the price for asphalt continued to soar since the end of last year and the growth rate of selling price outpaced the increase in cost. For the nine months ended 30 September 2008, the Group's gross profit from the sales of asphalt was approximately RMB67,139,000, (nine months ended 30 September 2007: approximately RMB88,826,000), representing a decrease of 24.4% when compared with the corresponding period last year.

The decrease in sales of asphalt was mainly due to a lower market demand resulting from the natural disasters in the first half of the year and macroeconomic austerity measures in the PRC. These austerity measures have had an indirect impact to our business because many clients like municipal governments and local contractors that faced inadequate funding to finance the construction projects. This in turn affected the demand for asphalt. Delay in progress of road works in the host city and co-host cities of the Beijing Olympic Games was also attributable to the lower demand for asphalt.

In May 2008, the Company entered into an agreement with an independent third party to establish a joint venture known as Jiangsu Donghua Communication Materials Co., Ltd, in which the Company holds a 55% equity interest. The joint venture is initially expected to sell 60,000 to 70,000 tons per annum of heavy traffic paving petroleum asphalt. It is planning to gradually expand the sales in this product.

Furthermore, Shanghai Pudong Road and Bridge Asphalt Materials Co.,Ltd., a company which the Company has invested in June this year, has launched trial production in September. Such investment would effectively diversify the products of asphalt of the Group, thus further enhances its competitive edges and enables it tap into the potential of the modifed asphalt market.

Fuel oil trading business

For the nine months ended 30 September 2008, the Group's turnover for fuel oil trading business was approximately RMB349,660,000 (nine months ended 30 September 2007: approximately RMB9,486,000), representing a significant increase of 3,586% when compared with the corresponding period last year. The increase was attributable to the fact that the Group had not commenced its fuel oil trading business until August 2007. The revenue from fuel oil trading business contributed around 37% to the Group's total turnover in the review period.

For the nine months ended 30 September 2008, the gross profit margin of the Group's fuel oil trading business was approximately 5.4% while the gross profit was approximately RMB18,777,000 (nine months ended 30 September 2007: approximately RMB376,000. Such gross profit level is comparable to the industry average of similar line of business.

Logistic business

For the nine months ended 30 September 2008, the Group's turnover for logistic services was approximately RMB33,721,000 (nine months ended 30 September 2007: approximately RMB54,862,000), representing a decrease of 38.5% when compared with the corresponding period last year. The revenue from logistic business attributed to around 4% of the Group's total turnover in the review period.

The decrease in revenue from the logistic business was mainly attributable to the shrinkage of trading volume resulting from the snowstorm and flooding in the first half of 2008. Meanwhile, the Group, after taking the high rental cost into account, ceased to renew the lease of 2 ocean carriers in January 2008 and as a result, a significant decrease in revenue of the logistic business was recorded.

Gross profit margin for logistic business decreased from 22% in the corresponding period last year to 6% in the review period. The decrease in gross profit margin was mainly attributable to the lower trading volume of the Group's logistic business and surging fuel costs, while the fixed cost such as depreciation of logistic facilities and rental cost did not decrease accordingly. For the nine months ended 30 September 2008, gross profit of our logistic business was approximately RMB2,021,000, representing a decrease of 83.3% when compared with the corresponding period last year.

Road and bridge constructions business

For the nine months ended 30 September 2008, the Group's turnover for road and bridge construction business was approximately RMB116,847,000 (the Group did not have road and bridge construction business for the nine months ended 30 September 2007). The revenue from road and bridge construction business attributed to around 13% of the Group's total turnover. For the nine months ended 30 September 2008, gross profit margin of the Group's road and bridge construction business was approximately 11.1% and the gross profit was RMB13,027,000.

In August 2008, the Group successfully increased its shareholdings in Nantong Highway by 37.44% to an aggregate of 62.44% upon completion of the transaction. Nantong Highway, on the other hand, has become the non-wholly owned subsidiary of the Group since August. However, as the Group needs to amortize the intangible assets (construction projects) incurred during the acquisition with Nantong Highway in accordance with the accounting standard, it is estimated that the contribution brought by Nantong Highway to the Group will not be fully reflected during the review period but the contribution of it will become significant in 2009.

Other income

For the nine months ended 30 September 2008, the Group's other income was approximately RMB17,079,000 (nine months ended 30 September 2007: approximately RMB22,266,000), representing a decrease of 23.3% comparing with the corresponding period last year. The decrease was mainly attributed to there was approximately RMB17,946,000 dividend income from unlisted investment for the corresponding period last year and there was only approximately RMB6,393,000 this period. Also, there was increasing in agency income for approximately RMB5,074,000 from logistic services and the gain on disposal of a property of the Group of approximately RMB2,375,000 in this period.

Distribution costs

The Group's distribution costs for the nine months ended 30 September 2008 were approximately RMB26,065,000 (nine months ended 30 September 2007: approximately RMB35,991,000), representing a decrease of 27.6% from the corresponding period last year. The decrease was mainly attributed to the decrease on logistic of asphalt expenses this year.

Administrative expenses

The Group's administrative expenses for the nine months ended 30 September 2008 were approximately RMB23,741,000 (nine months ended 30 September 2007: approximately RMB17,063,000), representing an increase of 39.1% from the corresponding period last year. The increase was mainly attributed to the consolidation of Nantong Highway group financial statement since August 2008.

Other losses

The Group's other losses for the nine months ended 30 September 2008 were approximately RMB5,538,000 (nine months ended 30 September 2007: approximately RMB1,393,000). 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 expected in the remaining periods of 2008.

Finance Cost

The Group's finance cost for the nine months ended 30 September 2008 were approximately RMB17,604,000 (nine months ended 30 September 2007: approximately RMB10,849,000). The increase was mainly due to rise in level of borrowings and increase of RMB interest rate during the review period.

Profit attributable to shareholders

Profit attributable to equity holders of the Company for the nine months ended 30 September 2008 was approximately RMB32,745,000 (nine months ended 30 September 2007: approximately RMB54,867,000), representing a decrease of approximately 40.3% comparing with the corresponding period last year. The growth of 33.2% in the turnover of the Group during the review period and decrease of 40.3% in the profit attributable to equity holders of the Group was mainly due to: (a) dividend income from unlisted investment dropped significantly approximately RMB11,550,000 compared with the corresponding period last year; (b) due to the appreciation of RMB, which gave rise to an exchange loss of approximately RMB3,577,000 in relation to the proceeds of placing and open offer which were denominated in Hong Kong Dollars during the review period; (c) The trading volume of the logistic business was affected by the snowstorm and flooding this year. However, the surging fuel costs and the fixed cost such as depreciation of logistic facilities and rental cost did not decrease accordingly; (d) the road and bridge construction business needs to amortize the intangible assets (construction projects) incurred during the acquisition with Nantong Highway in accordance with the accounting standard, the contribution brought by Nantong Highway to the Group will not be fully reflected during the review period; (e) due to the business nature, the gross profit ratio fuel oil business, only 5.4%, is relative lower than the asphalt business.

The basic and diluted earnings per share for profit attributable to equity holders of the Company during the reporting period was RMB0.035 (nine months ended 30 September 2007: approximately RMB0.080), representing a decrease of approximately 56.3% 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.

PROSPECTS

Being influenced by the PRC macroeconomic austerity measures and the U.S. sub-prime credit crunch which triggered a wave of financial crisis that swept across the globe, the operating results of the Group for the first three quarters in 2008 were adversely affected. Although it is expected that the PRC will loosen its macroeconomic austerity measures, the global economies and the Mainland China are still subject to many uncertainties. The Group believes that the operating environment will still be challenging in the immediate future.

However, the Group strongly believes that the overall cost of its asphalt and fuel oil trading business can be further reduced as its four major operations including asphalt, fuel oil, roads and bridges construction and logistics are supplementary to each other. Moreover, the Group can benefit from having its self-owned logistics system and storage hubs. Besides, the launch of the Group's road and bridge construction business will create synergy with its existing three major businesses so as to diversify its income sources and boost its profitability. Hence, the Group is cautiously optimistic towards the future prospect.

As at 30 September 2008, the Group has total banking facilities of RMB896,000,000 of which RMB518,178,000 has been utilized. Also, the Group cash and cash equivalents amount to RMB131,524,000. The Group's liquidity position remains healthy and the Group is confident that sufficient resources could be secured to meet its commitments and working capital requirements.

The management believes that despite a volatile market prospect around the world, China's economy has relatively been less affected. It will maintain momentum in the long term and achieve a sustainable and steady growth. In addition, the Shanghai World Expo will be held in 2010, the demand for new road construction and maintenance in Shanghai and its surrounding areas will be stimulated, hence further foster the business development of the Group in future.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 30 September 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:

		Number of shares				
Name of Directors	**Capacity**	**Personal interest**	**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.

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

At 30 September 2008, the persons or company (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 338 of the SFO and who were directly and/or indirectly deem to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

		Number of shares					
Name of Person	**Capacity**	**Personal interest**	**Family interest**	**Total 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
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

Name of Person	Capacity	Number of shares 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
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
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

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 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.

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 during the period ended 30 September 2008.

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 and one non-executive Director, Mr. Ho Man. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the nine months ended 30 September 2008, and was of an opinion that the preparation of such results complied with the applicable accounting and reporting standards and that adequate disclosures have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30 September 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 or the management shareholders and their respective associates (as defined under the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

Qian Wenhua
Chairman

Shanghai, the PRC, 11 November 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; two non-executive Directors: Hsu Chun-min and Ho Man; three independent non-executive Directors: Zhu Shengfu, Li Li and Ye Mingzhu.