Annual Report 2008

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 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 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 and on the website of the Company at http://www.tonva.com.

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Summary of Financial Information

(Expressed in Thousands of Renminbi, except for earnings per share)

AUDITED CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
	2008	2007	2006	2005	2004
Turnover	**1,504,659**	1,018,919	1,064,819	683,761	530,698
Profit before income tax	**57,419**	48,692	76,290	62,408	28,778
Profit attributable to equity holders of the Company	**35,404**	46,105	67,243	52,372	24,014
Net profit margins	**2.35%**	4.52%	6.31%	7.66%	4.52%
Earnings per shares (RMB)	**0.038**	0.064	0.098	0.076	0.100

AUDITED CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2008	2007	2006	2005	2004
Non-current assets	**683,118**	222,613	179,744	67,392	14,099
Current assets	**899,788**	704,379	295,828	195,720	99,415
Non-current liabilities	**(24,405)**	(3,750)	(5,550)	–	–
Current liabilities	**(965,369)**	(452,773)	(277,130)	(121,193)	(67,280)
Minority interests	**(92,668)**	(7,379)	(5,171)	(1,935)	(335)
Capital and reserves attributable to the Company's equity holders	**500,464**	463,090	187,721	139,984	45,899

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Ho Man
Hsu Chun-min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Li
Zhu Shengfu
Ye Mingzhu

SUPERVISORS

Lao Yihua
Ge Jiaqi
Fan Weidong

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE

706 Renhe Building
2056 Pudong Road
Pudong New Area
Shanghai PRC
Postal code: 200135

PRINCIPAL PLACE OF BUSINESS IN CHINA

Room 2201, BM Tower
No. 218 Wu Song Road
Shanghai PRC
Postal code: 200080

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 REPRESENTATIVES

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

MEMBERS OF THE AUDIT COMMITTEE

Li Li
Zhu Shengfu
Ye Mingzhu
Ho Man

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

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

Chairman's Statement

In 2008, companies operated in an extremely challenging environment. Due to the frequent natural calamities such as snow storms, flooding and earthquake in the first half of the year, together with the macroeconomic austerity measures adopted by the PRC government in the first three quarters, the overall demand for asphalt decreased significantly. In addition, the once-in-a-century financial turmoil resulted in the slowdown of global economy, posing unprecedented challenges to the Group.

Nevertheless, with unwavering confidence, the Group overcame various difficulties and further expanded its asphalt and fuel oil trading businesses. Meanwhile, it expanded its presence into road and bridge construction sector to achieve business synergies strategically. Accordingly, the Group sharpened its competitive edges and enhanced its strength in the uncertain economic environment, gearing itself up for future development and economic recovery.

RESULTS OF THE YEAR

During the reporting period, the Group's operating profit increased by 32.56% as compared with 2007 to approximately RMB81,462,000. Profit attributable to the Company's equity holders decreased by 23.21% to approximately RMB35,404,000. In return for the shareholders' unremitting support for the Company, the Board recommended a final dividend of RM0.011 per share, which amounted to approximately RMB10,298,000 in total (2007: final dividends of RMB0.015 per share) or approximately 30% of the Group's net profit for the year 2008.

As the PRC government carried out macroeconomic austerity measures and imposed financial restrictions on banks in the first three quarters, the number of road construction projects undertaken was reduced owing to the lack of funds. In addition, the progress of road construction projects in Olympic host and co-host cities slowed down due to Beijing Olympics Game held in August 2008. Together with frequent natural disasters during the first half of the year, the business volume of asphalt trading and logistics shrank. Hence, its 2008 annual results were negatively affected.

Business overview and major factors affecting the profit

Trading of asphalt remained the major source of revenue. Due to the natural disaster, government's macroeconomic austerity measures and external economic factors, the market demand for asphalt has decreased. Hence, turnover of the Group's asphalt trading business for the year ended 31 December 2008 amounted to approximately RMB638,609,000, representing a decrease of 24.81% from 2007.

The fuel oil trading business commenced in the third quarter of 2007 achieved remarkable results, becoming a major profit driver of the Group in 2008. For the year ended 31 December 2008, the turnover from fuel oil trading business reached approximately RMB409,951,000, representing a significant increase of 440.43%.

As for the logistics services business, the turnover for the year ended 31 December 2008 decreased by 43.84% from 2007 to RMB52,664,000, due to the shrinkage of trading volume resulting from the snowstorm and flooding, and the fact that the Group ceased to renew the lease of 2 ocean carriers in January 2008.

Moreover, in August 2008, the Group successfully increased its shareholdings in Nantong Highway by 37.44% to a total of 62.44%. This business recorded a revenue of approximately RMB403,435,000 during the reporting period, becoming another growth driver of the Group in 2008.

Chairman's Statement *(continued)*

Prospects

Looking into 2009, under the lingering shadow of financial turmoil, the global economy remains uncertain. The Group will still operate in a tough and challenging environment. Amid the economic downturn, the Group is set to take prudent but flexible operating strategy while leveraging on the synergy benefits among its business segments to strengthen its existing businesses and maintain its sustainable and healthy development in the volatile market.

Amid the global financial crisis, China will be unavoidably affected. Responding to the financial turmoil, Chinese government launched RMB4 trillion stimulus packages at the end of 2008, in order to expand infrastructure and boost domestic demand. Such measures which demonstrate China's economic foundation and national strength whilst greatly stimulating the market, are expected to dramatically facilitate domestic infrastructure construction and domestic demand growth in future, which is beneficial to the sustainable and steady development of China. As asphalt is one of the major materials for infrastructure, the asphalt industry will benefit from the stimulus package. Therefore, the demand for asphalt in the PRC may see continuous growth.

In addition, Shanghai World Expo to be held in 2010 is expected to stimulate the demand for new road construction and maintenance in Shanghai and its surrounding areas, facilitating the development of the Group's asphalt trading business. By virtue of business opportunities brought by Shanghai World Expo, the Group has obtained asphalt materials supply contracts for Middle Ring Line (Pudong Section) in Shanghai, Inner Ring Line (Pudong Section) in Shanghai and North Passage of Pudong International Airport Project. We believe such projects will help to boost the Group's revenue and profit. Moreover, the Group has increased its shareholding in Nantong Highway to an aggregate stake of 62.44%, which is expected to bring a remarkable contribution to the Group in 2009 and enhancing, the profitability of the Group.

The Group has expanded its main business from asphalt sales to fuel oil, logistics services as well as road and bridge construction business. With main focus on asphalt business, the Group will reasonably allocate its internal resources to maximize returns.

The Group leverages on the advanced logistics system and storage facilities to further reduce the overall cost of its asphalt and fuel oil trading business; while at the same time enjoy the synergy between the new road and bridge construction business and the Group's existing businesses to diversify its revenue sources and enhance profitability. As such,, the management strongly believes that the four existing operations can be effectively supplementary to each other despite the challenging operating environment. Coupled with the Group's ability to source at a competitive cost due to the Group's as long-term relationship with its suppliers and bulk purchasing strategy, we, therefore, remain cautiously optimistic of the Group's outlook.

APPRECIATION

Finally, I wish to express my gratitude to the Board members, the management and the staff of the Group for their hard work 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 services. After procuring 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 expanding to the inland regions gradually. The Group has set up 10 storage network locating mainly in Shanghai, Jiangsu Province (Taizhou and Changzhou), Anhui Province (Hefei, Quanjiao and Anqing), Nanchang in Jiangxi Province, Wuhan in Hubei Province and Zhengzhou in Henan Province, with a total storage capacity of 172,000 tons.

For the year ended 31 December 2008, turnover of the Group's asphalt trading business was approximately RMB638,609,000 (2007: approximately RMB849,280,000), representing a decrease of approximately 24.81% from the previous year and accounting for approximately 42.44% of the Group's total turnover.

The decrease in the Group's sales of asphalt was mainly due to weak market demand of asphalt because of by the lack of funds for highway projects under the PRC government macroeconomic austerity measures policies. On top of the above, natural calamities was frequent in China in the first half of the year, and the Beijing Olympic Games held in the second half of the year has delayed the progress of road construction works in the host city and the co-host cities, all affecting the general demand for asphalt to various extents. During the review period, sales volume of asphalt only reached 173,700 tons, representing a decrease of 47.07% from the year 2007. However, driven by the high crude oil price which lingered high in the first three quarters in 2008, the average selling price of asphalt has increased to RMB3,675 per ton by 42.06% over 2007 and set off certain negative impact due to sales volume drop.

For the year ended 31 December 2008, the Group's cost of sales of asphalt was approximately RMB512,615,000 (2007: approximately RMB743,832,000), representing a year-on-year decrease of around 24.36%. The decrease in cost of sales of the Group was mainly attributable to the decrease in sales volume as compared with 2007, while the Group's average cost of sales of asphalt in 2008 increased by 42.90% over 2007 to approximately RMB3,238 per ton.

For the year ended 31 December 2008, the Group's gross profit from asphalt business decreased by 27.93% to approximately RMB75,994,000 as compared to the corresponding period last year. The gross margin decreased slightly from 12.42% in 2007 to 11.90% in 2008.

Management Discussion and Analysis *(continued)*

Fuel Oil Trading Business

The Group commenced operation of the fuel oil trading business in August 2007. The Yangtze River Delta region, where the Group operates, is one of the major fuel oil consumption areas in the PRC. The existing storage network locations of fuel oil are mainly located in Shanghai, with a total storage capacity of 10,000 tons.

For the year ended 31 December 2008, turnover for fuel oil trading business rocketed by 440.43% to approximately RMB409,951,000 (2007: approximately RMB75,857,000), accounting for approximately 27.25% of the Group's total turnover.

The Group's cost of sales of fuel oil increased by 444.14% to approximately RMB388,287,000 (2007: approximately RMB71,358,000) over last year, accounting for approximately 29.18% of the Group's total cost of sales.

During the review period, sales volume of fuel oil reached 111,900 tons, representing a substantial increase of approximately 507.73% over 2007.

For the year ended 31 December 2008, the Group's gross profit from the fuel oil business increased by 381.53% to approximately RMB21,664,000 (2007: approximately RMB4,499,000), whereas the gross profit margin has slightly dropped from 5.93% in 2007 to 5.28% in 2008.

Logistic Services Business

The Group has actively developed its logistic services business, which caters mainly to the distribution of asphalt and fuel oil procured both from domestic market and from overseas. By the end of 2008, the Group has 8 asphalt and fuel oil carriers and 32 delivery vehicles, with a total loading capacity of 11,118 tons.

For the year ended 31 December 2008, the Group's turnover for logistic services was approximately RMB52,664,000 (2007: approximately RMB93,782,000), representing a decrease of approximately 43.84% from the previous year and approximately 3.5% of the Group's total turnover. The decrease in the turnover for logistic services was mainly attributable to the shrinkage of logistics trading volume resulting from the snowstorm and flooding in the first half of 2008 as well as the falling trading volume in asphalt in 2008. Meanwhile, after considering the high rental cost, the Group 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.

Cost of sales for logistic services in 2008 was approximately RMB52,085,000 (2007: approximately RMB79,574,000), representing a 34.55% decrease against the previous year. The reduction in logistic cost is attributable to the substantial decrease in the trading volume of logistic services business.

For the year ended 31 December 2008, gross profit of the Group's logistic services business was approximately RMB579,000, representing a decrease of approximately 95.92% from the previous year. The gross margin was approximately 1.10%, representing a year-on-year decrease of 14.05%. The decrease in gross 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.

Management Discussion and Analysis *(continued)*

Road and Bridge Constructions Business

In August 2008, the Group increased its shareholdings in Nantong Highway by 37.44% to an aggregate of 62.44%. Upon completion of the acquisition in August 2008, Nantong Highway became a subsidiary of the Group. It is estimated that the contribution from by Nantong Highway will not be fully reflected during the review period. However, it is expected that the contributions to revenue and profit from road and bridge construction business will become significant in 2009 and become one of the profit drivers of the 2009 annual results.

For the year ended 31 December 2008, turnover for the Group's road and bridge constructions business was approximately RMB403,435,000 (the Group has not commenced operation of its road and bridge constructions business in 2007). Revenue from road and bridge constructions business accounted for approximately 26.81% of the Group's total turnover. In 2008, gross margin and gross profit for the Group's road and bridge constructions business were approximately 18.77% and approximately RMB75,712,000 respectively.

Substantial Investments

The Group is committed to develop its principal asphalt trading business while aligning its business strategy to create synergies among other business. Accordingly, the Group elevated its sales volume in asphalt and market share in the regions with established networks. In addition, the Group intends to further expand the scale of its fuel oil business by establishing storage centers, purchasing transportation vehicles, improving the integrated servicing capability of the logistics business and to make strategic investment on road and bridge constructions business to maximize synergy.

In April 2008, the Group, together with other shareholders of Shanghai Taihua, further increased their total investment in Shanghai Taihua to RMB60 million, in an effort to expand the scale of its fuel oil business.

In May 2008, the Group and an independent third party established a joint venture known as Jiangsu Donghua Communication Materials Co., Ltd, in which the Group holds a 55% equity interest. The joint venture is expected to sell 60,000 to 70,000 tons per annum of asphalt. It is planning to gradually expand the sales in this product.

Furthermore, the Group has entered into an agreement with Shanghai Pudong Road and Bridge Construction Co., Ltd. in June 2008. In November 2008, both parties jointly completed the increase of registered capital to RMB30 million in Shanghai Pudong Road and Bridge Asphalt Materials Co., Ltd., 49% equity interest of which was currently held by the Group. Shanghai Pudong Road and Bridge Asphalt Materials Co., Ltd., has launched trial production in September. Such investment would effectively diversify the products of asphalt of the Group, thus further enhances the Group competitive edges and enables it to tap into the potential of the modified asphalt market.

In August 2008, the Group successfully increased its shareholdings in Nantong Highway by 37.44% to a total of 62.44% upon completion of the acquisition. Nantong Highway, therefore become a subsidiary of the Group since August 2008.

Management Discussion and Analysis *(continued)*

PROFIT FOR THE YEAR

For the year ended 31 December 2008, the Group recorded profit attributable to shareholders for the year of approximately RMB35,404,000 (2007: approximately RMB46,105,000), representing a decline of approximately 23.21% over last year. The year-on-year growth of approximately 47.67% in the turnover of the Group during the review period and decrease of 23.21% in the profit attributable to equity holders of the Group for the year was mainly due to: (a) significant drop of dividend income from unlisted investment of approximately RMB10,956,000 as compared with the corresponding period last year; (b) the appreciation of RMB, which gave rise to an exchange loss of approximately RMB3,577,000 in relation to the proceeds from the 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 flooding and snowstorm in 2008. However, fuel costs and other fixed costs such as depreciation of logistic facilities and rental cost did not decrease accordingly, resulting in a decrease in gross margin; (d) due to economic recession and the consolidation of the account of Nantong Highway in August 2008, impairment in trade receivables has increased by RMB21,386,000; (e) due to the macroeconomic austerity measures adopted by the PRC government in the first three quarters, high interest rate of bank borrowings and the consolidation of the account of Nantong Highway in August 2008, financing cost of the Group has increased substantially.

INVESTMENT INCOME

Investment income decreased from approximately RMB17,946,000 for the year ended 31 December 2007 to approximately RMB6,990,000 for the year ended 31 December 2008. The decrease in the investment income was mainly due to the decrease in cash dividend income received from the available-for-sale financial assets of the Group.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2008, the general and administrative expenses increased 110.15% to RMB66,756,000. The increase in administrative expenses was mainly due to the reflection of Shanghai Taihua's operating and administrative expenses throughout the year in 2008, which commenced its operation in July 2007, whereas the Group increased its equity interests in Nantong Highway to 62.44% in August 2008 and was therefore required to consolidate the accounts of Nantong Highway to its financial statements. Accordingly, the above reasons have attributed to the significant increase in administrative expenses. Moreover, RMB21,386,000 impairment charge on trade and notes receivables was recognized.

DISTRIBUTION COSTS

The distribution costs for the year ended 31 December 2008, which decreased by 24.43% as compared with the previous year, was approximately RMB35,050,000, which was mainly attributable to the decrease in the sales volume of asphalt.

Management Discussion and Analysis *(continued)*

FINANCE COSTS

The finance costs for the year were about RMB23,150,000, representing an year-on-year increase of 57.53%. The increase in finance costs was mainly attributable to the increased borrowings and the high RMB interest rate in 2008. The commencement of consolidating the financial cost of Nantong Highway into the Group in August 2008 was also a key reason for the increase in finance cost.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets Value

As at 31 December 2008, the Group had current assets of approximately RMB899,788,000 (2007: approximately RMB704,379,000). The current assets comprised: cash and cash equivalents amounting to RMB38,964,000 (2007: approximately RMB275,455,000), restricted bank deposits of RMB74,122,000 (2007: approximately 14,500,000), trade and other receivables of approximately RMB691,216,000 (2007: approximately RMB404,626,000), inventories of approximately RMB62,285,000 (2007: approximately RMB9,798,000), amount due from customers for contract work of approximately RMB33,201,000 (2007: Nil). The Group had current liabilities of approximately RMB965,369,000 (2007: approximately RMB452,773,000). The current liabilities comprised: short-term borrowings of approximately RMB407,475,000 (2007: approximately RMB166,027,000), trade and other payables of approximately RMB510,530,000 (2007: approximately RMB289,105,000), income tax liabilities of approximately RMB34,155,000 (2007: income tax recoverable approximately RMB2,359,000), amount due to customers for contract work of approximately RMB13,209,000 (2007: Nil). As at 31 December 2008, the net current liabilities of the Group was RMB65,581,000, while that the net current asset value was approximately RMB251,606,000 in 2007.

Net current liabilities were mainly due to reclassification of the receivables from construction projects of approximately RMB111,535,000 in the balance of trade receivables as at 31 December 2008, as well as the retention receivables of approximately RMB98,719,000 under construction contracts to non-current assets upon the acquisition of road and bridge construction business by the Group in August 2008. As a common practice in the construction industry, net current liabilities generally exist in the PRC's construction industry. Details of the receivables are set out in note 14 to the consolidated financial statements.

Working Capital

As at 31 December 2008, the Group had restricted bank deposits and cash and cash equivalents of approximately RMB113,086,000 (2007: approximately RMB289,955,000) in total. The net cash generated from financing activities was approximately RMB80,505,000 (2007: approximately RMB299,500,000).

Management Discussion and Analysis *(continued)*

Borrowings

As at 31 December 2008, the Group had no long-term borrowings (2007: approximately RMB3,750,000) and short-term borrowings of approximately RMB407,475,000 (2007: approximately RMB166,027,000), including discounted commercial notes receivables of approximately RMB69,105,000, discounted commercial notes payables of approximately RMB107,270,000 and short-term borrowings of approximately RMB231,100,000. All of the Group's borrowings were RMB bank loans. Details of the bank borrowings are set out in note 21 to the consolidated financial statements.

Charges of Assets

Details of the charges of assets are set out in note 6 and 7 to the consolidated financial statements.

Debt to Asset Ratio

The debt to asset ratio as at 31 December 2008 was approximately 62.52% (2007: approximately 49.25%) which was calculated as total liabilities divided by total assets.

Foreign Currency Risk

The Group operates mainly in the PRC, but sources its products both domestically and from 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, recognized 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.

Profile of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Qian Wenhua (錢文華), aged 52, is a qualified economist in China. He graduated from Shanghai TV University (上海電視大學) in July 1986 with a professional diploma in Industrial Enterprise Management and obtained his EMBA degree in December 2002 from 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). Mr. Qian has over 20 years' experience in the asphalt industry. From 1975 to 1996, he worked in the sales team of a subsidiary of Shanghai Building Materials Supply General Corp. (上海市建築材料供應總公司) and was promoted to the position of manager, responsible for asphalt sales. From 1996 to 1997, Mr. Qian was the general manager of Shanghai Construction Materials Tax Free Trading Enterprise (上海建築材料保稅貿易行). He was the Chairman, General Manager and Executive Director of the Company from 1997 to 2003. Since June 2004, Mr. Qian has been the Chairman of the Company.

Mr. Lu Yong (陸勇), aged 54, is qualified as an Assistant Economist in China. He was appointed as 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. From June 2004 to August 2007, Mr. Lu has been appointed as General Manager of the Company. Mr. Lu is the Vice Chairman of the Company currently.

Mr. Jin Xiaohua (金曉華), aged 38, 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 Vice General Manager of the Company in June 2004. In March 2007, he has been appointed as Executive Vice General Manager and has been responsible for marketing. Since August 2007, Mr. Jin has been appointed as General Manager of the Company.

Mr. Mo Luojiang (莫羅江), aged 31, 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 Secretary of Directors' Board in 2003. He was appointed as Vice General Manager of the Company in May 2006. In March 2007, he has been appointed as Executive Vice General Manager and has been responsible for corporate governance and capital market finance.

Mr. Zhang Jinhua (張金華), aged 44, graduated from Yangzhou Education College (揚州師範學院) with a Bachelor degree in economics in June 1988. Prior to joining the Group, Mr. Zhang was the secretary in the Nantong City Commercial Bureau (南通市商業局) from 1988 to 1995. He joined the Company in December 2003 as Vice General Manager and Executive Director, and is responsible for the Group' road and bridge construction.

Mr. Li Hongyuan (李鴻源), aged 52, is a qualified economist in China. He graduated from Shanghai TV University (上海電視大學) in July 1986 with a diploma in Industrial Enterprise Management. Mr. Li has over 10 years' experience in the construction materials industry. From 1991 to 2001, he worked in Shanghai Fosroc Expandite Construction and Engineering Products Company Ltd (上海富斯樂士本泰建築工程產品有限公司) as general manager. He joined the Company in 2001 and was the Supervisor from 2001 to 2003. Mr. Li was appointed as Vice General Manager and Director of the Company from December 2003 to August 2007. He is currently responsible for the Group's fuel oil trading business.

Profile of Directors, Supervisors and Senior Management *(continued)*

NON-EXECUTIVE DIRECTORS

Mr. Ho Man (何敏), aged 39, holds a Master of Science degree in Finance from London Business School and is a Chartered Financial Analyst and Certified Public Accountant. Mr. Ho is the managing director, Head of China – Growth/Expansion Capital of CLSA Capital Partners. He joined CLSA in 1997, and has over 10 years' experience in private equity. He has been responsible for deal sourcing, appraisal and restructuring, negotiations, post-investment monitoring and exit, with a primary focus on business in Hong Kong and Mainland China.

Mr. Hsu Chun-min (許群敏), aged 56, graduated from Guo Li Zhong Xing University (國立中興大學) with a bachelor degree. He is now the Vice General Manager of Simosa Oil Co., Ltd. (中塑油品股份有限公司). He has over 20 years' experience in finance, investment analysis and system planning.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Li (李立), aged 30, is currently working at Macquarie Capital Advisers. Mr. Li graduated from Shanghai University of Finance and Economics (上海財經大學). From 2003 to 2005, he served PriceWaterhouseCoopers Ltd. as an auditor. From 2005 to 2007, he worked in the Financial Advisory Services department of KPMG, undertaking financial due diligent services.

Mr. Zhu Shengfu (朱生富), aged 59, 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 from 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 served 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 63, is a Certified Public Accountant in China. She has over 40 years experience in respect of auditing, finance and accounting. Ms. Ye currently works for Shinewing Certified Public Accountants (信永中和會計師事務所). Before November 2006, she worked for Shanghai Xin Guang Certified Public Accountant Co., Ltd. (上海信光會計師事務所).

SUPERVISORS AS NOMINATED BY SHAREHOLDERS OR EMPLOYEES

Mr. Lao Yihua (勞逸華), aged 28, 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 to November 2007, he worked for Deloitte Touche Tohmatsu Corporate Finance Co. Ltd. as a senior consultant. From December 2007 onwards, he has worked for PingAn Asset Management Limited as the vice president of direct investment.

Mr. Ge Jiaqi (葛家齊), aged 55, graduated from Shanghai Construction Materials school, Mr. Ge worked in Shanghai Construction Materials Supplies Trading Company from 1971 to 2002 as the head of transportation and facility department. Since August 2005, Mr. Ge has been appointed as director and vice general manager of Shanghai Shenhua Logistics Company Limited.

Profile of Directors, Supervisors and Senior Management *(continued)*

Mr. Fan Weidong (范偉東), aged 25, graduated from Shanghai Ocean University (上海海洋大學) with a Bachelor degree in Information Management in 2007. He joined the Company in July 2007 and is currently working in the administration department of the Company.

SENIOR MANAGEMENT

Mr. Xu Jianwei (許建偉), aged 55, graduated from high school. Mr. Xu possesses more than 30 years of experience in logistics industry. He was the head of delivery department in Shanghai Yichuan Shopping Group (上海宜川購物集團公司) 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 General Manager of the Company and has been responsible for the Group's management and operation of land and inland water transport.

Mr. Tsui Kan Chun (徐勤進), aged 36, joined the Company in May 2007. He is the Company Secretary, Financial Controller 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 33, 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 Vice General Manager of the Company since May 2005 and has been responsible for the import asphalt procurement.

Mr. Shen Linxiang (沈林祥), aged 42, 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 Shanghai Construction Materials Tax Free Trading Enterprise (上海建築材料保稅貿易行) in 1993. Mr. Shen has been appointed as 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 during 2008.

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 during the year.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises 11 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 the Board's approval before public reporting, execution of business strategies and initiatives adopted by the Board, 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 the Company who performs the role of Chief Executive Officer. The division of responsibilities between Chairman and Chief Executive Officer has been established.

The Company also appointed three independent non-executive Directors who have appropriate and sufficient experience and qualifications 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, Mr. Ho Man and Mr. 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: 1) a specific term of appointment; and 2) 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 2008:

Number of meetings	13	
Executive Directors:		
Qian Wenhua	13/13	100%
Lu Yong	13/13	100%
Jin Xiaohua[1]	8/8	100%
Mo Luojiang	13/13	100%
Li Hongyuan	13/13	100%
Zhang Jinhua	13/13	100%
Non-executive Directors:		
Ho Man[2]	3/3	100%
Hsu Chun-min	10/13	76.9%
Josephine Price[3]	5/5	100%
Independent Non-executive Directors:		
Li Li	11/13	84.6%
Zhu Shengfu	12/13	92.3%
Ye Mingzhu	13/13	100%
Average attendance rate	95.8%	

REMUNERATION OF DIRECTORS

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

The roles of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension benefits and compensation payments, including any compensation payable for loss of office or engagement, and make recommendations to the Board about the remuneration of the non-executive Directors.

Corporate Governance Report *(continued)*

Details of the attendance of the remuneration committee meeting are as follows:

Number of meetings	2	
Executive Director:		
Mo Luojiang	2/2	100%
Independent Non-executive Directors:		
Li Li	2/2	100%
Zhu Shengfu	2/2	100%
Ye Mingzhu	2/2	100%
Average attendance rate	100%	

Note:

1. Mr. Jin Xiaohua was appointed as executive Director of the Company on 22 May 2008.

2. Mr. Ho Man was appointed as non-executive Director and an audit committee member of the Company on 29 September 2008.

3. Ms. Josephine Price resigned as non-executive Director on 25 July 2008.

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 considers that the existing terms of employment contracts are fair and reasonable.

NOMINATION OF DIRECTORS

The Company does not have nomination committee. The Board of Directors reviews the structure, operating scale and composition of the Company on a regular basis. The Chief Executive Officer would look for suitable candidates with the assistance from executive directors for the consideration of the Board of Directors when necessary. The appointment of new Directors must be unanimously approved by the Board of Directors, subject to the final approval in the general meeting, considering the expertise, experience, integrity and commitment to the Group of the proposed Director.

Corporate Governance Report *(continued)*

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-auditing functions could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of approximately RMB4,055,000 to the external auditors for their 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 majority of audit committee members are independent non-executive Directors and the committee chairman 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	
Non-executive Director:		
Ho Man[2]	1/1	100%
Independent Non-executive Directors:		
Li Li	3/4	75%
Zhu Shengfu	3/4	75%
Ye Mingzhu	4/4	100%
Average attendance rate	87.5%	

The Group's unaudited interim results, unaudited quarterly results and annual audited results for the year ended 31 December 2008 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.

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. 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;

Corporate Governance Report *(continued)*

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 major 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 financial and corporate governance.

The executive committee shall hold meetings regularly to discuss significant issues, management reports, major operational statistical data and the results of each business unit, and to evaluate the difference between actual and estimated results.

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 31 of this report.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control regularly to ensure the effective and adequate internal control system. The Company convened meeting regularly 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 monitoring and control of the performance of the Group whereas the management is responsible for the daily hands on operation.

When the Board delegates its management and administrative functions to the management, it has given clear directions as to the powers of the management and the circumstances where, the management on behalf of the Company 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 regularly as necessary. The Company also responded to the inquiry from shareholders timely.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2008, 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; 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 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;

3. the financial statements of the Company for the year ended 31 December 2008, 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, 30 March 2009

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008.

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 AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 35.

The state of the Group's affairs as at 31 December 2008 is set out in the consolidated balance sheet on page 33.

The Board did not recommend interim dividend for the six months ended 30 June 2008 and for the six months ended 30 June 2007.

The Directors recommend the payment of a final dividend of RMB0.011 per share (2007: RMB0.015 per share) amounting in total to approximately RMB10,298,000 (2007: RMB14,043,000) 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 18 to the financial statements.

Report of the Directors *(continued)*

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2008, 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 RMB94,874,000 (2007: RMB88,279,000).

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.

SUMMARY OF FINANCIAL INFORMATION

The summary of the results of the Group for the last five financial years is set out on page 3.

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.

Report of the Directors *(continued)*

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. Jin Xiaohua (appointed on 22 May 2008)
Mr. Mo Luojiang
Mr. Zhang Jinhua
Mr. Li Hongyuan

Non-executive Director

Ms. Josephine Price (resigned on 25 July 2008)
Mr. Ho Man (appointed on 29 September 2008)
Mr. Hsu Chun-min

Independent Non-executive Directors

Mr. Zhu Shengfu
Mr. Li Li
Ms. Ye Mingzhu

The Company has received from each of the independent non-executive Directors the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all independent non-executive Directors are independent to the Group in accordance with the terms of the guidelines as set out in Rule 5.09 of the GEM Listing Rules.

In accordance with Article 95 of the Company's Articles of Association, all the Directors shall be appointed at the shareholders' general meeting for a term of three years. A director may serve consecutive terms if re-elected upon the expiration of the terms.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Report of the Directors *(continued)*

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 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 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 *(Note 2)* (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 *(Note 3)* (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)*

Note 2: On 29 December 2008, Qian Wenhua entered into an agreement with the promoters of the Company, namely Shanghai Changlu Trading Company Limited and Wang Jinfeng respectively, pursuant to which Qian Wenhua was transferred the 27,224,000 domestic shares held in the Company by Shanghai Changlu Trading Company Limited and the 6,690,000 domestic shares held in the Company by Wang Jinfeng. The share transfer agreement was approved at the extraordinary general meeting held on 19 February 2009 and by the relevant competent authorities in the PRC. The procedures of such share transfer are still in progress. Upon completion of the transfer, Qian Wenhua will have a personal interest and total interest of 225,706,000 shares and 261,560,000 shares in the Company respectively, accounting for 54.49% of such class of shares and approximately 27.94% of the registered capital of the Company.

Note 3: On 29 December 2008, Li Hongyuan entered into an agreement with the promoters of the Company, namely Le Fengchun and Jin Guoren, pursuant to which Li Hongyuan was transferred the 22,400,000 domestic shares held in the Company by Le Fengchun and the 9,454,000 domestic shares held in the Company by Jin Guoren. The share transfer agreement was approved at the extraordinary general meeting held on 19 February 2009 and by the relevant competent authorities in the PRC. The procedures of such share transfer are still in progress. Upon completion of the transfer, Li Hongyuan will have a personal interest and total interest of 50,254,,000 shares in the Company, accounting for 10.47% of such class of shares and approximately 5.37% of the registered capital of the Company.

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

At 31 December 2008, the persons or companies (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)* *(Note 2)* (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 3)*	–	38.36	18.69
Calyon Capital Markets International SA	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	38.36	18.69

Report of the Directors *(continued)*

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
Calyon S.A. (previously known as Credit Agricole Indosuez)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	38.36	18.69
CLSA B.V.	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	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 3)*	–	38.36	18.69
CLSA Private Equity Management Limited	Investment manager	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	38.36	18.69
Credit Agricole S.A	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	38.36	18.69
SAS Rue la Boetie	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 3)*	–	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 3)*	–	30.69	14.95
Babylon Limited	Beneficial owner	140,000,000 (H shares)	–	140,000,000 *(Note 3)*	–	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 3)*	–	7.67	3.74
Mumiya Limited	Beneficial owner	35,000,000 (H shares)	–	35,000,000 *(Note 3)*	–	7.67	3.74

Note:

1. Liu Huiping is the wife of Qian Wenhua.

2. On 29 December 2008, Qian Wenhua entered into an agreement with the promoters of the Company, namely Shanghai Changlu Trading Company Limited and Wang Jinfeng respectively, pursuant to which Qian Wenhua was transferred the 27,224,000 domestic shares held in the Company by Shanghai Changlu Trading Company Limited and the 6,690,000 domestic shares held in the Company by Wang Jinfeng. The share transfer agreement was approved at the extraordinary general meeting held on 19 February 2009 and by the relevant competent authorities in the PRC. The procedures of such share transfer are still in progress. Upon completion of the transfer, Liu Huiping will have a family interest and long position of 225,706,000 shares and 261,560,000 shares in the Company respectively, accounting for 54.49% of such class of shares and approximately 27.94% of the registered capital of the Company.

Report of the Directors *(continued)*

3. 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.

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	8.18%
– five largest customers combined	29.20%

Purchases

– the largest supplier	11.95%
– five largest suppliers combined	37.80%

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 2008.

Report of the Directors *(continued)*

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 and one non-executive Director Ms. Ye Mingzhu, Mr. Zhu Shengfu, Mr. Li Li and Mr. Ho Man. 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 2008 and had the opinion that the preparation of the results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the year.

SUBSEQUENT EVENTS

Details of certain events after the balance sheet date are disclosed in note 38 to the financial statements.

RELATED PARTIES TRANSACTIONS

A summary of the related parties transactions are disclosed in note 37 to the consolidated financial statements.

STAFF AND REMUNERATION POLICY

The Group staff functions were analyzed as follows:

	Number of staff	
	2008	2007
Functions:		
Management	**78**	30
Sales and marketing	**27**	29
Accounting and finance	**50**	15
Administration and human resources	**23**	14
Legal	**3**	1
Information system	**4**	4
Technical and quality control	**15**	3
Shipping and transportation	**72**	78
Storage centre	**67**	70
Engineer	**81**	–
Construction workers	**75**	–
Total	**495**	244

Report of the Directors *(continued)*

On 31 December 2008, the Group had 495 staff (2007: 244 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 RMB26,894,000 (2007: RMB13,993,000).

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 2008 was RMB2,131,000 (2007: RMB1,993,000).

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.

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, 30 March 2009

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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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. (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 130, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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.

Independent Auditor's Report *(continued)*

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.

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 2008 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group had a net operating cash outflow of approximately RMB234,948,000 for the year ended 31 December 2008 and, as at that date, the Group's current liabilities exceeded its current assets by approximately RMB65,581,000 and it had outstanding short-term bank loans of approximately RMB407,475,000 which are due for repayment within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern. Management's plans to improve the profitability and cash flow of the Group in the coming twelve months are set forth in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2009

Consolidated Balance Sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights	*6*	11,840	10,400
Prepayment for land use rights		15,120	–
Property, plant and equipment	*7*	218,658	149,741
Construction-in-progress	*8*	13,365	12,555
Intangible assets	*9*	157,504	377
Investment in associates	*11*	45,040	45,668
Available-for-sale financial assets	*12*	800	1,600
Trade and other receivables	*14*	217,715	–
Deferred tax assets	*22*	3,076	2,272
		683,118	222,613
Current assets			
Inventories	*13*	62,285	9,798
Amount due from customers for contract work	*15*	33,201	–
Trade and other receivables	*14*	691,216	404,626
Restricted bank deposits	*16*	74,122	14,500
Cash and cash equivalents	*17*	38,964	275,455
		899,788	704,379
Total assets		1,582,906	926,992
Capital and reserves attributable to the Company's equity holders			
Share capital	*18*	93,619	93,619
Capital reserve	*19*	221,766	221,766
Other reserves	*19*	41,417	21,864
Retained earnings			
– Proposed final dividends	*31*	10,298	14,043
– Others	*19*	133,364	111,798
		500,464	463,090
Minority interest in equity		92,668	7,379
Total equity		593,132	470,469
LIABILITIES			
Non-current liabilities			
Borrowings	*21*	–	3,750
Deferred tax liabilities	*22*	24,405	–
		24,405	3,750
Current liabilities			
Trade and other payables	*20*	510,530	289,105
Amount due to customers for contract work	*15*	13,209	–
Current income tax liabilities/(recoverable)		34,155	(2,359)
Borrowings	*21*	407,475	166,027
		965,369	452,773
Total liabilities		989,774	456,523
Total equity and liabilities		1,582,906	926,992
Net current (liabilities)/assets		(65,581)	251,606
Total assets less current liabilities		617,537	474,219

Jin Xiaohua
Director

Mo Luojiang
Director

The notes on pages 38 to 130 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**24,997**	31,463
Construction-in-progress	8	**–**	578
Intangible assets	9	**264**	377
Investment in subsidiaries	10	**370,342**	71,105
Investment in associates	11	**24,333**	39,208
Available-for-sale financial assets	12	**800**	1,600
Deferred tax assets	22	**1,863**	2,351
		422,599	146,682
Current assets			
Inventories	13	**7,619**	1,850
Current income tax recoverable		**557**	284
Trade and other receivables	14	**331,390**	402,979
Restricted bank deposits	16	**31,198**	14,500
Cash and cash equivalents	17	**11,299**	259,848
		382,063	679,461
Total assets		**804,662**	826,143
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**93,619**	93,619
Capital reserve	19	**221,766**	221,766
Other reserves	19	**28,951**	25,411
Retained earnings			
– Proposed final dividends	31	**10,298**	14,043
– Others	19	**84,576**	74,236
Total equity		**439,210**	429,075
LIABILITIES			
Non-current liabilities			
Borrowings	21	**–**	3,750
Current liabilities			
Trade and other payables	20	**169,077**	246,291
Borrowings	21	**196,375**	147,027
		365,452	393,318
Total liabilities		**365,452**	397,068
Total liabilities and equity		**804,662**	826,143
Net current assets		**16,611**	286,143
Total assets less current liabilities		**439,210**	432,825

Jin Xiaohua
Director

Mo Luojiang
Director

The notes on pages 38 to 130 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	Year end 31 December 2008 RMB'000	2007 RMB'000
Revenue	5	**1,504,659**	1,018,919
Cost of sales	25	**(1,330,710)**	(894,764)
Gross profit		**173,949**	124,155
Distribution costs	25	**(35,050)**	(46,380)
Administrative expenses	25	**(66,756)**	(31,766)
Other income	23	**17,159**	24,040
Other losses	24	**(7,840)**	(8,596)
Operating profit		**81,462**	61,453
Finance costs – net	27	**(23,150)**	(14,696)
Share of (loss)/profit of associates	11	**(893)**	1,935
Profit before income tax		**57,419**	48,692
Income tax expense	28	**(14,595)**	(2,429)
Profit for the year		**42,824**	46,263
Attributable to:			
Equity holders of the Company	19	**35,404**	46,105
Minority interest		**7,420**	158
		42,824	46,263
Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	30	**0.038**	0.064
Dividends	31	**10,298**	14,043

The notes on pages 38 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Other reserve RMB'000	Currency translation reserve RMB'000	Retained earnings RMB'000	Minority Interest RMB'000	Total RMB'000
		Attributable to equity holders of the Company							
Balance at 1 January 2007		68,600	–	20,639	–	(934)	99,416	5,171	192,892
Issuance of additional H shares	*18*	25,019	237,530	–	–	–	–	–	262,549
Direct costs attributable to issuance of additional H shares	*18*	–	(15,764)	–	–	–	–	–	(15,764)
Currency translation differences		–	–	–	–	(2,429)	–	–	(2,429)
Profit for the year		–	–	–	–	–	46,105	158	46,263
Appropriation	*19*	–	–	4,588	–	–	(4,588)	–	–
Dividend declared and paid in respect of 2006	*31*	–	–	–	–	–	(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
Balance at 1 January 2008		93,619	221,766	25,227	–	(3,363)	125,841	7,379	470,469
Currency translation differences		–	–	–	–	(1,899)	–	–	(1,899)
Profit for the year		–	–	–	–	–	35,404	7,420	42,824
Appropriation	*19*	–	–	3,540	–	–	(3,540)	–	–
Recognition of fair value change in respect of acquisition of a subsidiary	*19*	–	–	–	17,912	–	–	–	17,912
Dividend declared and paid in respect of 2007	*31*	–	–	–	–	–	(14,043)	–	(14,043)
Minority interest – Consolidation of new subsidiaries		–	–	–	–	–	–	59,361	59,361
Minority interest – Capital injection by minority shareholders		–	–	–	–	–	–	24,050	24,050
Minority interest – Acquisition of additional equity interest in a subsidiary by the Group		–	–	–	–	–	–	(551)	(551)
Minority interest – Disposal of equity interest in subsidiaries		–	–	–	–	–	–	(4,991)	(4,991)
Balance at 31 December 2008		**93,619**	**221,766**	**28,767**	**17,912**	**(5,262)**	**143,662**	**92,668**	**593,132**

The notes on pages 38 to 130 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash used in operations	*32*	**(205,341)**	(22,975)
Interest paid		**(23,150)**	(14,696)
Taxes paid		**(6,457)**	(11,884)
Net cash used in operating activities		**(234,948)**	(49,555)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,892)**	(43,006)
Proceeds from disposal of property, plant and equipment	*32*	**4,586**	3,601
Purchase of land use rights		**(584)**	–
Prepayment for purchase of land use rights		**(15,120)**	–
Interest received		**2,369**	1,504
Acquisition of subsidiaries, net of cash (paid)/acquired	*33*	**(32,055)**	15
Disposal of subsidiaries, net of cash disposed	*34*	**(453)**	–
Investments in and acquisition of associates	*11*	**(32,005)**	–
Acquisition of additional equity interest in a subsidiary		**(551)**	–
Proceeds from disposal of available-for-sale financial assets		**–**	1,400
Dividends received from an associate		**2,078**	1,005
Dividends received from unlisted investments		**6,990**	17,946
Others		**(411)**	(211)
Net cash used in investing activities		**(82,048)**	(17,746)
Cash flows from financing activities			
Net proceeds from issuance of additional H shares		**–**	246,785
Proceeds from capital contribution by minority investors of subsidiaries		**16,850**	500
Proceeds from borrowings		**797,459**	203,818
Repayment of borrowings		**(719,761)**	(136,511)
Dividends paid		**(14,043)**	(15,092)
Net cash from financing activities		**80,505**	299,500
Net (decrease)/increase in cash and cash equivalents	*17*	**(236,491)**	232,199
Cash and cash equivalents at beginning of the year		**275,455**	43,256
Cash and cash equivalents at end of the year		**38,964**	275,455

The notes on pages 38 to 130 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1 GENERAL INFORMATION

Shanghai Tonva Petrochemical Co., Ltd. ("the Company") and its subsidiaries (together the "Group") is principally engaged in asphalt trade, fuel oil trade, road and bridge construction and provision of logistic service in the People's Republic of China ("the PRC"). The Group offers "one-stop" solutions to customers ranging from procurement, storage and delivery of asphalt and fuel oil. The Group's asphalt and fuel oil trading business geographically covers the downstream region of Yangtze River and some inland provinces. Its logistics services cover vehicle transportation, waterway transportation, inland water transportation and the storage of asphalt and fuel oil products. As for the road and bridge construction business, the Group has construction contract tier 1 qualifications and municipal utility contract tier 1 qualifications.

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 30 March 2009.

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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

For the year ended 31 December 2008, the Group had a net operating cash outflow of approximately RMB234,948,000. As at the same date, the Group's current liabilities exceeded its current assets by approximately RMB65,581,000, and it had outstanding short-term bank loans of approximately RMB407,475,000 which are due for repayment within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern and to fulfil its financial obligations. Its ability to do so depends on the continuing supports of its banks to provide financing and the success of management's continuing efforts to improve the Group's profitability and operating cash flow.

In particular, since the Group has been servicing its debt obligations according to the loan repayment schedules and given its good credit history, management is confident that it will be able to roll over the outstanding bank loans when they are due for repayment or secure additional banking facilities to meet its future working capital and financial requirements. As at 31 December 2008, the Group had short-term unutilised revolving banking facilities for discounting of notes receivable totalled approximately RMB78,000,000, which will expire in 2009. Subsequent thereto, none of these banks have withdrawn the facilities granted to the Group. In addition, the Group has successfully borrowed short-term bank loans of RMB156,000,000, issued new bank acceptance notes of RMB48,000,000, secured a facility for issuance of performance bonds of RMB60,000,000 and obtained additional facilities of borrowing long-term loans of RMB70,000,000 repayable in 2011 and 2012. Furthermore, management will continue to implement measures aiming at improving working capital and cash flows of its businesses, including requesting for more advances from its customers or demanding full cash payment upon delivery for certain of its customers. On the cost control front, management will continue its initiatives in closely monitoring daily operating expenses and discretionary capital expenditures.

In light of the measures described above and based on the Group's cash flow projection for the coming year, the directors are confident that the Group will have sufficient working capital to meet its financial obligations as and when they fall due and maintain its operating scale in the next twelve months from the balance sheet date. Accordingly, the directors are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. These financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

During the year, the Group has adopted the following new standards, amendments and interpretations.

(a) Amendments and interpretations effective in 2008

- HKAS 39, 'Financial Instruments: Recognition and Measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial Instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have an impact on the Group's consolidated financial statements, as the Group has not reclassified any financial assets.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Amendments and interpretations effective in 2008 (continued)

- HK(IFRIC) Int-11, 'HKFRS 2 – Group and Treasury Share Transactions', 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 financial statements of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.

- HK(IFRIC) Int-14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', 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. This interpretation does not have an impact on the Group's consolidated financial statements as the Group does not have any defined benefit plan.

(b) Interpretations effective in 2008 but not relevant

- HK(IFRIC) Int-12, 'Service Concession Arrangements' is mandatory for accounting periods beginning on or after 1 January 2008 but it is not relevant to the Group's operations.

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's annual periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

- HKAS 23 (Revised), '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 (Revised) from 1 January 2009 but it is not expected to have an impact to the Group as this amendment is consistent with the Group's existing accounting policies.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) from 1 January 2010.

- HKAS 32 (Amendment), 'Financial Instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have an impact on the Group's consolidated financial statements.

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations. The Group will apply HKAS 39 (Amendment) from 1 January 2010 but it is not expected to have an impact on the Group's consolidated financial statements.

- HKFRS 2 (Amendment), 'Share-based Payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have an impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKFRS 3 (Revised), 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively from 1 January 2010.

- HKFRS 8, 'Operating Segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment Reporting', 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 segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009, and is in the process of assessing its impact on the Group's consolidated financial statements.

- HK(IFRIC) Int-16, 'Hedges of a Net Investment in a Foreign Operation' (effective from 1 October 2008). HK(IFRIC) Int-16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The Effects of Changes in Foreign Exchange Rates', apply to the hedged item. The Group will apply HK(IFRIC) Int-16 for annual periods beginning on or after 1 January 2009. It is not expected to have an impact on the Group's consolidated financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  – HKAS 1 (Amendment), 'Presentation of Financial Statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial Instruments: Recognition and Measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated financial statements.

  – HKAS 19 (Amendment), 'Employee Benefits' (effective from 1 January 2009)

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  – HKAS 19 (Amendment), 'Employee Benefits' (effective from 1 January 2009) *(continued)*

    – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

    – HKAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply HKAS 19 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's consolidated financial statements.

  – HKAS 20 (Amendment), 'Accounting for Government Grants and Disclosure of Government Assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39 and the proceeds received with the benefit accounted for in accordance with HKAS 20. The amendment will not have an impact on the Group's operations as there are no loans received from the government.

  – HKAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial Instruments: Recognition and Measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  – HKAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, 'Financial Instruments: Recognition and Measurement', is classified as held for sale under HKFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', HKAS 39 would continue to be applied. The amendment will not have any significant impact on the Group's financial statements because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone financial statements of each entity.

  – HKAS 28 (Amendment), 'Investments in Associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial Instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with HKAS 39 Financial Instruments: Recognition and Measurement' only certain rather than all disclosure requirements in HKAS 28 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted for in the consolidated financial statements.

  – HKAS 36 (Amendment), 'Impairment of Assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  – HKAS 38 (Amendment), 'Intangible Assets' (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not currently have an impact on the Group's operations as all intangible assets with definite lives are amortised using the straight line method. In addition, a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply HKAS 38 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  – HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective from 1 January 2009).

    – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

    – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating Segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

    – When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

  The Group will apply HKAS 39 (Amendment) from 1 January 2009. It is not expected to have any significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and have not been early adopted by the Group (continued)

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  – HKFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendment to HKFRS 1, 'First-time Adoption of Hong Kong Financial Reporting Standards') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply HKFRS 5 (Amendment) prospectively from 1 January 2010.

  – There are a number of minor amendments to HKFRS 7, 'Financial Instruments: Disclosures', HKAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', HKAS 10, 'Events After the Balance Sheet Date', HKAS 18, 'Revenue' and HKAS 34, 'Interim Financial Reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's consolidated financial statements and have therefore not been analysed in detail.

(d) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and not relevant to the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's annual periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of Hong Kong Financial Reporting Standards' and HKAS 27, 'Consolidated and Separate Financial Statements' (effective from 1 January 2009)

- HK(IFRIC) Int-13, 'Customer Loyalty Programmes' (effective from 1 July 2008)

- HK(IFRIC) Int-15, 'Agreements for Construction of Real Estates' (effective from 1 January 2009)

- HK(IFRIC) Int-17, 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009)

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(d) Standards, amendments and interpretations that are effective from the Group's annual periods beginning on or after 1 January 2009 or later periods, and not relevant to the Group's operations (continued)

- HKICPA's improvements to HKFRS published in October 2008

  – HKAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to HKAS 7, 'Statement of Cash Flows') (effective from 1 January 2009)

  – HKAS 29 (Amendment), 'Financial Reporting in Hyperinflationary Economies' (effective from 1 January 2009)

  – HKAS 31 (Amendment), 'Interests in Joint Ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009)

  – HKAS 40 (Amendment), 'Investment Property' (and consequential amendments to HKAS 16) (effective from 1 January 2009)

  – HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009)

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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 at 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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. 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 and are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(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 is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising on investment in associates are recognised in the consolidated 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 return that are different from those of segments operating in other economic environments.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the Group's 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 consolidated income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated 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 consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

Property, plant and equipment comprise buildings, machinery, storage facilities, furniture and fixtures and transportation facilities. Property, plant and equipment are 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 consolidated 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 to 30 years
Machinery	10 years
Storage facilities	12 years
Furniture, fixtures and testing equipment	5 to 10 years
Transportation facilities	2 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing the proceeds with the carrying amount and are recognised within other income or other expenses in the consolidated income statement.

2.6 Construction-in-progress

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

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Assets that have an indefinite useful life, for example goodwill and construction license, 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Customer contracts

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. Customer contracts are amortised over the contract period using the straight-line method. Customer contracts are stated at cost less accumulated amortisation and impairment losses.

(c) Construction licence

Construction licence acquired in a business combination is recognised at fair value at the acquisition date. Construction licence has an indefinite useful life and is not subject to amortisation. Construction licence is tested for impairment and carried at cost less impairment losses.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Intangible assets *(continued)*

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

2.9 Financial assets

2.9.1 Classification

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 determines 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 also categorised 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 2008 and 2007.

(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. The Group's loans and receivables comprise '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 that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the balance sheet date.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

2.9.2. Recognition and measurement

Regular way 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 consolidated 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 consolidated income statement within 'other income/other expenses', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated 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 subsequently measured at cost less any provision for impairment losses. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

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

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

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

2.9.2. Recognition and measurement (continued)

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 is 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 consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories represent asphalt and fuel oil for resale, asphalt for construction and other construction materials, and are stated at the lower of cost and net realisable value. Cost of asphalt and fuel oil for resale is determined using the first-in, first-out (FIFO) method, while cost of asphalt for construction and other construction materials is determined using the weighted average 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 2008

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 consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated 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 and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Borrowings and borrowing costs *(continued)*

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

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

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 or 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 only 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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Contract work

Contract costs are recognised as expenses in the period in which they are incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount to be recognised in a given period. Depending on the nature of contracts, the stage of completion is measured by reference to (a) the amount of work certified by site engineer; or (b) completion of physical proportion of the contract work. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Contract work-in-progress is valued at the cost price of the work done, plus a part of the expected profit upon completion of the project in proportion to the progress made and less progress billings and provisions. Provisions are recognised for expected losses on contract work-in-progress, as soon as they are foreseen, and deducted from the cost price. The cost price includes direct project costs, consisting of direct payroll costs, materials, costs of subcontracted work, other direct costs, and rental charges, maintenance costs, and depreciation charges for the equipment used. The progress of a project is determined on the basis mentioned in preceding paragraph. Profits are not recognised unless a reliable estimate can be made of the result on completion of the project. The balance of the value of contract work-in-progress and progress billings is determined on a project to project basis. For projects where the progress billings exceed the value of contract work-in-progress, the balance is recognised under current liabilities instead of under current assets. The respective balance sheet items are "amount due from customers for contract work" and "amount due to customers for contract work".

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the construction contracts, 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) Revenue from construction contracts

Revenue from individual construction contracts is recognised under the percentage of completion method, when the contract has progressed to a stage where the stage of completion and expected profit on the contract can be reliably determined and, depending on the nature of the contract, is measured mainly by reference to (a) the amount of work certified by site engineer; or (b) completion of physical proportion of the contract work. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. Anticipated losses are fully provided on contracts when identified.

(b) 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.

(c) 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.

Revenue from other services is recognised when the services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Revenue recognition *(continued)*

(d) 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.

(e) Rental income

Rental income under operating leases of machinery is recognised on a straight-line basis over the lease term.

(f) Dividend income

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

2.21 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), including upfront payment made for land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease. Assets leased out under operating leases are included in property, plant and equipment. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.22 Government grants

Grants from the government in the form of subsidy or financial refunds are recognised at their fair value when there is reasonable assurance that the grants will be received and all attached conditions are complied with.

Government grant relating to income are initially recorded as deferred revenue, and are recognised in the consolidated income statement over the period necessary to match them with the costs they are intended to compensate.

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

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Dividend distribution

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

2.24 Financial guarantee contracts

The Group issues financial guarantee contracts in favour of related and third parties. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These contracts are initially recognised at fair value plus transaction costs in the Group's balance sheet, and are subsequently amortised to the consolidated income statement over the period of the borrowings of the guaranteed parties, unless it is probable that the Group will reimburse the holder of the financial guarantee for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried in the Group's balance sheet at the expected amount payable to the holder of the financial guarantee.

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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(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 monitors the fluctuation of the rates of these foreign currencies against Renminbi.

The Company's 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.

As at 31 December 2008, 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 2008 would have been RMB757,000 (2007: RMB13,274,000) 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 2008, 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 21.

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 2008 would be 6.04% or 4.46% instead of 5.25%), net assets and post-tax profit as at and for the year ended 31 December 2008 would have been RMB3,278,000 (2007: RMB1,364,000) higher/lower, mainly as a result of lower/higher interest expenses on floating rate borrowings.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, restricted bank deposits, trade receivables, other receivables and financial guarantee contracts that it issues. The carrying amounts of these asset balances, together with the loan amounts guaranteed by the Group under the financial guarantee contracts that it issues, represent the Group's maximum exposure to credit risk. 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. The Group issues financial guarantee contracts in favour of only those counterparties that are financially strong and with good credit history.

Trade and notes receivables

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 receivables into the following:

Group 1 – Bank and commercial acceptance notes;
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.

	As at 31 December	
	2008	2007
Group 1	**82,547**	83,003
Group 2	**626,658**	241,970
Group 3	**156,482**	14,979
	865,687	339,952

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk (continued)

Cash and cash equivalents and restricted bank deposits

As at 31 December 2008, 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 2008. 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, Standard Chartered and Citibank);
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.

	As at 31 December			
	Group		Company	
	2008	2007	**2008**	2007
Group 1	**48,553**	16,805	**37,722**	4,849
Group 2	**40,021**	3,093	**2,962**	1,746
Group 3	**24,277**	269,843	**1,798**	267,747
	112,851	289,741	**42,482**	274,342

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
Group				
At 31 December 2008				
Bank borrowings	407,475	–	–	407,475
Trade and other payables	510,530	–	–	510,530
At 31 December 2007				
Bank borrowings	166,027	1,800	1,950	169,777
Trade and other payables	289,105	–	–	289,105
Company				
At 31 December 2008				
Bank borrowings	196,375	–	–	196,375
Trade and other payables	169,077	–	–	169,077
At 31 December 2007				
Bank borrowings	147,027	1,800	1,950	150,777
Trade and other payables	246,291	–	–	246,291

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

3 FINANCIAL RISK MANAGEMENT *(continued)*

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 consolidated balance sheet. The Group regards its equity attributable to the Company's equity holders as its capital.

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total borrowings	**407,475**	169,777	**196,375**	150,777
Equity attributable to the Company's equity holders	**500,464**	463,090	**439,210**	429,075
Debt-to-equity ratio	**81.4%**	36.7%	**44.7%**	35.1%

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. The fair value of financial guarantee contracts issued is estimated by reference to the level of financial guarantee fees charged by commercial banks to counterparties with similar credit standing.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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.

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 are discussed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(b) Estimated impairment of goodwill and construction licence

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7 The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (See Note 9).

(c) 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 2008, management estimated that the impairment provision for trade and other receivables of the Group amounted to RMB35,023,000 (2007: RMB6,934,000). 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.

If the discount rates used to estimate the present value of estimated future cash flows arising from these receivables had been 15% lower/higher than those currently adopted by the Group with all other variables held constant (for instance, decrease/increase from 7% and 8.22% to 5.95% and 6.99%/8.05% and 9.45%), net assets and post-tax profit as at and for the years ended 31 December 2007 and 2008 would have been RMB598,000 and RMB7,467,000 higher (if discount rate had been 15% lower), and RMB595,000 and RMB7,237,000 lower (if discount rate had been 15% higher), respectively.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) 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.

(e) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(f) Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the amount of foreseeable losses of construction work based on the estimation prepared for the construction contracts. Because of the nature of the activity undertaken in construction business, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods.

The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(g) Contingent liabilities in respect of litigations and claims

The Group has been involved in a number of litigations and claims in respect of certain constructions works (see Note 15) in the past. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation have been made based on management's best estimates and judgements.

(h) Financial guarantee contracts

The Group has issued financial guarantee contracts in favour of related and third parties (see Note 35). These contracts are initially measured at fair value estimated on a basis detailed in Note 3.3.

5 SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2008, the Group is organised into four main business segments:

(1) Sales of asphalt;

(2) Sales of fuel oil;

(3) Provision of logistic services; and

(4) Road and bridge construction.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

5 SEGMENT INFORMATION *(continued)*

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

The segment results for the year ended 31 December 2008 are as follows:

	Sales of asphalt RMB'000	**Sales of fuel oil RMB'000**	**Logistic services RMB'000**	**Road and bridge construction RMB'000**	**Unallocated RMB'000**	**Group RMB'000**
Total segment revenue	**659,441**	**409,951**	**69,217**	**403,435**	**–**	**1,542,044**
Inter-segment revenue	**(20,832)**	**–**	**(16,553)**	**–**	**–**	**(37,385)**
Revenue	**638,609**	**409,951**	**52,664**	**403,435**	**–**	**1,504,659**
Operating profit(loss)/Segment results	**29,415**	**10,549**	**(270)**	**32,449**	**9,319**	**81,462**
Finance costs – net *(Note 27)*						**(23,150)**
Share of loss of associates *(Note 11)*	**750**	**–**	**(463)**	**(1,180)**	**–**	**(893)**
Profit before income tax						**57,419**
Income tax expense *(Note 28)*						**(14,595)**
Profit for the year						**42,824**

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

	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	Road and bridge construction RMB'000	Unallocated RMB'000	Group RMB'000
Total segment revenue	849,280	78,200	115,325	–	–	1,042,805
Inter-segment revenue	–	(2,343)	(21,543)	–	–	(23,886)
Revenue	849,280	75,857	93,782	–	–	1,018,919
Operating profit/Segment results	36,459	2,163	9,671		13,160	61,453
Finance costs – net *(Note 27)*						(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 28)*						(2,429)
Profit for the year						46,263

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

5 SEGMENT INFORMATION *(continued)*

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

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

	Year ended 31 December 2008					Year ended 31 December 2007				
	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	Road and bridge construction RMB'000	Group RMB'000	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	Road and bridge construction RMB'000	Group RMB'000
Depreciation *(Note 7)*	5,743	44	8,374	5,131	19,292	4,879	–	6,809	–	11,688
Amortisation *(Note 6 and 9)*	326	–	–	9,751	10,077	326	–	–	–	326

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, intangible assets, investment in associates, inventories, trade and other receivables, and cash and cash equivalents. Unallocated assets mainly comprise items such as available-for-sale financial assets and deferred tax assets.

Segment liabilities mainly comprise operating liabilities. Unallocated liabilities mainly comprise items such as taxation payables, deferred tax liabilities 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 2008

5 SEGMENT INFORMATION *(continued)*

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

The segment assets and liabilities at 31 December 2008 and capital expenditures for the year then ended are as follows:

	Business segment					
	Sales of asphalt RMB'000	Sales of fuel oil RMB'000	Logistic services RMB'000	Road and bridge construction RMB'000	Unallocated RMB'000	Group RMB'000
Assets	441,280	55,658	118,260	918,792	3,876	1,537,866
Associates	30,503	–	14,537	–	–	45,040
Total assets	471,783	55,658	132,797	918,792	3,876	1,582,906
Liabilities	149,906	1,298	8,818	363,717	466,035	989,774
Capital expenditures *(Notes 6 to 9)*	8,388	366	15,374	5,693	–	29,821

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

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

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

5 SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format – geographical segments

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

6 LAND USE RIGHTS – GROUP

The Group's interests in land use rights and the net of book value is analysed as follows:

In the PRC held on leases of between 10 to 50 years

	RMB'000
At 1 January 2007	2,275
Transfer from construction in progress *(Note 8)*	8,338
Amortisation	(213)
At 31 December 2007	10,400
Acquisition of subsidiaries *(Note 33)*	1,089
Additions	584
Amortisation	(233)
At 31 December 2008	11,840

As at 31 December 2008, land use rights with a net book value of RMB10,187,000 (original cost of RMB10,647,000) (2007: RMB10,400,000 (original cost of RMB10,647,000)) were pledged as security for the Group's bank borrowings amounting to RMB6,900,000 (2007: RMB6,000,000) (Notes 21(g) and (h)).

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

7 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Machinery RMB'000	Storage facilities RMB'000	Furniture, fixtures and testing equipment RMB'000	Transportation facilities RMB'000	Total RMB'000
At 1 January 2007						
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 *(Note 32)*	(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
Year ended 31 December 2008						
Opening net book amount	28,134	–	57,277	9,870	54,460	149,741
Additions	165	851	16	756	10,049	11,837
Transfer from construction-in-progress (Note 8)	404	–	16,348	695	–	17,447
Transfer to Construction-in-Progress (Note 8)	(370)	–	–	–	–	(370)
Acquisition of subsidiaries (Note 33)	11,835	45,080	–	4,514	1,225	62,654
Disposals (Note 32)	(1,950)	(116)	–	(241)	(295)	(2,602)
Disposal of subsidiaries (Note 34)	–	–	–	(757)	–	(757)
Depreciation	(1,610)	(4,535)	(5,837)	(1,484)	(5,826)	(19,292)
Closing net book amount	36,608	41,280	67,804	13,353	59,613	218,658
At 31 December 2008						
Cost	41,925	121,299	78,193	18,419	75,092	334,928
Accumulated depreciation	(5,317)	(80,019)	(10,389)	(5,066)	(15,479)	(116,270)
Net book amount	36,608	41,280	67,804	13,353	59,613	218,658

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

7 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expenses have been charged in cost of sales, distribution costs and administrative expenses as following:

	2008	2007
	RMB'000	RMB'000
Cost of sales	**11,553**	6,147
Distribution costs	**2,395**	1,961
Administrative expenses	**5,344**	3,580
	19,292	11,688

At 31 December 2008 and 2007, the following assets were pledged as security for the Group's bank borrowings:

2008	**Net book value RMB'000**	**Original cost RMB'000**	**Borrowing balance RMB'000**	*Note*
Buildings	**17,889**	**20,452**	**21,900**	*Note 21 (f),(h)*
Machinery	**21,997**	**75,235**	**15,000**	*Note 21 (a)*
Storage facilities and furniture and fixtures	**6,176**	**7,334**	**3,000**	*Note 21 (i)*
Transportation facilities	**21,309**	**22,372**	**20,000**	*Note 21 (f)*
2007				
Buildings	17,761	19,123	5,550	*Note 21 (q)*
Storage facilities	7,118	7,118	3,000	*Note 21 (p)*

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

7 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company	**Buildings** RMB'000	**Storage facilities** RMB'000	**Furniture, fixtures and testing equipment** RMB'000	**Transportation facilities** RMB'000	**Total** RMB'000
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	19,629	10,272	160	1,402	31,463
Additions	–	–	25	–	25
Transfer from construction-in-progress *(Note 8)*	–	–	695	–	695
Disposals	(1,884)	(3,363)	–	(199)	(5,446)
Depreciation	(967)	(486)	(78)	(209)	(1,740)
Closing net book amount	16,778	6,423	802	994	24,997
At 31 December 2008					
Cost	19,124	7,096	1,145	1,612	28,977
Accumulated depreciation	(2,346)	(673)	(343)	(618)	(3,980)
Net book amount	16,778	6,423	802	994	24,997

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

7 PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2008, the following assets of the Company were pledged as security for the bank borrowings:

2008	**Net book value RMB'000**	**Original cost RMB'000**	**Borrowing balance RMB'000**	*Note*
Buildings	**16,777**	**19,123**	**20,000**	*Note 21 (f)*
2007				
Buildings	17,761	19,123	5,550	*Note 21 (q)*
Storage facilities	7,118	7,118	3,000	*Note 21 (p)*

8 CONSTRUCTION-IN-PROGRESS

Group	RMB'000
At 1 January 2007	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
Acquisition of subsidiaries *(Note 33)*	4,023
Additions	17,400
Transfer from property, plant and equipment *(Note 7)*	370
Transfer to property, plant and equipment *(Note 7)*	(17,447)
Disposal of subsidiaries *(Note 34)*	(3,536)
At 31 December 2008	13,365

Company	RMB'000
At 1 January 2007	–
Additions	578
Transfer to property, plant and equipment *(Note 7)*	–
At 31 December 2007	578
Additions	117
Transfer to property, plant and equipment *(Note 7)*	(695)
At 31 December 2008	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

9 INTANGIBLE ASSETS

Group

	Goodwill RMB'000	Customer contracts RMB'000	Construction licence RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2007					
Cost	–	–	–	565	565
Accumulated amortisation	–	–	–	(75)	(75)
Net book amount	–	–	–	490	490
Year ended 31 December 2007					
Opening net book amount	–	–	–	490	490
Additions	–	–	–	–	–
Amortisation charge	–	–	–	(113)	(113)
Closing net book amount	–	–	–	377	377
At 31 December 2007					
Cost	–	–	–	565	565
Accumulated amortisation	–	–	–	(188)	(188)
Net book amount	–	–	–	377	377
Year ended 31 December 2008					
Opening net book amount	–	–	–	377	377
Transfer from investment in an associate upon acquisition of additional equity interest in Nantong Group	11,839	–	–	–	11,839
Acquisition of subsidiaries *(Note 33)*	5,091	18,558	131,266	217	155,132
Amortisation charge	–	(9,711)	–	(133)	(9,844)
Closing net book amount	16,930	8,847	131,266	461	157,504
At 31 December 2008					
Cost	16,930	18,558	131,266	789	167,543
Accumulated amortisation	–	(9,711)	–	(328)	(10,039)
Net book amount	16,930	8,847	131,266	461	157,504

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

9 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill and construction licence:

Goodwill and construction licence are solely allocated to one of the Group's cash-generating unit ("CGU"), namely road and bridge construction segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

	2009	2010	2011	2012	2013
Weighted average gross margin	10.2%	10.2%	10.2%	10.2%	10.2%
Weighted average growth rate	14.8%	16.0%	12.0%	8.0%	6.0%
Percentage of working capital over revenue	37.4%	31.4%	16.4%	11.4%	11.4%
Discount rate	14%	14%	14%	14%	14%

Management determined weighted average gross margin, weighted average growth rates and percentage of working capital over revenue based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the road and bridge construction segment.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

9 INTANGIBLE ASSETS *(continued)*

Company	**Computer software** RMB'000
At 1 January 2007	
Cost	565
Accumulated amortisation	(75)
Net book amount	490
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
Year ended 31 December 2008	
Opening net book amount	377
Amortisation charge	(113)
Closing net book amount	264
At 31 December 2008	
Cost	565
Accumulated amortisation	(301)
Net book amount	264

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

10 INVESTMENT IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Unlisted equity investments, at cost	**370,342**	71,105

The following is the details of the Group's subsidiaries at 31 December 2008 :

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Equity interests held	
				Direct	Indirect
Jiangsu Suzhong Oil Shipping Company Limited ("Suzhong Shipping") *(Note (a))*	PRC, limited liability Company	Provision of marine transportation service in the PRC	RMB16,000,000	–	55%
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") *(Note (b))*	Hong Kong, limited liability company	Asphalts trading to customers in the PRC and logistic service	USD5,000,000	100%	–
Shanghai Shenhua Logistics Company Limited ("Shenhua Logistics") *(Note (c))*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB184,000,000	100%	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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
Zhengzhou Huasheng Petrochemical Company Limited ("Zhengzhou Huasheng") *(Note (d))*	PRC, limited liability company	Asphalts trading in the PRC	RMB20,000,000	–	100%
Quanjiao Puxing Petrochemical Company Limited ("Anhui Quanjiao")	PRC, limited liability company	Asphalts trading in the PRC	RMB10,000,000	65%	–
Wuhan Shenlong Logistics Company Limited ("Wuhan Shenlong")	PRC, limited liability company	Provision of land transportation service in the PRC	RMB2,000,000	–	80%
Tonva Shipping Limited	Hong Kong, limited liability company	Provision of waterway transportation service in the PRC	HKD100,000	–	100%
Panva Shipping Limited	Hong Kong, limited liability company	Provision of marine transportation service in the PRC	HKD100,000	–	100%
Shanghai Taihua Petrochemical Co., Ltd. ("Shanghai Taihua") *(Note (e))*	PRC, limited liability company	Fuel oil trading in the PRC	RMB60,000,000	71%	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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
Shanghai Huayang Shipping Technical Service Limited ("Huayang Shipping") *(Note (f))*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB22,500,000	–	100%
Taizhou Huaye Petrochemical Company Limited ("Taizhou Huaye") *(Note (g))*	PRC, limited liability company	Asphalts and fuel oil processing and trading in the PRC	USD14,000,000	–	100%
Jiangsu Tonva Communication Materials Company Limited ("Jiangsu Tonva") *(Note (h))*	PRC, limited liability company	Asphalts trading in the PRC	RMB10,000,000	55%	–
Shanghai Shenhua (Dongtai) Logistics Company Limited ("Shenhua Dongtai") *(Note (i))*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB1,000,000	–	100%
Nantong Highway and Bridge Engineering Limited ("Nantong Highway and Bridge") *(Note (j))*	PRC, limited liability company	Construction of highways and bridges in the PRC	RMB86,000,000	62.44%	–
Nantong Jiuzhou Highway Machinery Maintenance Engineering Limited ("Jiuzhou Highway") *(Note (j))*	PRC, limited liability company	Dormant, except that it provides financing to Highway and Bridge Engineering	RMB10,000,000	–	62.44%

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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
Nantong Highway and Bridge Material Co., Ltd ("Highway and Bridge Material") *(Note (j))*	PRC, limited liability company	Dormant	RMB400,000	–	62.44%
Nantong Jiuzhou Construction Engineering Testing Co., Ltd ("Jiuzhou Construction") *(Note (j))*	PRC, limited liability company	Dormant	RMB500,000	–	62.44%
Nantong Shenzhou Investment Development Co., Ltd ("Nantong Shenzhou") *(Note (j))*	PRC, limited liability company	Dormant	RMB10,000,000	–	62.44%
Nantong Xingang Buildings Materials Co., Ltd ("Nantong Xingang") *(Note (j))*	PRC, limited liability company	Trading of building materials in the PRC	RMB30,000,000	–	31.84%
Nantong Jianjian Company Limited ("Nantong Jianjian") *(Note (j))*	PRC, limited liability company	Dormant	RMB500,000	–	62.44%
Taizhou Henghua Asphalts Company Limited ("Taizhou Henghua") *(Note (k))*	PRC, limited liability company	Asphalts trading in the PRC	RMB6,000,000	–	72%

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

10 INVESTMENT IN SUBSIDIARIES – COMPANY *(continued)*

Notes:

(a) The Group and minority shareholder injected additional capital of RMB2,800,000 and RMB7,200,000 respectively into Suzhong Shipping in 2008.

(b) The Company injected additional capital of USD3,000,000 (equivalent to RMB23,350,000) in 2008.

(c) The Company injected additional capital of RMB164,000,000 in 2008. Subsequently, the directors of Shenhua Logistics resolved to reduce its registered capital from RMB184,000,000 to RMB108,000,000. As at 31 December 2008, the legal procedures of the registered capital reduction have not yet completed.

(d) As at 31 December 2007, Zhengzhou Huasheng was directly held by the Company. In 2008, the Company's equity holding in Zhengzhou Huasheng has been transferred to Shenhua Logistics.

(e) The Company acquired additional 6% equity interest in Shanghai Taihua in 2008 and the Company's equity interest in Shanghai Taihua was therefore increased from 65% to 71%. Subsequently the Company and the minority shareholder injected additional capital of RMB39,350,000 and RMB15,950,000 respectively.

(f) The Company injected additional capital of RMB22,400,000 in 2008.

(g) Taizhou Huaye was incorporated in 2007 and has not yet commenced commercial operations as at 31 December 2008. In 2008, the directors of Taizhou Huaye resolved to reduce the registered capital from USD14,000,000 to RMB80,000,000. As at 31 December 2008, the legal procedures of the registered capital reduction have not yet completed and its paid-in capital amounted to RMB27,000,000.

(h) Jiangsu Tonva was incorporated in 2008. The capital injection into Jiangsu Tonva was yet to be completed as at 31 December 2008.

(i) Shenhua Dongtai was incorporated in 2008.

(j) On 11 August 2008, the Company acquired additional 37.44% equity interest in Nantong Highway and Bridge. Consequently, the Group's equity interest in Nantong Highway and Bridge and its subsidiaries (collectively "Nantong Group") increased from 25% to 62.44%. Please also see Note 33. Highway and Bridge Material and Nantong Xingang were liquidated and disposed subsequent to the acquisition respectively.

(k) Taizhou Henghua was liquidated in 2008.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

11 INVESTMENT IN ASSOCIATES

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**45,668**	12,352	**39,208**	6,528
Share of (loss)/profit	**(893)**	1,935	**–**	–
Dividends received from an associate	**(2,078)**	(1,005)	**–**	–
Exchange difference	**(213)**	(294)	**–**	–
Investment in or acquisition of new associates	**32,005**	32,680	**17,805**	32,680
Transfer from available-for-sale financial assets	**800**	–	**–**	–
Transfer to investment in subsidiaries as a result of acquisition of additional equity interest *(Note)*	**(30,249)**	–	**(32,680)**	–
End of the year	**45,040**	45,668	**24,333**	39,208
Unlisted equity investments, at cost	**40,814**	40,781	**24,333**	39,208

Note: The amount represents the Group's interest in Nantong Group immediately before the acquisition of additional 37.44% equity interest in Nantong Group on 11 August 2008. Please also see Note 10.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

11 INVESTMENT IN ASSOCIATES *(continued)*

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	Indirect
2008					
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%
Wuhan Datong Huali Shipping Company ("Wuhan Datong") *(Note (a))*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB50,000,000	–	30%
Shanghai Pudong Road and Bridge Asphalts Company Limited ("Pudong Road and Bridge") *(Note (b))*	PRC, limited liability company	Processing asphalts trading in the PRC	RMB30,000,000	49%	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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	Indirect
2007					
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%
Nantong Highway and Bridge Engineering Limited	PRC, limited liability company	Construction of highways and bridges in the PRC	RMB86,000,000	25%	–

Notes:

(a) Invested by a Company's subsidiary in 2008.

(b) Acquired by the Company in 2008.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

11 INVESTMENT IN ASSOCIATES *(continued)*

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

	As at 31 December 2008		For the year ended 2008	
Name	**Assets**	**Liabilities**	**Revenues**	**Profit/(loss)**
	RMB'000	RMB'000	RMB'000	RMB'000
Jiangxi Huatong	**4,738**	**1,430**	**3,220**	**4**
Jiaxing Huatong	**5,405**	**96**	**926**	**150**
Jiangxi Ganbei	**7,545**	**2,768**	**12,115**	**766**
Wuhan Datong	**16,848**	**2,910**	**–**	**(463)**
Pudong Road and Bridge	**27,731**	**9,348**	**2,796**	**(170)**
Nantong Group (up to the date of acquisition of additional 37.44% equity interest by the Group)	**–**	**–**	**83,802**	**(1,180)**
	62,267	**16,552**	**102,859**	**(893)**

	As at 31 December 2007		For the year ended 2007	
Name	Assets	Liabilities	Revenues	Profit/(loss)
	RMB'000	RMB'000	RMB'000	RMB'000
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 Group	126,393	95,577	86,560	(1,251)
	145,207	99,839	121,582	1,935

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Unlisted equity securities, at cost	**800**	1,600

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

13 INVENTORIES

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Asphalt for resale	**11,611**	4,420	**7,619**	1,850
Fuel oil for resale	**9,563**	5,378	**–**	–
Asphalt for construction	**23,738**	–	**–**	–
Other construction materials	**17,373**	–	**–**	–
	62,285	9,798	**7,619**	1,850

All inventories were carried at cost as at 31 December 2008 and 2007.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES

	Group As at 31 December		Company As at 31 December	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Trade receivables	**633,969**	256,949	**117,227**	162,266
Bank and commercial acceptance notes receivable *(Note 21)*	**82,547**	83,003	**78,905**	83,003
Retention sum for construction contracts	**149,171**	–	**–**	–
	865,687	339,952	**196,132**	245,269
Less: Provision for impairment of receivables	**(35,023)**	(6,934)	**(6,346)**	(4,915)
	830,664	333,018	**189,786**	240,354
Prepayments and deposits	**42,293**	53,169	**174**	49,051
Due from associates *(Note, Note 37)*	**3,066**	3,946	**2,724**	–
Due from subsidiaries *(Note)*	**–**	–	**131,730**	103,759
Amounts due from a former minority shareholder of a subsidiary *(Note)*	**7,545**	2,177	**–**	–
Interest receivable for commercial note discounted	**2,316**	400	**2,316**	400
VAT recoverable	**1,738**	2,715	**1,738**	2,715
Contract tendering deposits	**1,610**	–	**1,610**	–
Consideration receivable in respect of disposal of subsidiaries	**5,100**	–	**–**	–
Construction project deposits	**5,104**	–	**–**	–
Other miscellaneous receivables	**6,206**	3,103	**538**	602
Other assets	**3,289**	6,098	**774**	6,098
	908,931	404,626	**331,390**	402,979
Non-current portion:				
Trade receivables	**111,535**	–	**–**	–
Retention sum for construction contracts	**98,719**	–	**–**	–
Prepayments and deposits	**7,461**	–	**–**	–
Non-current	**217,715**	–	**–**	–
Current	**691,216**	404,626	**331,390**	402,979

Note: These amounts are interest free, unsecured and repayable on demand.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES *(continued)*

The carrying amounts of the Group's trade and other receivables approximate their fair values because of the short maturity of these instruments. In addition, as the Group's non-current trade receivables have been discounted based on the effective interest rates, which approximate the market interest rate, hence, the carrying amounts of non-current trade receivables approximate their fair value.

The ageing analysis of trade receivables, commercial notes receivable and retention sum for construction contracts based on invoice date, is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Sales of asphalt and fuel oil and logistic services *(Note (a))*:				
0 – 30 days	**77,259**	130,197	**53,548**	103,391
31 – 60 days	**63,754**	58,331	**46,666**	52,906
61 – 90 days	**80,712**	50,574	**53,757**	34,082
91 days – 1 year	**62,989**	85,871	**26,482**	43,820
1 year – 2 years	**34,598**	13,393	**9,717**	9,484
2 years – 3 years	**6,125**	1,586	**4,870**	1,586
Over 3 years	**1,092**	–	**1,092**	–
	326,529	339,952	**196,132**	245,269
Road and bridge construction *(Note (b))*:				
Less than 6 months	**420,461**	–	**–**	–
6 months to 1 year	**56,247**	–	**–**	
1 year to 2 years	**24,193**	–	**–**	–
2 years to 3 years	**26,542**	–	**–**	–
Over 3 years	**11,715**	–	**–**	–
	539,158	–	**–**	–
Total	**865,687**	339,952	**196,132**	245,269

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

(a) For sales of asphalt and fuel oil and logistic services, the credit terms granted to individual customer vary on a customer by customer basis which is determined by management with reference to the creditability of respective customer.

(b) Substantially all customers of road and bridge construction are PRC government agencies. Settlement of its trade receivables is made in accordance with the terms specified in the contracts with the customers.

In respect of sales of asphalt and fuel oil and logistic services, trade receivables that are less than three months past due are not considered impaired. As at 31 December 2008, the Group's trade and notes receivables related to sales of asphalt and fuel oil and logistic services amounted to RMB123,506,000 (2007: RMB183,019,000) were past due but not impaired. These relate to a number of independent customers which have no recent history of default. The credit quality of trade and notes receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. These existing counterparties do not have defaults in the past.

The ageing analysis of trade receivables related to sales of asphalt and fuel oil and logistic services which were past due but not impaired is as follows:

	Group As at 31 December		Company As at 31 December	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Overdue:				
0 – 90 days	**123,506**	112,425	**66,098**	78,519
91 days – 1 year	**–**	70,594	**15,710**	39,667
	123,506	183,019	**81,808**	118,186

In respect of road and bridge construction, trade receivables are due to be settled within six months. The terms of some construction contracts stipulate that the customers withhold a portion of total contract sum (usually 5%) until a specified period (usually 2 years) after completion of the contract. Trade receivables that are less than six months past due are not considered impaired by management.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of trade receivables related to road and bridge construction which were past due but not impaired is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Overdue:				
Less than 6 months	**56,247**	–	**–**	–

In respect of sales of asphalt and fuel oil and logistic services, as at 31 December 2008, trade and notes receivables of RMB94,032,000 (2007: RMB14,979,000) were impaired. The amount of the provision was RMB11,574,000 (2007: RMB6,934,000). The individual impaired receivables mainly relate to customers involved in highway and road construction, which are in unexpected difficult economic situations such that the amounts are either uncollectible or collectible only after an extended period of time. The ageing analysis of these impaired trade and notes receivables is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
91 days – 1 year	**52,217**	–	**–**	–
1 year – 2 years	**34,598**	13,393	**9,717**	9,484
2 years – 3 years	**6,125**	1,586	**4,870**	1,586
Over 3 years	**1,092**	–	**1,092**	–
	94,032	14,979	**15,679**	11,070

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES *(continued)*

In respect of road and bridge construction, as at 31 December 2008, trade and notes receivables of RMB62,450,000 were impaired. The amount of the provision was RMB23,449,000. The individual impaired receivables mainly relate to government agencies that did not settle the receivables on time either because of temporary government budgetary constraints or delay in the issuance of the project completion reports such that the amounts are collectible only after an extended period of time. The ageing analysis of these impaired trade and notes receivables is as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
1 year to 2 years	**24,193**	–	**–**	–
2 years to 3 years	**26,542**	–	**–**	–
Over 3 years	**11,715**	–	**–**	–
	62,450	–	**–**	–

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**859,320**	332,564	**196,132**	245,269
USD	**6,367**	7,388	**–**	–
	865,687	339,952	**196,132**	245,269

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

14 TRADE AND OTHER RECEIVABLES *(continued)*

Movements on the provision for impairment of trade and notes receivables are as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**6,934**	1,439	**4,915**	1,439
Acquisition of subsidiaries	**6,703**	–	**–**	–
Additional impairment provisions	**21,386**	5,495	**1,431**	3,476
At 31 December	**35,023**	6,934	**6,346**	4,915

The Group has recognised an impairment charge of RMB21,386,000 (2007: RMB5,495,000) for its trade and notes receivables during the year ended 31 December 2008. The charge has been included in administrative expenses in the consolidated income statement.

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

15 CONTRACT WORK-IN-PROGRESS – GROUP

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	**639,070**	–
Less: progress billings	**(619,078)**	–
Contract work-in-progress	**19,992**	–
Representing:		
Amount due from customers for contract work	**33,201**	–
Amount due to customers for contract work	**(13,209)**	–
	19,992	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

15 CONTRACT WORK-IN-PROGRESS – GROUP *(continued)*

Provision for foreseeable losses on construction contracts as at 31 December 2008 included estimated losses amounted to RMB 8 million for a highway construction project undertaken for an external customer in Chongqing Municipality. Nantong was the main contractor of this project. In 2006, Nantong had contractual disputes with a number of sub-contractors and suppliers of this project and the project came to a halt. As at 31 December 2008, certain legal disputes had been settled and Nantong's management estimated that a remaining provision for probable loss of approximately RMB 8 million should be retained to settle the remaining lawsuits, based on external legal advice.

16 RESTRICTED BANK DEPOSITS – GROUP AND COMPANY

Restricted bank deposits were denominated in Renminbi, USD and HKD, and pledged for issuance of bank acceptance notes or performance bonds to customers. The effective interest rates on restricted bank deposits were ranging from 0.72% to 3.78% per annum as at 31 December 2008 (2007: 0.81% per annum).

17 CASH AND CASH EQUIVALENTS

	Group As at 31 December		**Company As at 31 December**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Cash in hand	**235**	214	**15**	6
Bank deposits				
– Term deposits with an initial term of over three months	**–**	8,767	**–**	–
– Saving deposits	**38,729**	266,474	**11,284**	259,842
	38,964	275,455	**11,299**	259,848
Cash and cash equivalents denominated in:				
– Renminbi	**38,320**	14,103	**11,299**	10,570
– HKD	**139**	250,383	**–**	249,278
– USD	**505**	10,969	**–**	–
	38,964	275,455	**11,299**	259,848

The weighted average effective interest rate on bank deposits was 1.24% per annum for the year ended 31 December 2008 (2007: 1.79% per annum).

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

17 CASH AND CASH EQUIVALENTS *(continued)*

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.

18 SHARE CAPITAL – GROUP AND COMPANY

	RMB'000
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
Share capital at 1 January and 31 December 2008	93,619

On 13 November 2007, the Company issued 250,190,000 shares to the subscribers and the then H share shareholders, at an issue price of HK$1.10 per share. The total number of 250,190,000 H shares issued represented 26.72% of the total issued 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.

As at 31 December 2008 and 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.

19 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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

19 RESERVES *(continued)*

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 the 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.

Group	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Other reserve RMB'000	Currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	–	20,639	–	(934)	99,416	119,121
Issuance of additional H shares *(Note 18)*	237,530	–	–	–	–	237,530
Direct costs attributable to issuance of additional H shares *(Note 18)*	(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 paid in respect of 2006	–	–	–	–	(15,092)	(15,092)
At 31 December 2007	221,766	25,227	–	(3,363)	125,841	369,471
At 1 January 2008	221,766	25,227	–	(3,363)	125,841	369,471
Recognition of fair value change in respect of acquisition of a subsidiary *(Note)*	–	–	17,912	–	–	17,912
Currency translation differences	–	–	–	(1,899)	–	(1,899)
Profit for the year	–	–	–	–	35,404	35,404
Appropriation	–	3,540	–	–	(3,540)	–
Dividend paid in respect of 2007	–	–	–	–	(14,043)	(14,043)
At 31 December 2008	221,766	28,767	17,912	(5,262)	143,662	406,845

Note: The amount represents the Group's share of revaluation surplus recognised as a result of fair value change in identifiable asset and liabilities when the Group acquired an additional 37.44% equity interest in Nantong Group. Please refer to Note 10.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

19 RESERVES *(continued)*

Company	**Capital reserve**	**Statutory common reserve fund**	**Retained earnings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	–	20,823	75,551	96,374
Issuance of additional H shares *(Note 18)*	237,530	–	–	237,530
Direct costs attributable to issuance of additional H shares *(Note 18)*	(15,764)	–	–	(15,764)
Profit for the year	–	–	32,408	32,408
Appropriation	–	4,588	(4,588)	–
Dividend paid in respect of 2006	–	–	(15,092)	(15,092)
At 31 December 2007	221,766	25,411	88,279	335,456
At 1 January 2008	221,766	25,411	88,279	335,456
Profit for the year	–	–	24,178	24,178
Appropriation	–	3,540	(3,540)	–
Dividend paid in respect of 2007	–	–	(14,043)	(14,043)
At 31 December 2008	221,766	28,951	94,874	345,591

Notes to the Consolidated Financial Statements

(continued)

For the year ended 31 December 2008

20 TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**310,263**	107,644	**30,400**	74,242
Notes payable	**82,920**	145,000	**51,850**	145,000
Subtotal	**393,183**	252,644	**82,250**	219,242
Due to an associate *(Note)*	**3,390**	–	**3,390**	–
Due to subsidiaries *(Note)*	**–**	–	**53,383**	2,739
Deposits from sub-contractors	**10,541**	–	**–**	–
Advances from customers	**26,131**	7,168	**20,268**	5,038
Advances from employees and other third parties	**22,458**	–	**–**	–
Business tax payable	**16,135**	162	**49**	1
VAT payable	**2,022**	1,419	**3,062**	3,429
Other tax and levis payable	**6,329**	62	**721**	50
Professional fee payable	**1,750**	2,491	**–**	2,491
Employee benefits payable	**7,339**	2,241	**400**	1,993
Other miscellaneous payables	**13,891**	7,867	**427**	750
Accruals	**7,361**	15,051	**5,127**	10,558
	510,530	289,105	**169,077**	246,291

Note: The amounts due to an associate and subsidiaries are interest-free, unsecured and repayable on demand.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

20 TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of trade and notes payables based on billing date is as follows:

	Group As at 31 December		Company As at 31 December	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Sales of asphalt and fuel oil and logistic services:				
0 – 30 days	**35,881**	153,352	**29,497**	139,257
31 – 60 days	**4,108**	62,302	**821**	61,765
61 – 90 days	**3,600**	14,168	**82**	13,977
91 days – 1 year	**61,579**	18,415	**51,850**	4,243
1 year – 2 years	**13,901**	4,124	**–**	–
2 years – 3 years	**137**	283	**–**	–
	119,206	252,644	**82,250**	219,242
Road and bridge construction:				
Less than 6 months	**200,934**	–	**–**	–
6 months to 1 year	**19,111**	–	**–**	–
1 year to 2 years	**13,698**	–	**–**	–
2 years to 3 years	**11,842**	–	**–**	–
Over 3 years	**28,392**	–	**–**	–
	273,977	–	**–**	–
	393,183	252,644	**82,250**	219,242

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

21 BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings:				
Non-current	**–**	3,750	**–**	3,750
Current	**407,475**	166,027	**196,375**	147,027
Total borrowings	**407,475**	169,777	**196,375**	150,777

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

As at 31 December 2008, bank borrowings comprised:

(a) short-term bank loans of RMB15,000,000 secured by a subsidiary's machinery (Notes 7), which bore interest at between 4.78% to 6.72% per annum;

(b) short-term bank loans of RMB61,700,000 guaranteed by Jiangsu Daiyuan Construction Material Co., Ltd. (江蘇戴園建材集團有限公司), a shareholder of a disposed subsidiary, which bore interest at between 5.31% to 8.22% per annum;

(c) short-term bank loans of RMB50,000,000 guaranteed by the Company, and personal guarantee of Ms. Gao Xiumei, Mr. Xing Zhongfeng and Mr. Zhang Jinhua, executive directors of Nantong Highway and Bridge, which bore interest at between 5.58% to 8.22% per annum;

(d) short-term bank loans of RMB69,500,000 guaranteed by the Company, which bore interest at between 5.58% to 8.22% per annum;

(e) short-term bank loans of RMB5,000,000 guaranteed by Rugao Communicate Investment Development Company Limited (如皋市交通投資發展有限公司) ("Rugao Jiaotong"), an independent third party, which bore interest at between 5.84% to 8.22% per annum;

(f) short-term bank loans of RMB20,000,000 secured by office premises of the Company (Note 7) and an ocean carrier (Note 7) of a subsidiary, which bore interest at 6.99% per annum;

(g) short-term bank loans of RMB5,000,000 borrowed by a subsidiary, which were secured by the land use rights of a subsidiary (Note 6) and guaranteed by the Company and bore interest at between 5.84% to 8.22% per annum;

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

21 BORROWINGS *(continued)*

(h) short-term bank loans of RMB1,900,000 borrowed by a subsidiary, which were secured by the land use rights (Note 6) and the office premises of a subsidiary (Note 7), which bore interest at 10.44% per annum;

(i) short-term bank loans of RMB3,000,000 borrowed by a subsidiary, which were secured by storage facilities and furniture and fixtures of a subsidiary (Note 7) and bore interest at 10.44% per annum;

(j) commercial acceptance notes receivable discounted to commercial banks on a with recourse basis of RMB69,105,000 (Note 14) which were treated as collateral for short-term bank borrowings of the same amount under HKFRS;

(k) short-term bank loans of RMB107,270,000 relating to purchase of inventories.

As at 31 December 2007, bank borrowings comprised:

(l) 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;

(m) 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;

(n) 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;

(o) 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;

(p) 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;

(q) 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;

(r) commercial acceptance 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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

21 BORROWINGS *(continued)*

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

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
6 months or less	**226,275**	125,127	**176,375**	116,127
6 – 12 months	**181,200**	40,900	**20,000**	30,900
1 – 5 years	**–**	3,750	**–**	3,750
	407,475	169,777	**196,375**	150,777

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

At 31 December 2008, the Group and the Company's borrowings were repayable as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**407,475**	166,027	**196,375**	147,027
Between 2 and 5 years	**–**	3,750	**–**	3,750
	407,475	169,777	**196,375**	150,777

As at 31 December 2008, the Group had short-term unutilised revolving banking facilities for discounting of notes receivable totalled approximately RMB78,000,000, which will expire in 2009. Subsequent thereto, none of these banks have withdrawn the facilities granted to the Group. In addition, the Group has successfully borrowed short-term bank loans of RMB156,000,000, issued new bank acceptance notes of RMB48,000,000, secured a facility for issuance of performance bonds of RMB 60,000,000 and obtained additional facilities of borrowing long-term loans of RMB70,000,000 repayable in 2011 and 2012.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

22 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 and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows.

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets	**3,076**	2,272	**1,863**	2,351
Deferred tax liabilities	**(24,405)**	–	**–**	–
Deferred tax assets/(liabilities), net	**(21,329)**	2,272	**1,863**	2,351

The gross movement on the deferred income tax account is as follows:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**2,272**	–	**2,351**	–
Acquisition of subsidiaries *(Note 33)*	**(29,623)**	–	**–**	–
Credited/(charged) to consolidated income statement	**6,022**	2,272	**(488)**	2,351
End of the year	**(21,329)**	2,272	**1,863**	2,351

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

22 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 follows:

Deferred tax assets (Group):

	Impairment provision for receivables RMB'000	Financial guarantee contracts RMB'000	Foreseeable and unbilled recognised losses on construction contracts RMB'000	Accelerated depreciation allowance and others RMB'000	Total RMB'000
At 1 January 2007	–	–	–	–	–
Credited to income statement	1,707	404	–	161	2,272
At 31 December 2007	1,707	404	–	161	2,272
Acquisition of subsidiaries	2,111	293	5,109	2,973	10,486
(Charged)/credited to income statement	5,330	(514)	(127)	(1,088)	3,601
At 31 December 2008	9,148	183	4,982	2,046	16,359

Deferred tax liabilities (Group):

	Fair value surplus in respect of business combination RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007 and 31 December 2007	–	–	–
Acquisition of subsidiaries	40,109	–	40,109
Charged/(credited) to income statement	(2,538)	117	(2,421)
At 31 December 2008	37,571	117	37,688

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

22 Deferred income tax *(continued)*

Deferred tax assets (Company):

	Impairment provision for receivables RMB'000	Financial guarantee contracts RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	–	–	–	–
Credited to income statement	1,228	1,098	25	2,351
At 31 December 2007	1,228	1,098	25	2,351
Credited/(charged) to income statement	359	(859)	12	(488)
At 31 December 2008	1,587	239	37	1,863

23 Other income

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Dividend income from unlisted investments	**6,990**	17,946
Subsidy income *(Note)*	**1,249**	2,284
Interest income	**2,369**	1,504
Gain on disposal of property, plant and equipment	**2,314**	1,439
Others	**4,237**	867
	17,159	24,040

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

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

24 Other losses

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Foreign exchange losses	**3,669**	4,629
Bank charge	**2,275**	1,472
Financial guarantee fees, net *(Note 35)*	**732**	2,096
Others	**1,164**	399
	7,840	8,596

25 Expenses by nature

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Amortisation of land use rights *(Note 6)*	**233**	213
Amortisation of intangible assets *(Note 9)*	**9,844**	113
Auditors' remuneration	**4,055**	1,650
Business tax and other tax	**19,059**	3,459
Changes in contract work-in-progress for road and bridge construction	**(24,054)**	–
Cost of inventories	**944,129**	812,673
Depreciation of property, plant and equipment *(Note 7)*	**19,292**	11,688
Employee benefit expense *(Note 26)*	**26,894**	13,993
Entertainment and promotion expenses	**4,541**	2,451
Equipment usage cost	**1,563**	–
Heating expenses for vessels and warehouses	**19,693**	29,446
Operating lease rental expenses in respect of		
– Land and buildings	**8,712**	9,177
– Transportation facilities	**1,782**	26,050
– Machinery and others	**9,704**	–
Provision for impairment of receivables *(Note 14)*	**21,386**	5,495
Raw materials and consumables used for road and bridge construction	**203,841**	–
Repair and maintenance expenses	**3,537**	–
Subcontracting costs for road and bridge construction	**97,232**	–
Transportation expenses	**29,851**	32,650
Others	**31,222**	23,852
	1,432,516	972,910

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

26 Employee benefit expense

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	**25,122**	13,010
Social security costs	**538**	502
Retirement benefit costs – defined contribution plans *(Note (a))*	**1,234**	481
	26,894	13,993
Number of employee	**495**	244

(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 2008 and 2007. 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 RMB1,234,000 and RMB481,000 for the years ended 31 December 2008 and 2007 respectively.

(b) Directors' and senior management's emoluments

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Fees	**329**	215
Basic salaries and allowances	**2,411**	1,732
Bonus	**1,075**	423
Retirement scheme contributions	**140**	129
	3,955	2,499

None of the directors waived emoluments during the years ended 31 December 2008 and 2007.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

26 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 2008 are as follows:

Name	Fees RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Mr. Qian Wenhua, Director	–	750	116	22	888
Mr. Lu Yong, Director	–	350	69	22	441
Mr. Jin Xiaohua, Director (i)	–	263	126	13	402
Mr. Mo Luojiang, Director	–	380	179	22	581
Mr. Zhang Jinhua, Director	–	300	344	22	666
Mr. Li Hongyuan, Director	–	244	200	22	466
Mr. Li Li, Independent non-executive director	30	–	–	–	30
Mr. Zhu Shengfu, Independent non-executive director	30	–	–	–	30
Ms. Ye Mingzhu, Independent non-executive director	30	–	–	–	30
Ms. Josephine Price Non-executive director (ii)	68	–	–	–	68
Mr. Ho Man, Non-executive director (iii)	33	–	–	–	33
Mr. Hsu Chun-min, Non-executive director	120	–	–	–	120
Mr. Shao Dan, Supervisor (iv)	–	36	25	5	66
Ms. Gu Xiaoqing, Supervisor (v)	–	25	5	5	35
Mr. Lao Yihua, Supervisor	18	–	–	–	18
Mr. Ge Jiaqi, Supervisor (vi)	–	42	8	–	50
Mr. Fan Weidong, Supervisor (vi)	–	21	3	7	31
	329	2,411	1,075	140	3,955

Notes:

(i) Appointed in May 2008.

(ii) Appointed in December 2007 and resigned in July 2008.

(iii) Appointed in September 2008.

(iv) Appointed in August 2004 and resigned in May 2008

(v) Appointed in May 2005 and resigned in May 2008

(vi) Appointed in May 2008.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

26 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 follows:

Name	Fees RMB'000	Basic salaries and allowances RMB'000	Bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Mr. Qian Wenhua, Director	–	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 (i)	–	78	15	–	93
Mr. Mo Luojiang, Director (iv)	–	190	–	13	203
Mr. Lv Renzhi, Independent non-executive director (ii)	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 (iv)	18	–	–	–	18
Mr. Hsu Chun-min, Non-executive director	120	–	–	–	120
Ms. Josephine Price Non-executive director (v)	5	–	–	–	5
Mr. Shao Dan, Supervisor	–	78	4	12	94
Ms. Gao Xiaolan, Supervisor (iii)	–	102	6	17	125
Ms. Gu Xiaoqing, Supervisor	–	63	4	11	78
Mr. Lao Yihua, Supervisor (iv)	–	11	–	–	11
	215	1,732	423	129	2,499

Notes:

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

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

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

(iv) Appointed in May 2007

(v) Appointed in December 2007

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

26 Employee benefit expense *(continued)*

(c) Five highest paid individuals

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

	Number of individuals	
	2008	2007
	RMB'000	RMB'000
Directors and supervisors	**5**	3
Other individuals	**–**	2
	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 follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**–**	545
Bonus	**–**	300
Retirement scheme contributions	**–**	38
	–	883

	Number of individuals	
	2008	2007
Below HK$1,000,000 (RMB881,900)	**–**	2

(d) During the years ended 31 December 2008 and 2007, 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.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

27 Finance costs – net

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest expense on bank borrowings wholly repayable within five years	**10,210**	7,254
Interest expense on discounted commercial notes	**11,645**	7,442
Others	**1,295**	–
Finance costs – net	**23,150**	14,696

28 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	
	2008	2007
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	**20,044**	4,564
– Hong Kong profits tax	**573**	137
Deferred income tax *(Note 22)*	**(6,022)**	(2,272)
	14,595	2,429

Effective from 1 January 2008, the Company and its PRC subsidiaries 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 PRC subsidiaries changed to 25% from 1 January 2008 onwards.

The Company and Shenhua Logistics are incorporated in Pudong New Area of Shanghai. Pursuant to the implementation guidance of the new CIT Law, the Company and Shenhua Logistics are subject to 18%(2007:15%) on their assessable profit for the year ended 31 December 2008. Such tax rate will gradually increase to 25% in a four-year period from 2009 to 2012.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

28 Taxation *(continued)*

The enterprise income tax rates of other group entities are as follows:

Name of subsidiary	Enterprise income tax rate 2008	2007
Wuhan Hualong	**25%**	33%
Donghua Hong Kong	**16.5%**	17.5%
Shenhua Logistics	**18%**	15% (50% tax reduction in 2007)
Zhengzhou Huasheng	**25%**	33%
Anhui Quanjiao	**25%**	33%
Wuhan Shenlong	**25%**	33%
Tonva Shipping Limited	**16.5%**	17.5%
Panva Shipping Limited	**16.5%**	17.5%
Shanghai Taihua	**25%**	15% (exempted from income tax in 2007)
Huayang Shipping	**25%**	33%
Taizhou Henghua	**25%**	33%
Taizhou Huaye	**25%**	33%
Jiangsu Tonva	**25%**	–
Jiuzhou Highway	**25%**	33%
Jiuzhou Construction	**25%**	33%
Nantong Shenzhou	**25%**	33%
Nantong Highway and Bridge	**25%**	33%
Nantong Jianjian	**25%**	–

Suzhong Shipping and Shenhua Dongtai, are treated as small-scale companies for income tax purpose. According to a circular issued by Jiangsu provincial tax bureau in December 2003, the income tax of Suzhong Shipping and Shenhua Dongtai are charged at 3.3% of their revenue.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

28 Taxation *(continued)*

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit before taxation	**57,419**	48,692
Tax calculated at tax rate of 18% (2007: 15%)	**10,335**	7,304
Effect of different tax rates for subsidiaries	**3,213**	(881)
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	**(1,334)**	(3,485)
Tax losses for which no deferred income tax asset was recognised	**1,941**	–
Others	**440**	783
Taxation charges	**14,595**	2,429

29 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 RMB24,178,000 (2007: RMB32,408,000) (Note 19).

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

30 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	
	2008	2007
	RMB'000	RMB'000
Profit attributable to equity holders of the Company (RMB'000)	**35,404**	46,105
Weighted average number of ordinary shares in issue (thousands)	**936,190**	718,902
Basic earnings per share (RMB per share)	**0.038**	0.064

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 2008 and 2007.

31 Dividends

Dividends declared by the Company during the years ended 31 December 2008 and 2007 are set out as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Dividend in respect of the year ended 31 December 2007 *(Note a)*	**–**	14,043
Proposed dividends in respect of the year ended 31 December 2008 *(Note b)*	**10,298**	–
	10,298	14,043

(a) At a meeting held on 26 March 2008, the directors of the Company proposed a final dividend of RMB14,043,000 at RMB0.015 per ordinary share in respect of the year ended 31 December 2007. This dividend was not reflected as a dividend payable as at 31 December 2007, but was reflected as an appropriation of retained earnings for the year ended 31 December 2008.

(b) At a meeting held on 30 March 2009, the directors of the Company recommended the payment of a final dividend of RMB10,298,000 at RMB0.011 per ordinary share in respect of the year ended 31 December 2008. Such dividend is to be approved by the shareholders at the Annual General Meeting to be held on 21 May 2009. These financial statements do not reflect this dividend payable.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

32 Cash generated from operations

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit before tax	**57,419**	48,692
Adjustments for:		
Finance costs – net	**23,150**	14,696
Share of loss/(profit) of associates	**894**	(1,935)
Provision for impairment of receivables *(Note 14)*	**21,386**	5,495
Amortisation of land use rights *(Note 6)*	**233**	213
Depreciation of property, plant and equipment *(Note 7)*	**19,292**	11,688
Amortisation of intangible assets *(Note 9)*	**9,844**	113
Gain on disposal of property, plant and equipment, net (see below)	**(2,314)**	(1,439)
Gain on disposal of available-for-sale financial assets	**–**	(370)
(Gain)/loss on disposal of subsidiaries *(Note 34)*	**(560)**	11
Dividends received from unlisted investments *(Note 23)*	**(6,990)**	(17,946)
Interest income *(Note 23)*	**(2,369)**	(1,504)
Operating profit before working capital changes	**119,985**	57,714
Decrease in inventories	**27,756**	55,031
Increase in trade and other receivables	**(190,798)**	(249,582)
(Decrease)/increase in trade and other payables	**(105,488)**	128,362
Increase in restricted deposits	**(56,796)**	(14,500)
Net cash used in operations	**(205,341)**	(22,975)

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

32 Cash generated from operations *(continued)*

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Net book amount *(Note 7)*	**2,602**	2,162
Gain on disposal of property, plant and equipment	**2,314**	1,439
	4,916	3,601
Portion of consideration to be received	**(330)**	–
Portion of consideration received	**4,586**	3,601

In 2007, the principal non-cash transaction is the settlement of the purchase consideration for the acquisition of the 25% equity interest in Nantong Highway and Bridge by setting off against the Group's accounts receivable of RMB32,680,000 due from the seller.

33 Business combination

(a) On 11 August 2008, the Company acquired an additional 37.44% equity interest in Nantong Group. Consequently, the Group's equity interest in Nantong Group increased from 25% to 62.44%.

The acquired business contributed revenues of RMB405,617,000 and net profit of RMB19,965,000 to the Group for the period from 11 August 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, the consolidated revenue would have been RMB1,831,135,000; and net profit would have been RMB42,659,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, together with the consequential tax effects.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

33 Business combination *(continued)*

(a) *(continued)*

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

	Fair value RMB'000
Land use rights	1,089
Property, plant and equipment	62,654
Construction-in-progress	4,023
Intangible assets-computer software	217
Intangible assets-construction license	131,266
Intangible assets-customer contracts	18,558
Trade and other receivables	53,140
Inventories	80,614
Amount due from customers for contract work	9,595
Trade and other receivables	307,939
Restricted bank deposits	2,825
Cash and cash equivalents	25,768
Tax payable	(20,594)
Trade and other payables	(332,208)
Amount due to customers for contract work	(5,174)
Borrowings	(160,000)
Deferred tax liabilities	(29,623)
Minority interest	(4,786)
Fair value of net assets	145,303
37.44% net assets acquired	54,401
Goodwill arising therefrom	5,091
Total purchase consideration	59,492
Purchase consideration payable to the vendor	48,942
Direct cost relating to the acquisition	10,550
Total purchase consideration	59,492
Cash and cash equivalents in subsidiaries acquired	(25,768)
Direct cost to be settled	(1,669)
Cash outflow on acquisition	32,055

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

33 Business combination *(continued)*

(b) In 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 follows:

	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 interest (35%)	(1,750)
Net assets acquired	3,250
Purchase consideration settled in cash	(3,250)
Cash and cash equivalents in the subsidiary acquired	3,265
Cash inflow on acquisition	15

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

34 Disposal of subsidiaries

The disposal of certain subsidiaries in 2008 is analysed as follows:

	Carrying amount RMB'000
Property, plant and equipment *(Note 7)*	757
Construction-in-progress *(Note 8)*	3,536
Cash and cash equivalents	453
Other assets-net	4,785
Minority interest	(4,991)
Net assets disposed	4,540
Total consideration to be received	(5,100)
Gain on disposal of subsidiaries	(560)
Consideration received	–
Cash balances of subsidiaries disposed	(453)
Net cash outflow arising from disposal	(453)

35 Financial guarantee contracts – Group and Company

	Group As at 31 December		**Company** As at 31 December	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Fair value of outstanding financial guarantees	**732**	1,616	**955**	4,390

The Group has acted as guarantor for various external borrowings made by certain third and related party entities amounting to approximately RMB55,000,000 as at 31 December 2008 (2007: RMB60,000,000).

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

35 Financial guarantee contracts-Group and Company *(continued)*

The Group	Total guarantee As at 31 December		Amount of facility utilised As at 31 December		Expiry date As at 31 December	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000		
Nantong Highway and Bridge	–	25,000	–	15,000	–	2 June 2010
Nantong Highway and Bridge	–	20,000	–	20,000	–	17 September 2010
Nantong Jiuzhou	–	15,000	–	15,000	–	7 August 2010
Ningbo Yuanxiang *(Note)*	**22,000**	–	**10,000**	–	**21 February 2011**	–
Tongzhou Jinjiang *(Note)*	**10,000**	–	**10,000**	–	**20 March 2015**	–
Rugao Jiaotong	**8,000**	–	**8,000**	–	**10 December 2011**	–
Nantong Junye *(Note)*	**5,000**	–	**5,000**	–	**1 February 2011**	–
Tongzhou Hongtong *(Note)*	**10,000**	–	**10,000**	–	**25 September 2012**	–
Total	**55,000**	60,000	**43,000**	50,000		

Note: Ningbo Yuanxiang Communication Construction Co., Ltd（寧波遠翔交通建設有限公司）("Ningbo Yuanxiang"), Nantong Jinjiang Communication Investment Co., Ltd.（通州金江交通投資有限公司）("Nantong Jinjiang"), Nantong Junye Asphalt Co., Ltd（南通市俊業混凝土有限公司）("Nantong Junye"), Tongzhou Hongtong Communication Investment Co., Ltd.（通州市弘通交通投資有限公司）("Tongzhou Hongtong") are independent third parties.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

35 Financial guarantee contracts-Group and Company *(continued)*

The Company	Total guarantee As at 31 December		Amount of facility utilised As at 31 December		Expiry date As at 31 December	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000		
Wuhan Hualong	**50,000**	50,000	**–**	–	**11 March 2011**	11 March 2011
Nantong Highway and bridge	**30,000**	25,000	**30,000**	15,000	**21 October 2011**	2 June 2010
Nantong Highway and bridge	**20,000**	20,000	**15,000**	20,000	**14 August 2011**	17 September 2010
Nantong Highway and bridge	**90,000**	–	**20,000**	–	**20 August 2011**	–
Nantong Jiuzhou	**15,000**	15,000	**14,500**	15,000	**22 December 2011**	22 December 2011
Zhenzhou Huashen	**19,500**	–	**5,000**	–	**10 March 2011**	–
Shanghai Taihua	**10,000**	–	**10,000**	–	**3 December 2011**	–
Total	**234,500**	110,000	**94,500**	50,000		

The directors of the Group 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. All these guarantees were provided by the Group at no charge. Management of the Group estimated the fair value of these financial guarantee contracts on the basis described in Note 3.3. At inception of these contracts, a liability was recorded on the balance sheet using the estimated fair value, and expense of the same amount was recorded in "other expense" in the consolidated income statement.

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

36 Commitments

(a) Capital commitments

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

	Group	
	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Contracted but not provided for:		
Investment in an associate	–	20,000
Land use rights	–	12,120
Property, plant and equipment	**1,141**	3,828
	1,141	35,948

	Company	
	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Contracted but not provided for:		
Investment in subsidiaries	**60,720**	–

(b) Operating lease commitments – where the Group is the lessee

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of transportation facilities, office premises and warehouse facilities as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Not later than one year	**7,986**	6,223
Later than one year and not later than five years	**21,033**	10,456
Later than five years	**13,422**	14,817
	42,441	31,496

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

37 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 and Bridge	Associate of the Company before 11 August 2008
Nantong Jiuzhou	Subsidiary of Nantong Highway and Bridge

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

(b) Transactions with related parties

The following transactions were carried out with related parties:

(i) Sales of asphalts to

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Jiangxi Ganbei	**–**	21,910
Jiangxi Huatong	**–**	2,934
Nantong Highway and Bridge	**39,786**	1,111
Pudong Road and Bridge	**9,760**	–
	49,546	25,955

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

37 Related party transactions *(continued)*

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

(ii) Provision of services to

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Nantong Highway and Bridge	**8,432**	3,946
Jiangxi Huatong	**–**	79
Pudong Road and Bridge	**391**	–
	8,823	4,025

(iii) Purchase of asphalts from

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Pudong Road and Bridge	**119**	–

(iv) Provision of financial guarantees to (Note 35)

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Nantong Highway and Bridge	**–**	45,000
Nantong Jiuzhou	**–**	15,000
	–	60,000

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

37 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 As at 31 December		Company As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Nantong Highway and Bridge	**–**	3,946	**–**	–
Pudong Road and Bridge	**3,066**	–	**2,724**	–
	3,066	3,946	**2,724**	–

Due to related parties *(Note 20)*

	Group As at 31 December		Company As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pudong Road and Bridge	**3,390**	–	**3,390**	–

Notes to the Consolidated Financial Statements
(continued)

For the year ended 31 December 2008

37 Related party transactions *(continued)*

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

(vi) Key management compensation

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Basic salaries and allowances	**3,055**	2,239
Bonus	**1,166**	723
Retirement scheme contributions	**162**	166
	4,383	3,128

38 Events after the balance sheet date

(a) Subsequent to 31 December 2008, the Group has secured short-term loans totaled RMB156,000,000, and a long-term loan of RMB70,000,000 which is gradually repayable in 2011 and 2012.

(b) At a meeting held on 30 March 2009, the directors of the Company recommended the payment of a final dividend of RMB10,298,000 at RMB0.011 per ordinary share in respect of the year ended 31 December 2008. Such dividend is to be approved by the shareholders at the Annual General Meeting to be held on 21 May 2009. These financial statements do not reflect this dividend payable.