TONVA
上海栋华

SHANGHAI TONVA PETROCHEMICAL CO., LTD.*

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

Stock Code: 8251

Annual Report 2011

*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.

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Summary of Financial Information

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
Turnover	**3,220,685**	2,475,024	1,581,550	1,504,659	1,018,919
Profit before income tax expense	**92,982**	102,221	34,232	57,419	48,692
Profit attributable to owners of the Company	**71,722**	66,972	2,268	35,404	46,105
Net profit margin	**2.23%**	2.71%	0.14%	2.35%	4.52%
Earnings per share (RMB)	**0.077**	0.072	0.002	0.038	0.064

ASSETS AND LIABILITIES

	As at 31 December				
	2011	2010	2009	2008	2007
Non-current assets	**623,991**	618,494	659,681	683,118	222,613
Current assets	**1,839,851**	1,330,998	1,269,584	899,788	704,379
Non-current liabilities	**(22,127)**	(69,981)	(135,182)	(24,405)	(3,750)
Current liabilities	**(1,750,503)**	(1,223,438)	(1,212,596)	(965,369)	(452,773)
Non-controlling interests	**(92,624)**	(108,280)	(89,131)	(92,668)	(7,379)
Capital and reserves attributable to owners of the Company	**598,588**	547,793	492,356	500,464	463,090

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Chan Cheuk Wing Andy
Hsu Chun-min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Li
Ye Mingzhu
Zhu Shengfu

SUPERVISORS

Ge Jiaqi
Cai Ying
Zhu Yinghua

AUDITOR

BDO Limited, *Certified Public Accountants*

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 703
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
Chan Cheuk Wing Andy
Ye Mingzhu
Zhu Shengfu

MEMBERS OF THE REMUNERATION COMMITTEE

Li Li
Ye Mingzhu
Zhu Shengfu
Shao Dan

MEMBERS OF NOMINATION COMMITTEE

Qian Wenhua
Li Li
Ye Mingzhu
Zhu Shengfu

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Citibank
China Minsheng Bank
Bank of China Limited
Agricultural Bank of China Limited

Chairman's Statement

2011 was the first year of the "Twelfth Five-Year Plan", witnessing the most complex and volatile economic environment both at home and abroad. The United States of America was plagued with sluggish economic growth, while the debt crisis in Eurozone continued to get worse. Though maintaining a good momentum of economic growth, China faced an increasing number of uncertainties. In an environment of both opportunities and challenges and with dedicated efforts of our staff, the Company maintained a solid growth in overall operating results. In a market environment which is well-supported by policies of the "Twelfth Five-Year Plan" and boosted by domestic economy, the Group is very confident of future business developments.

On the back of our increasingly mature business operations, the Group adjusted our business structure in an effective and timely manner in response to market changes during the reporting period. Meanwhile, the Group optimized resource allocation among our major business segments, so as to guarantee smooth product supply services and sufficient available funds. The Group recorded significant growth both in turnover and profit after tax during the period, laying a solid foundation for the development of the Group in the year ahead. In the coming year, the Group will actively develop the road and bridge construction business to leverage on the opportunities brought forth by the "Twelfth Five-Year Plan" while continue to capture opportunities of China's vigorous infrastructure development and consolidate its three core businesses, i.e. the road and bridge construction, fuel oil trading and asphalt trading businesses. Therefore, the year 2012 will be a year full of opportunities to the Group.

Results of the Year

During the reporting period, the Group's profit after tax increased by 11.7% over last year to approximately RMB89,481,000 (2010: approximately RMB80,077,000). The steady rise in profit is mainly attributable to a year-on-year increase of 30.1% in turnover during the reporting period. The fuel oil trading business, being one of the three major business segments of the Group, recorded a significant growth in turnover, accounting for more than half of the Group's turnover in 2011 (approximately 57.0%) and thus became one of the Group's major sources of revenue. Profit attributable to shareholders of the Company increased by 7.1% over last year to approximately RMB71,722,000 (2010: RMB66,972,000). This positive data of continuous growth reflects the Group's overall performance in business operations in 2011, bringing a good foundation for the development of the Group in the year ahead.

Business overview and major factors affecting the profit

During the reporting period, in spite of the continuing tight monetary policy in China, with our effective management, extensive experiences, advanced technology and equipments in construction and leveraging on our overall strength and resource advantage, the Company made steady progress in the construction of all road and bridge construction projects on hand while actively participated in market competition, and succeeded in bidding for a number of large road or bridge construction projects. During the reporting period, the Group achieved stable growth in the road and bridge construction business, which recorded an income of approximately RMB920,354,000, representing an increase of 21.3% over last year.

The fuel oil trading business recorded a significant growth in 2011. The Group implemented a policy for lower margins but quick turnover for the business and therefore has successfully developed many quality customers of that business and increased the Group's market competitiveness, which drove the increase in the Group's overall profits. During the reporting period, the Group's fuel oil sales volume grew by 88.8% over last year and its turnover increased by 132.3% year on year to approximately RMB1,837,160,000. All these have proved that, in face of a complex and volatile market environment, the quality business portfolio and timely-adjusted sales strategy adopted by the Company as well as the strategic adjustment made by the Group from time to time were successful and effective.

During the reporting period, due to the tightening of monetary policy, the asphalt business declined. Turnover of the Group's asphalt trading business for the year ended 31 December 2011 amounted to approximately RMB403,412,000, representing a decrease of approximately 53.3% from 2010. Another reason for the decline in the business over last year was good sales performance of the asphalt trading business in 2010 driven by the Shanghai World Expo, while it returned to normal level in 2011 since no such similar large project was held in the areas where we operated. Taking this into consideration, we believed that the operation of the business was in good condition with the gross margin of the business at 7.4%.

As for the logistics business, the Company successfully secured several major customers for our transportation and storage businesses in 2011. In addition, the Company further improved the operation management of the logistics business. As a result, the logistics business brought greater contribution to the Group over last year. The turnover of the logistics business recorded a slight decline of 3.1% as compared with the same period of last year, but since the cost of sales decreased by approximately 12.4% over last year, the logistics business achieved a gross profit of approximately RMB11,060,000, representing an increase of approximately 83.2% over last year.

Prospect

Driven by the State's Twelfth Five-Year Plan, it is expected that the road and bridge construction business will achieve stable growth. As of 31 December 2011, the construction contracts of the Group signed but not yet recognized as revenue amounted to approximately RMB700 million, most of which will be completed within the next 15 months. With the commencement of construction for projects such as Shanghai Disneyland Park and the coastal development projects in Northern Jiangsu province, we are confident to win the bidding of more projects. The Group has confidence in achieving good development in road and bridge construction business in the coming year.

The fuel oil trading business has reached a certain scale and has secured a herd of mature major customers. With the gradual enhancement of bargaining power and continuous expansion of business scale, we believe that the business will maintain sustainable growth. Therefore, the Company will continue to actively explore markets in Shanghai and the neighboring provinces and cities to constantly expand our customer base and improve our market competitiveness as well as to explore and achieve additional potential market shares, so as to be better positioned for the Group's future developments.

Driven by the State's Twelfth Five-Year Plan, it is expected that the domestic demand for asphalt will rise continuously on the increase in infrastructure projects. Also with the launch of the Shanghai Disneyland project in the future, the Group therefore believes that the asphalt trading business will maintain steady growth. Meanwhile, leveraging on the existing scale of business, the Company will also continue to expand its customer base and enhance its market competitiveness to endeavour to increase the business's contribution of profit in the Company.

For the logistic businesses segment, the Group will continue to improve service quality so as to satisfy and ensure the development of fuel oil and asphalt trading business, hence optimizing enterprise's resources, attracting more quality customers, enhancing the Group's image and position in the industry and promoting the Group's overall operating performance.

Appreciation

Finally, I wish to express my gratitude to the Board members, the management and 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

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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2011, with the central government's tightening measures, the Group adjusted business strategies and optimized resource allocation in a timely manner in response to market changes, enabling the Group's three major business segments to achieve stable development and the turnover of the Group to record an encouraging growth during the reporting period. During the period, the Company proceeded steadily with the construction of various road and bridge projects, meanwhile the Company also actively participated in market competition and won the bidding of several large road and bridge projects. The road and bridge construction business of the Group grew steadily and recorded an income of approximately RMB920,354,000 during the reporting period, representing an increase of approximately 21.3% over last year. During the period, the fuel oil trading business grew rapidly. With broader customer base and enhanced competitive edge, the business became the growth engine for the Group which drove the overall earning of the Group. The turnover and sales volume of the business increased by approximately 132.3% and approximately 88.8% over last year, respectively. As for the asphalt trading business, mainly due to the tight monetary policy, this business declined to certain extent. Another reason for the decline in the business over last year was the good sales performance of the asphalt trading business in 2010 driven by the Shanghai World Expo, while it returned to normal level in 2011 since no such similar large project was held in the areas where we operated. As for the logistics business, the Company successfully secured several major customers for our transportation and storage businesses. In addition, the Company further improved the operation management of the logistics business. As a result, the logistics business brought greater contribution to the Group over last year. For the twelve months ended 31 December 2011, the turnover of the Group amounted to approximately RMB3,220,685,000, representing an increase of approximately 30.1% over last year.

Road and Bridge Construction Business

For the year ended 31 December 2011, turnover for the Group's road and bridge construction business was approximately RMB920,354,000 (2010: approximately RMB758,875,000), up by approximately 21.3% over last year and accounting for approximately 28.6% of the Group's total turnover. Cost of road and bridge construction business was approximately RMB828,736,000 (2010: approximately RMB671,333,000) in 2011, up by approximately 23.4% over that in the previous year.

In 2011, gross profit for the Group's road and bridge construction business increased to a certain extent to approximately RMB91,618,000 (2010: approximately RMB87,542,000) and gross margin was approximately 10.0% (2010: approximately 11.5%).

Despite the monetary austerity measures by the PRC government to contain inflation, the road and bridge construction business of the Group remained unaffected and still maintained good development momentum thanks to optimization of resource allocation by the Group. Related construction projects were progressing smoothly and the amount receivables for construction were duly collected.

Fuel Oil Trading Business

The Yangtze River Delta region, where the Group operates, is one of the major fuel oil consumption areas in the PRC. During the year, apart from the operations for our traditional power plants and glass factory customer groups, the Group introduced the marine fuel oil business which expanded the Group's fuel oil customer base and increased the Group's competitiveness in the fuel oil market. Currently, the storage network locations of fuel oil are mainly in Shanghai, with a total storage capacity of 10,000 tons.

For the year ended 31 December 2011, turnover for fuel oil trading business was approximately RMB1,837,160,000 (2010: approximately RMB790,945,000), accounting for approximately 57.0% of the Group's total turnover. The Group's cost of sales of fuel oil was approximately RMB1,777,569,000 (2010: approximately RMB770,018,000), increased by approximately 130.8% over last year, accounting for approximately 58.7% of the Group's total cost of sales.

During the year, sales volume of fuel oil was approximately 430,000 tons, representing an increase of 88.8% over 2010. For the year ended 31 December 2011, the Group's gross profit from the fuel oil business was approximately RMB59,591,000 (2010: approximately RMB20,927,000), whereas the gross margin increased from 2.6% last year to approximately 3.2%.

The significant increase in fuel oil trading business was mainly attributable to the short turnover cycle of trading capital required for the business, high capital utilization rate and several new major customers secured by the Group during this year, all of which contributed largely to the sales volume of the Group.

Asphalt Trading Business

The Group is 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.

For the year ended 31 December 2011, turnover of the Group's asphalt trading business was approximately RMB403,412,000 (2010: approximately RMB863,551,000), representing a decrease of approximately 53.3% over the previous year and accounting for approximately 12.5% of the Group's total turnover.

For the year ended 31 December 2011, the Group's cost of sales of asphalt was approximately RMB373,720,000 (2010: approximately RMB795,295,000), representing a year-on-year decrease of approximately 53.0%.

For the year ended 31 December 2011, gross profit of the Group's asphalt trading business decreased by approximately 56.5% to approximately RMB29,692,000 as compared to the corresponding period last year. The gross margin was approximately 7.4%, similar with 7.9% in 2010.

The decrease of income and gross profit from the asphalt trading business during the period was mainly attributable to a rapid surge in demand for asphalt in Shanghai in 2010, resulting from the increase of road construction projects due to the Shanghai World Expo. While in this year, with an aim to control inflation, the government implemented monetary austerity measures, which resulted in a shortage of funds for certain asphalt users, delayed the commencement of road construction projects and subsequently pushed down the demand for asphalt.

Logistics Service Business

The Group has actively developed its logistics service business, which caters mainly transport and warehouse service for fuel oil and asphalt for both the Group and external customers. By the end of 2010, the Group has set up 8 storage network locating mainly in Shanghai, Jiangsu Province (Taizhou and Changzhou), Anhui Province (Hefei and Anqing), Nanchang in Jiangxi Province, Wuhan in Hubei Province and Zhengzhou in Henan Province, with a total storage capacity of 160,000 tons. Moreover, the Group has 1 ocean vessel and 4 river carriers and 27 delivery vehicles, with a total loading capacity of 8,000 tons.

For the year ended 31 December 2011, the Group's turnover for logistics services was approximately RMB59,759,000 (2010: approximately RMB61,653,000), representing a slight decrease of approximately 3.1% over last year and accounting for approximately 1.9% of the Group's total turnover. Cost of sales for logistics services in 2011 was approximately RMB48,698,000 (2010: approximately RMB55,614,000), representing a decrease of approximately 12.4% over the previous year.

For the year ended 31 December 2011, gross profit of the Group's logistics service business was approximately RMB11,061,000 (2010: approximately RMB6,039,000) and gross margin was approximately 18.5%, as compared to approximately 9.8% in the same period of last year.

Profit for the Year

For the year ended 31 December 2011, the Group recorded profit attributable to owners of the Company for the year of approximately RMB71,722,000 (2010: approximately RMB66,972,000), representing an increase of approximately 7.1% over last year.

Other Income and Gains

Other income and gains increased from approximately RMB27,177,000 for the year ended 31 December 2010 to approximately RMB37,714,000 for the year ended 2011. The increase in the other income and gains was mainly due to the interest income of approximately RMB10,183,000 (2010: Nil) for a guaranteed deposit from customer in the road and bridge construction segment in the amount of RMB84,864,000 (2010: Nil).

Administrative Expenses

For the year ended 31 December 2011, the administrative expenses increased by approximately 50.2% to approximately RMB93,394,000. The increase in administrative expenses was mainly because the Group has made approximately RMB18,882,000 discount provision for balances of trade receivables on road and bridge construction business segment according to the accounting standards. It is due to the increase in the income in road and bridge construction business and the upfloat of discount rate this year affected by the PRC market's benchmark lending rate. There was reversal of such provision of approximately RMB3,967,000 last year.

Distribution Costs

For the year ended 31 December 2011, the distribution costs were approximately RMB13,611,000, which decreased by approximately 21.1% as compared with the previous year. The decrease in distribution costs was mainly because the decrease in sales of asphalt which reduced the relative distribution costs arising thereof for the year.

Finance Costs

The finance costs for the year were approximately RMB29,009,000, representing a year-on-year increase of approximately 3.3%. The increase in finance costs was mainly due to higher overall gearing ratio resulting from the increase in funding requirements arising from the development of fuel oil business and road and bridge construction projects.

Capital Structure, Liquidity and Financial Resources

Net Current Assets Value

As at 31 December 2011, the Group had current assets of approximately RMB1,839,851,000 (2010: approximately RMB1,330,998,000). The current assets comprised: cash and cash equivalents amounting to approximately RMB218,545,000 (2010: approximately RMB89,155,000), restricted bank deposits of approximately RMB89,570,000 (2010: approximately RMB47,054,000), tax recoverable amounting to approximately RMB1,734,000 (2010: approximately RMB2,579,000), trade and other receivables of approximately RMB1,419,309,000 (2010: approximately RMB1,085,690,000), amounts due from customers for contract work of approximately RMB33,738,000 (2010: approximately RMB46,986,000), inventories of approximately RMB66,489,000 (2010: approximately RMB59,534,000) and assets classified as held for sale of approximately RMB10,466,000 (2010: Nil). The Group had current liabilities of approximately RMB1,750,503,000 (2010: approximately RMB1,223,438,000). The current liabilities comprised: borrowings of approximately RMB1,000,480,000 (2010: approximately RMB605,029,000), trade and other payables of approximately RMB712,457,000 (2010: approximately RMB568,451,000), amounts due to customers for contract work of approximately RMB17,927,000 (2010: approximately RMB16,114,000) and current income tax liabilities of approximately RMB19,639,000 (2010: approximately RMB33,844,000). As at 31 December 2011, the net current asset value was RMB89,348,000 (2010: approximately RMB107,560,000).

Working Capital

As at 31 December 2011, the Group had restricted bank deposits and cash and cash equivalents of approximately RMB308,115,000 (2010: approximately RMB136,209,000). The net cash generated from financing activities was approximately RMB306,744,000 (2010: The net cash used in financing activities was approximately RMB33,218,000).

Borrowings

As at 31 December 2011, the Group did not have any long-term borrowings (2010: approximately RMB35,000,000) and had short-term borrowings of approximately RMB1,000,480,000 (2010: approximately RMB605,029,000). All of the Group's borrowings were denominated in RMB.

Charges of Assets

As at 31 December 2011, no payments for leasehold land held for own use under operating leases were pledged (2010: approximately RMB7,671,000) as security for the Group's borrowings.

As at 31 December 2011, property, plant and equipment with a net book value of approximately RMB24,947,000 (2010: approximately RMB14,961,000) were pledged as security for the Group's borrowings.

As at 31 December 2011, trade receivables of approximately RMB50,000,000 (2010: approximately RMB102,517,000) were pledged as security for the Group's borrowings.

As at 31 December 2011, the Group had restricted bank deposits of approximately RMB89,570,000 (2010: RMB47,054,000) as collateral for the issuance of commercial notes, performance bonds and bid bonds to customers.

Debt to Asset Ratio

The debt to asset ratio as at 31 December 2011 was approximately 71.9% (2010: approximately 66.3%) 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 Dollars (USD) and Hong Kong Dollars (HKD). Foreign currency 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 55, 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. Mr. Qian is the Chairman and the Chief Executive officer of the Company currently.

Mr. Lu Yong (陸勇), aged 57, 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 and the Executive Director of the Company currently.

Mr. Zhang Jinhua (張金華), aged 47, 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. Zhang is the Executive Director and the Vice President of the Company currently.

Mr. Jin Xiaohua (金曉華), aged 41, holds EMBA from Nankai University. 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. From August 2007 to December 2010, Mr. Jin has been appointed as General Manager of the Company, and has been responsible for asphalt segment of the Group. Mr. Jin is the Executive Director and the Vice President of the Company currently.

Mr. Li Hongyuan (李鴻源), aged 55, 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 the Executive Director and the vice President of the Company, and responsible for the Group's fuel oil trading business currently.

Mr. Mo Luojiang (莫羅江), aged 34, 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 responsible for corporate governance and capital market finance and the asphalt business in Henan & Hubei of the Group. Mr. Mo awarded "The Excellence in Achievement of World Chinese Youth Entrepreneurs" in 2008. He is the Executive Director and the vice President of the Company currently.

NON-EXECUTIVE DIRECTORS

Mr. Chan Cheuk Wing Andy (陳焯榮), aged 36, has extensive experience in private equity in pan-Asia region and strategic management consulting. Currently, Mr. Chan is the vice president of CLSA Capital Partner (HK) Ltd. Prior to joining CLSA Group, Mr. Chan was with CITIC International Assets Management Ltd, a company specialized in direct investment in China where Mr. Chan was responsible for deal evaluation and execution as well as fund formation. Mr. Chan was formerly the investment manager of PAMA Group and EMP-Daiwa Capital Asia Ltd, both are pan-Asia private equity funds, responsible for direct investment in pan-Asia region. He also worked for strategic management consulting companies, A.T. Kearney and IF Consulting, in New York, Boston and London as a management consultant. Mr. Chan holds an MBA from Duke University and a bachelor's degree in business from the University of Michigan in the United States of America.

Mr. Hsu Chun-min (許群敏), aged 59, 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 33, is currently working at CITIC Private Equity Funds Management Co., Ltd (中信產業投資基金管理有限公司). 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.

Ms. Ye Mingzhu (葉明珠), aged 66, is a Certified Public Accountant in China. She has over 40 years experience in respect of auditing, finance and accounting.

Mr. Zhu Shengfu (朱生富), aged 62, 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.

SUPERVISORS AS NOMINATED BY SHAREHOLDERS OR EMPLOYEES

Mr. Ge Jiaqi (葛家齊), aged 58, 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 of Shanghai Shenhua Logistics Company Limited. Since November 2010, He has been appointed as general manager of Shanghai Shenhua logistics Company Limited.

Mr. Cai Ying (蔡盈), aged 30, graduated from Huaqiao University, and worked in the market department of COSCO International Air Freight (Shanghai) Co., Ltd in 2005. Mr. Cai Ying was appointed the General Manager Assistant of Shanghai Shenhua Logistic Company Limited from 2007.

Ms. Zhu Yinghua (朱穎華), aged 31, graduated from East China University of Political Science and Law, has been working in the Company since 2002.

SENIOR MANAGEMENT

Mr. Xu Jianwei (許建偉), aged 58, 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 is the vice President of the Company, and responsible for the Group's management and operation of land and inland water transport.

Mr. Tsui Kan Chun (徐勤進), aged 39, 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.

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 2011.

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 Mr. Qian Wenhua 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.

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. Chan Cheuk Wing Andy 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 Directors 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.

Attendance of individual Directors at Board meetings for 2011:

Number of meetings	10	
Executive Directors:		
Qian Wenhua	10/10	100%
Lu Yong	9/10	90%
Zhang Jinhua	9/10	90%
Jin Xiaohua	10/10	100%
Li Hongyuan	10/10	100%
Mo Luojiang	10/10	100%
Non-executive Directors:		
Hsu Chun-min	10/10	100%
Chan Cheuk Wing Andy	10/10	100%
Independent Non-executive Directors:		
Li Li	10/10	100%
Ye Mingzhu	10/10	100%
Zhu Shengfu	10/10	100%
Average attendance rate	98.2%	

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. Li Li. Other committees members are Mr. Shao Dan, Ms. Ye Mingzhu and Mr. Zhu Shengfu.

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.

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

Number of meetings	2	
Executive Director:		
Qian Wenhua[1]	1/1	100%
Independent Non-executive Directors:		
Li Li	2/2	100%
Ye Mingzhu	2/2	100%
Zhu Shengfu	2/2	100%
Others:		
Shao Dan[2]	1/1	100%
Average attendance rate	100%	

Note:

1. Mr. Qian Wenhua resigned as a remuneration committee member on 16 February 2012.

2. Mr. Shao Dan was appointed as a remuneration committee member of the Company on 16 February 2012.

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 COMMITTEE

The Company did not have nomination committee in 2011. The Company established the nomination committee on 16 February 2012 in accordance with the latest GEM Listing Rules issued in 2012. The majority of committee members are independent non-executive Directors and the committee chairman is Mr. Qian Wenhua, the other members include Mr. Li Li, Ms. Ye Mingzhu and Mr. Zhu Shengfu.

The primary duties of the nomination committee are review the structure, size and composition of the Board on a regular basis and make recommendations on any proposed change to the Board to complement the Company's corporate strategies. Furthermore, the committee will make recommendations to the Board on matters relating to the appointment or re-appointment of directors and succession planning for directors, subject to the final approval in the general meeting.

AUDITOR'S 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 auditor including whether such non-auditing functions could lead to any potential material adverse effect on the Company. During the year, the Company has paid an aggregate of approximately RMB3,088,000 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 5 meetings during the year.

Details of the attendance of the audit committee:

Number of meetings	5	
Non-executive Directors:		
Chan Cheuk Wing Andy	5/5	100%
Independent Non-executive Directors:		
Li Li	5/5	100%
Ye Mingzhu	5/5	100%
Zhu Shengfu	5/5	100%
Average attendance rate	100%	

The Group's unaudited interim results, unaudited quarterly results and annual audited results for the year ended 31 December 2011 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.

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 27 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 2011, 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 2011, which were audited by BDO Limited, 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. Ge Jiaqi
Chairman of the Supervisory Committee

Shanghai, 15 March 2012

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2011.

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 20 to the financial statements.

SEGMENT INFORMATION

Details of segment information are set out in note 6 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 29.

The state of the Group's affairs as at 31 December 2011 is set out in the consolidated statement of financial position on page 30 and 31.

There was no interim dividend during 2011 (2010: approximately RMB10,298,000).

In order to ensure sufficient cash for the business development in 2012, the Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2011 (2010: RMB0.022 per share). The Board has considered paying a cash dividend when appropriate in the future according to the actual cash position of the Company to reward the support of shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 31 to the financial statements.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 32 and consolidated statements of changes in equity, respectively, to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2011, 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 RMB149,869,000 (2010: RMB142,039,000).

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.

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. Zhang Jinhua
Mr. Jin Xiaohua
Mr. Li Hongyuan
Mr. Mo Luojiang

Non-executive Directors

Mr. Chan Cheuk Wing Andy
Mr. Hsu Chun-min

Independent Non-executive Directors

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

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 14 to 16.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years from his/her date of appointment as a Director or Supervisor and thereafter subject to termination by either party giving not less than one month's written notice to the other party.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the Directors' service contracts disclosed above, no contracts of significance in relation to the Group's business to which the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

At 31 December 2011, 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	225,706,000 (domestic shares)	35,854,000 *(Note 1)* (domestic Shares)	261,560,000	54.49	27.94
Lu Yong *(Executive Director)*	Beneficial owner	62,618,000 (domestic shares)	–	62,618,000	13.05	6.69
Li Hongyuan *(Executive Director)*	Beneficial owner	50,254,000 (domestic shares)	–	50,254,000	10.47	5.37
Zhang Jinhua *(Executive Director)*	Beneficial owner	15,152,000 (domestic shares)	–	15,152,000	3.16	1.62

Note 1: The 35,854,000 shares are held by Liu Huiping, the wife of Qian Wenhua, and such shares are deemed to be family interests held by Qian Wenhua.

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

At 31 December 2011, 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:

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
Liu Huiping *(Note 1)*	Beneficial owner	35,854,000 (domestic shares)	225,706,000 *(Note 1)* (domestic Shares)	261,560,000	–	54.49	27.94
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
Credit Agricole Securities Asia B.V. (formerly known as Calyon Capital Markets Asia B.V.)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Calyon Capital Markets International SA	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Credit Agricole Corporate and Investment Bank (formerly known as Calyon S.A.)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA B.V.	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA Capital Partners Limited (formerly known as CLSA Funds Limited)	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
CLSA Private Equity Management Limited	Investment manager	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Credit Agricole S.A	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
SAS Rue la Boetie	Interest in a controlled corporation	175,000,000 (H shares)	–	175,000,000 *(Note 2)*	–	38.36	18.69
Aria Investment Partners III, L.P. ("Aria III")	Interest in a controlled corporation	140,000,000 (H shares)	–	140,000,000 *(Note 2)*	–	30.69	14.95
Babylon Limited	Beneficial owner	140,000,000 (H shares)	–	140,000,000 *(Note 2)*	–	30.69	14.95
Aria Investment Partners II, L.P. ("Aria II")	Interest in a controlled corporation	35,000,000 (H shares)	–	35,000,000 *(Note 2)*	–	7.67	3.74
Mumiya Limited	Beneficial owner	35,000,000 (H shares)	–	35,000,000 *(Note 2)*	–	7.67	3.74

Note:

1. Liu Huiping is the wife of Qian Wenhua.

2. Mumiya Limited and Babylon Limited hold 35,000,000 and 140,000,000 H shares of the Company respectively. As Aria II controls more than one-third of the voting power at general meetings of Mumiya Limited, Aria II is deemed to be interested in 35,000,000 H shares held by Mumiya Limited pursuant to the SFO. Aria III controls more than one-third of the voting power at general meetings of Babylon Limited and is thus deemed to be interested in 140,000,000 H shares held by Babylon Limited pursuant to the SFO. As CLSA Private Equity Management Ltd. is the investment manager of Aria II and Aria III, it is deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO. SAS Rue la Boetie controls more than one-third of the voting power at the general meetings of Credit Agricole S.A., which in turn controls more than one-third of the voting power at general meetings of Credit Agricole Corporate and Investment Bank (formerly known as 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 Credit Agricole Securities Asia B.V. (formerly known as 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	8.45%
– five largest customers combined	29.12%

Purchases

– the largest supplier	11.70%
– five largest suppliers combined	44.12%

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 2011.

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. Chan Cheuk Wing Andy. 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 2011 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.

RELATED PARTIES TRANSACTIONS

A summary of the related parties transactions are disclosed in note 36 to the consolidated financial statements.

STAFF AND REMUNERATION POLICY

The Group staff functions were analyzed as follows:

	Number of staff	
	2011	2010
Functions:		
Management	**104**	97
Sales and marketing	**18**	14
Accounting and finance	**43**	39
Administration and human resources	**21**	22
Legal	**3**	3
Information system	**3**	3
Technical and quality control	**24**	25
Shipping and transportation	**78**	86
Storage centre	**57**	70
Engineer	**76**	71
Construction workers	**61**	62
Total	**488**	492

On 31 December 2011, the Group had 488 staff (2010: 492 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 RMB56,992,000 (2010: RMB50,854,000).

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 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.

AUDITOR OF THE COMPANY

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

On behalf of the Board

Qian Wenhua
Chairman

Shanghai, The PRC, 15 March 2012

Independent Auditor's Report

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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 29 to 94, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other 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 about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

Auditor's responsibility *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements that give a true and fair view 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 consolidated 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 2011 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.

BDO Limited
Certified Public Accountants

Alfred Lee
Practising Certificate Number P04960

Hong Kong, 15 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	*6*	**3,220,685**	2,475,024
Cost of sales		**(3,028,723)**	(2,292,260)
Gross profit		**191,962**	182,764
Other income and gains	*7*	**37,714**	27,177
Distribution costs		**(13,611)**	(17,254)
Administrative expenses		**(93,394)**	(62,196)
Share of losses of associates	*21*	**(680)**	(192)
Finance costs	*8*	**(29,009)**	(28,078)
Profit before income tax expense	*9*	**92,982**	102,221
Income tax expense	*12*	**(3,501)**	(22,144)
Profit for the year		**89,481**	80,077
Other comprehensive income			
Exchange differences on translating foreign operations		**(635)**	(481)
Total comprehensive income for the year		**88,846**	79,596
Profit attributable to:			
– Owners of the Company		**71,722**	66,972
– Non-controlling interests		**17,759**	13,105
		89,481	80,077
Total comprehensive income attributable to:			
– Owners of the Company		**71,087**	66,491
– Non-controlling interests		**17,759**	13,105
		88,846	79,596
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic	*14*	**0.077**	0.072
– Diluted	*14*	**0.077**	0.072

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Assets			
Non-current assets			
Payments for leasehold land held for own use under operating leases	*16*	**9,041**	9,245
Property, plant and equipment	*17*	**150,213**	175,116
Construction in progress	*18*	**–**	1,645
Intangible assets	*19*	**148,440**	148,512
Interests in associates	*21*	**42,177**	47,241
Available-for-sale financial asset	*22*	**800**	800
Trade and other receivables	*24*	**269,473**	225,462
Deferred tax assets	*30*	**3,847**	10,473
Total non-current assets		**623,991**	618,494
Current assets			
Inventories	*23*	**66,489**	59,534
Amounts due from customers for contract work	*25*	**33,738**	46,986
Trade and other receivables	*24*	**1,419,309**	1,085,690
Restricted bank deposits	*26*	**89,570**	47,054
Cash and cash equivalents		**218,545**	89,155
Tax recoverable		**1,734**	2,579
		1,829,385	1,330,998
Assets classified as held for sale	*27*	**10,466**	–
Total current assets		**1,839,851**	1,330,998
Total assets		**2,463,842**	1,949,492
Liabilities			
Current liabilities			
Trade and other payables	*28*	**712,457**	568,451
Amounts due to customers for contract work	*25*	**17,927**	16,114
Borrowings	*29*	**1,000,480**	605,029
Current tax liabilities		**19,639**	33,844
Total current liabilities		**1,750,503**	1,223,438
Net current assets		**89,348**	107,560
Total assets less current liabilities		**713,339**	726,054

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Borrowings	*29*	–	35,000
Deferred tax liabilities	*30*	**22,127**	34,981
Total non-current liabilities		**22,127**	69,981
Total liabilities		**1,772,630**	1,293,419
NET ASSETS		**691,212**	656,073
Capital and reserves attributable to owners of the Company			
Share capital	*31*	**93,619**	93,619
Reserves		**504,969**	454,174
Equity attributable to owners of the Company		**598,588**	547,793
Non-controlling interests		**92,624**	108,280
TOTAL EQUITY		**691,212**	656,073

On behalf of the Board

Qian Wenhua
Director

Mo Luojiang
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*17*	**21,476**	22,990
Construction in progress	*18*	**–**	–
Intangible assets	*19*	**94**	151
Investment in subsidiaries	*20*	**429,311**	366,230
Investment in associates	*21*	**20,636**	24,333
Available-for-sale financial asset	*22*	**800**	800
Deferred tax assets	*30*	**2,229**	2,229
Total non-current assets		**474,546**	416,733
Current assets			
Inventories	*23*	**17,330**	29,800
Trade and other receivables	*24*	**289,597**	296,840
Restricted bank deposits	*26*	**17,611**	3,026
Cash and cash equivalents		**37,168**	6,128
Tax recoverable		**1,734**	2,579
Total current assets		**363,440**	338,373
Total assets		**837,986**	755,106
Liabilities			
Current liabilities			
Trade and other payables	*28*	**110,937**	170,517
Borrowings	*29*	**223,000**	91,529
Total current liabilities		**333,937**	262,046
Net current assets		**29,503**	76,327
NET ASSETS		**504,049**	493,060
Capital and reserves			
Share capital	*31*	**93,619**	93,619
Reserves	*32*	**410,430**	399,441
TOTAL EQUITY		**504,049**	493,060

On behalf of the Board

Qian Wenhua
Director

Mo Luojiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000	Capital reserve *(note 32(a))* RMB'000	Statutory common reserve fund *(note 32(b))* RMB'000	Other reserve *(note 32(c))* RMB'000	Currency translation reserve *(note 32(d))* RMB'000	Retained earnings *(note 32(e))* RMB'000	Equity attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2010	93,619	221,766	29,797	17,912	(5,340)	134,602	492,356	89,131	581,487
Profit for the year	–	–	–	–	–	66,972	66,972	13,105	80,077
Other comprehensive income	–	–	–	–	(481)	–	(481)	–	(481)
Total comprehensive income	–	–	–	–	(481)	66,972	66,491	13,105	79,596
Transfer to statutory common reserve fund	–	–	10,131	–	–	(10,131)	–	–	–
2010 interim dividends paid *(note 15)*	–	–	–	–	–	(10,298)	(10,298)	–	(10,298)
Acquisition of additional equity interests in a subsidiary *(note 20(d))*	–	–	–	–	–	(756)	(756)	756	–
Capital injection from non-controlling interests *(note 20(e))*	–	–	–	–	–	–	–	5,288	5,288
Balance at 31 December 2010 and 1 January 2011	**93,619**	**221,766**	**39,928**	**17,912**	**(5,821)**	**180,389**	**547,793**	**108,280**	**656,073**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**71,722**	**71,722**	**17,759**	**89,481**
Other comprehensive income	**–**	**–**	**–**	**–**	**(635)**	**–**	**(635)**	**–**	**(635)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(635)**	**71,722**	**71,087**	**17,759**	**88,846**
Transfer to statutory common reserve fund	**–**	**–**	**18,989**	**–**	**–**	**(18,989)**	**–**	**–**	**–**
2010 final dividends paid *(note 15)*	**–**	**–**	**–**	**–**	**–**	**(20,596)**	**(20,596)**	**–**	**(20,596)**
Acquisition of additional equity interests in subsidiaries *(note 20(b)&(c))*	**–**	**–**	**–**	**–**	**–**	**304**	**304**	**(18,852)**	**(18,548)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,759)**	**(3,759)**
Liquidation of a non-wholly owned subsidiary *(note 20(f))*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,804)**	**(10,804)**
Balance at 31 December 2011	**93,619**	**221,766**	**58,917**	**17,912**	**(6,456)**	**212,830**	**598,588**	**92,624**	**691,212**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Profit before income tax expense		**92,982**	102,221
Adjustments for:			
Dividend income		**(17,500)**	(14,000)
Interest income		**(12,697)**	(636)
Finance costs		**29,009**	28,078
Share of losses of associates		**680**	192
Loss on disposal of an associate		**1,032**	–
Impairment loss/(reversal of impairment loss) on trade and other receivables, net		**16,935**	(7,449)
Amortisation of payments for leasehold land held for own use under operating leases		**204**	204
Depreciation of property, plant and equipment		**21,180**	24,990
Amortisation of intangible assets		**72**	72
Gain on disposal of property, plant and equipment and construction in progress		**(257)**	(647)
Gain on disposal of assets classified as held for sale		**–**	(790)
Impairment loss on property, plant and equipment		**2,127**	3,200
Impairment loss on construction in progress		**1,645**	–
Operating profit before working capital changes		**135,412**	135,435
(Increase)/decrease in inventories		**(6,955)**	101,859
Increase in trade and other receivables		**(342,920)**	(139,994)
(Increase)/decrease in restricted bank deposits		**(42,516)**	7,614
Increase/(decrease) in trade and other payables		**145,819**	(27,781)
Cash (used in)/generated from operations		**(111,160)**	77,133
Interest paid		**(67,406)**	(37,946)
Income taxes paid		**(23,089)**	(24,073)
Net cash (used in)/from operating activities		**(201,655)**	15,114
Cash flows from investing activities			
Purchase of property, plant and equipment and construction in progress		**(11,659)**	(18,824)
Proceeds from sale of property, plant and equipment and construction in progress		**3,046**	12,528
Proceeds from disposal of associates		**3,352**	–
Interest received		**12,697**	636
Disposal of assets classified as held for sale		**–**	5,807
Dividends received from available-for-sale financial asset		**17,500**	14,000
Net cash from investing activities		**24,936**	14,147

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from financing activities			
Capital injection from non-controlling interests		–	5,288
Refund to non-controlling interests of liquidated subsidiary		(10,804)	–
Acquisition of additional equity interests in subsidiaries		(18,548)	–
New borrowings		1,275,340	863,786
Repayment of borrowings		(914,889)	(891,994)
Dividends paid to owners of the Company		(20,596)	(10,298)
Dividends paid to non-controlling interests		(3,759)	–
Net cash from/(used in) financing activities		306,744	(33,218)
Net increase/(decrease) in cash and cash equivalents		130,025	(3,957)
Cash and cash equivalents at beginning of year		89,155	93,426
Effect of exchange rate changes on cash and cash equivalents		(635)	(314)
Cash and cash equivalents at end of year		218,545	89,155

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL

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

The Company is a joint stock limited company incorporated in the PRC. The address of the Company's registered office is 706 Renhe Building, No. 2056 Pudong Road, Pudong New Area, Shanghai, the PRC. Its principal place of business is located at Room 2201, BM Tower, No. 218 Wu Song Road, Shanghai, the PRC.

The H shares of the Company are listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

HKFRS 7 (Amendments) – Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables represents the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements `included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

Notes to the Financial Statements

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2011 *(continued)*

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and concluded that there is no change on the Group's related party disclosures. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 27 (2011)	Separate Financial Statements[3]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[3]
Amendments to HKAS 32 and HKFRS 7	Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[5]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2013 and 2014, as appropriate
[5] Effective for annual periods beginning on or after 1 January 2015

Notes to the Financial Statements

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

Notes to the Financial Statements

For the year ended 31 December 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

Amendments to HKAS 32 and HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis as explained in the accounting policies set out below, except for non-current assets classified as held for sale which are measured at lower of their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy and fair value less costs to sell.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs 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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	20 to 30 years
Machinery	10 years
Storage facilities	12 to 20 years
Furniture, fixtures and testing equipment	5 to 10 years
Transportation facilities	2 to 20 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost less any impairment loss and are amortised over the period of the lease on a straight-line basis as an expense.

(g) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses. Amortisation is provided on a straight-line basis over their useful lives as follows:

Customer contracts	Over the contract period
Construction licence	Indefinite
Computer software	5 years

Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

(ii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of other assets in note 4(r) below).

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(i) Financial assets (continued)

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Impairment loss on financial assets (continued)

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities at amortised cost, including trade and other payables, borrowings and other monetary liabilities, are initially recognised at fair value, net of directly attributable transaction costs incurred, and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

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. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Non-current assets held for sale

Non-current assets are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the assets are being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated.

(k) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets, which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Pursuant to the transitional provision of HKAS 23 (Revised) Borrowing Costs, group entities capitalise borrowing costs for all qualified assets where construction was commenced on or after 1 January 2009 and expense all borrowing costs relating to construction projects that commenced prior to 1 January 2009.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Inventories

The Group's inventories represent fuel oil and asphalt for resale, asphalt for construction and other construction materials. They are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of fuel oil and asphalt for resale is calculated using the first-in first-out method, while the cost of asphalt for construction and other construction materials is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(m) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as "amounts due to customers for contract work".

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as "amounts due from customers for contract work".

(n) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition

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 customers and are capable of being reliably measured. Anticipated losses are fully provided on contracts when identified.

Revenue from sale 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.

Revenue from rendering of fuel oil and asphalt transportation services is recognised upon the completion of services, which generally coincides with the date of receipt of goods by the receivers.

Revenue from fuel oil and asphalt storage services is recognised in the period the services are provided.

Revenue from agency services for fuel oil is recognised when the services are rendered.

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.

Rental income under operating leases of transportation and storage facilities is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

(p) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income taxes *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(q) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as currency translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the currency translation reserve.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- payments for leasehold land held for own use under operating leases;
- property, plant and equipment;
- construction in progress;
- intangible assets with finite lives; and
- investments in subsidiaries and associates

If the recoverable amount (i.e. the greater of fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(s) Employee benefits

(i) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in the profit or loss when the services are rendered by the employees.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a); and

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Notes to the Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Impairment of goodwill and construction licence

The Group tests annually whether goodwill and construction licence have suffered any impairment in accordance with the Group's accounting policy. 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 19).

(b) Impairment of trade and other receivables

Management reviews the Group's trade and other receivables at the end of each reporting period 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. The amount of the impairment 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 changed, the amount of impairment changed accordingly.

Notes to the Financial Statements

For the year ended 31 December 2011

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) 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 increase or decrease in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(d) Financial guarantee contracts

The Group has issued financial guarantee contracts in favour of third parties (see note 33). The initial and subsequent measurement to the value of these financial guarantee contracts involve high degree of judgments and estimations by the Group's management.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The Group has four reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The four reportable segments are as follows:

- Road and bridge construction;
- Sale of fuel oil;
- Sale of asphalt; and
- Provision of logistic services

Inter-segment transactions are priced with reference to prices charged to external parties for similar order.

Notes to the Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

(a) Operating segments

For the year ended 31 December 2011 are as follows:

	Road and bridge construction RMB'000	Sale of fuel oil RMB'000	Sale of asphalt RMB'000	Provision of logistic services RMB'000	Group RMB'000
Total segment revenue *(note i)*	920,354	1,837,500	403,412	63,952	3,225,218
Inter segment revenue	–	(340)	–	(4,193)	(4,533)
Reportable segment revenue from external customers	920,354	1,837,160	403,412	59,759	3,220,685
Reportable segment profit	54,727	24,155	10,408	191	89,481
Interest income	12,259	129	276	33	12,697
Finance costs	380	23,399	5,138	92	29,009
Share of profits/(losses) of associates	–	–	685	(1,365)	(680)
Capital expenditures *(note ii)*	7,368	68	277	3,946	11,659
Depreciation of property, plant and equipment	9,902	119	4,319	6,840	21,180
Gain/(loss) on disposal of property, plant and equipment and construction in progress	767	–	(58)	(452)	257
Loss on disposal of an associate	–	–	1,032	–	1,032
Amortisation of intangible assets	16	–	56	–	72
Amortisation of payments for leasehold land held for own use under operating leases	37	–	167	–	204
(Impairment loss)/reversal of impairment loss on trade and other receivables, net	(22,797)	–	4,709	1,153	(16,935)
Impairment loss on property, plant and equipment	–	–	–	2,127	2,127
Impairment loss on construction in progress	–	–	1,645	–	1,645
Income tax (credit)/expense	(5,685)	3,469	3,739	1,978	3,501
Interests in associates	–	–	28,301	13,876	42,177
Reportable segment assets	1,453,789	368,985	545,275	95,793	2,463,842
Reportable segment liabilities	1,159,849	383,423	225,859	3,499	1,772,630

Notes to the Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

For the year ended 31 December 2010 are as follows:

	Road and bridge construction RMB'000	Sale of fuel oil RMB'000	Sale of asphalt RMB'000	Provision of logistic services RMB'000	Group RMB'000
Total segment revenue *(note i)*	758,875	790,945	863,551	64,854	2,478,225
Inter segment revenue	–	–	–	(3,201)	(3,201)
Reportable segment revenue from external customers	758,875	790,945	863,551	61,653	2,475,024
Reportable segment profit/(loss)	39,598	7,608	38,110	(5,239)	80,077
Interest income	275	–	344	17	636
Finance costs	15,312	3,309	9,409	48	28,078
Share of (losses)/profits of associates	–	–	(218)	26	(192)
Capital expenditures *(note ii)*	14,626	16	1,288	2,894	18,824
Depreciation of property, plant and equipment	11,477	116	4,482	8,915	24,990
Gain/(loss) on disposal of property, plant and equipment and construction in progress	856	–	(209)	–	647
Gain on disposal of assets classified as held for sale	–	–	790	–	790
Amortisation of intangible assets	16	–	56	–	72
Amortisation of payments for leasehold land held for own use under operating leases	37	–	167	–	204
Reversal of impairment loss/ (impairment loss) on trade and other receivables, net	7,817	–	1,364	(1,732)	7,449
Impairment loss on property, plant and equipment	–	–	–	3,200	3,200
Income tax expense	12,671	1,825	5,728	1,920	22,144
Interests in associates	–	–	32,000	15,241	47,241
Reportable segment assets	1,161,261	142,976	526,140	119,115	1,949,492
Reportable segment liabilities	912,040	75,506	297,346	8,527	1,293,419

Notes:

(i) Included in revenue from sale of fuel oil segment and road and bridge construction segment were agency service income of RMB16,323,000 (2010: Nil) and subcontracting income of RMB40,280,000 (2010: Nil) respectively.

(ii) The amounts represent capital expenditure on payments for leasehold land held for own use under operating leases, property, plant and equipment, construction in progress and intangible assets.

Notes to the Financial Statements

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

(b) Information about major customers

There is no single customer contributed to 10% or more revenue to the Group's revenue for the years ended 31 December 2011 and 2010.

(c) Geographical information

The entire Group's revenue from external customers are derived from customers located in the PRC.

All the Group's non-current assets are located in the PRC.

7. OTHER INCOME AND GAINS

	Group	
	2011	2010
	RMB'000	RMB'000
Dividend income from available-for-sale financial asset	**17,500**	14,000
Interest income *(note 24(b))*	**12,697**	636
Government grants	**539**	455
Gain on disposal of assets classified as held for sale	**–**	790
Reversal of impairment loss on trade and other receivables, net *(note 24(d))*	**–**	7,449
Gain from disposal of short term investment (fair value through profit or loss)	**–**	431
Others	**6,978**	3,416
	37,714	27,177

Notes to the Financial Statements

For the year ended 31 December 2011

8. FINANCE COSTS

	Group	
	2011 RMB'000	2010 RMB'000
Interest expense on borrowings wholly repayable within five years	**53,588**	30,914
Interest expense on discounted commercial notes	**10,130**	4,122
Others	**3,688**	2,910
Total finance costs	**67,406**	37,946
Less: amount capitalised *(note)*	**(38,397)**	(9,868)
	29,009	28,078

Note: Borrowing costs capitalised during the year arose on the general borrowings during the year and are calculated by applying a capitalisation rate of approximately 6.39% per annum (2010: 5.28% per annum) to expenditure on qualifying assets.

9. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Group	
	2011 RMB'000	2010 RMB'000
Amortisation of intangible assets	**72**	72
Amortisation of payments for leasehold land held for own use under operating leases	**204**	204
Auditor's remuneration	**3,088**	2,455
Cost of inventories recognised as expenses	**2,149,298**	1,564,456
Depreciation of property, plant and equipment	**21,180**	24,990
Impairment loss/(reversal of impairment loss) on trade and other receivables, net *(note 24(d))*	**16,935**	(7,449)
Gain on disposal of property, plant and equipment and construction in progress	**(257)**	(647)
Reversal of provision of legal claim	**–**	(8,523)
Operating lease rental expenses in respect of		
– Land and buildings	**3,327**	5,976
– Transportation facilities	**1,134**	1,186
– Machinery and others	**10,372**	11,852
Staff costs *(note 10)*	**56,992**	50,854
Loss on disposal of an associate	**1,032**	–
Impairment loss on property, plant and equipment	**2,127**	3,200
Impairment loss on construction in progress	**1,645**	–

Notes to the Financial Statements

For the year ended 31 December 2011

10. STAFF COSTS

	Group	
	2011 **RMB'000**	2010 RMB'000
Staff costs (including directors) comprise:		
Wages and salaries	**51,839**	46,175
Social security costs	**2,619**	2,071
Contributions on defined contribution retirement plans	**2,534**	2,608
	56,992	50,854

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

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

For the year ended 31 December 2011

Name	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Qian Wenhua	–	713	450	30	1,193
Mr. Lu Yong	–	301	175	30	506
Mr. Jin Xiaohua	–	483	300	30	813
Mr. Mo Luojiang	–	359	150	30	539
Mr. Zhang Jinhua	–	464	350	30	844
Mr. Li Hongyuan	–	354	175	30	559
Non-executive directors					
Mr. Li Li	30	–	–	–	30
Mr. Zhu Shengfu	30	–	–	–	30
Ms. Ye Mingzhu	30	–	–	–	30
Mr. Chan Cheuk Wing, Andy	120	–	–	–	120
Mr. Hsu Chunmin	120	–	–	–	120
Supervisors					
Mr. Cai Ying	–	145	52	22	219
Mr. Ge Jiaqi	–	117	60	–	177
Ms. Zhu Yinghua *(note b)*	–	49	12	11	72
	330	2,985	1,724	213	5,252

Notes to the Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(continued)

For the year ended 31 December 2010

Name	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Qian Wenhua	–	601	50	28	679
Mr. Lu Yong	–	280	23	28	331
Mr. Jin Xiaohua	–	474	40	28	542
Mr. Mo Luojiang	–	321	27	28	376
Mr. Zhang Jinhua	–	253	21	27	301
Mr. Li Hongyuan	–	252	21	28	301
Non-executive directors					
Mr. Li Li	30	–	–	–	30
Mr. Zhu Shengfu	30	–	–	–	30
Ms. Ye Mingzhu	30	–	–	–	30
Mr. Chan Cheuk Wing, Andy	120	–	–	–	120
Mr. Hsu Chunmin	120	–	–	–	120
Supervisors					
Mr. Cai Ying	–	120	9	7	136
Mr. Ge Jiaqi	–	84	8	–	92
Mr. Fan Weidong *(note a)*	–	25	5	4	34
Ms. Zhu Yinghua *(note b)*	–	28	–	7	35
	330	2,438	204	185	3,157

Notes:

(a) Resigned in May 2010

(b) Appointed in May 2010

The discretionary bonus for both years were determined with reference to the performance against corporate objectives, the profits of the Group and the achievement of individual performance targets.

None of the directors waived emoluments during the years ended 31 December 2011 and 2010.

Notes to the Financial Statements

For the year ended 31 December 2011

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(continued)

Of the five individuals with the highest emoluments in the Group for the years ended 31 December 2011 and 2010, all were directors of the Company whose emoluments are included in the disclosures in above.

During the years ended 31 December 2011 and 2010, 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.

12. INCOME TAX EXPENSE

The amount of income tax expense/(credit) in the consolidated statement of comprehensive income represents:

	Group	
	2011 RMB'000	2010 RMB'000
Current income tax		
PRC enterprise income tax		
– tax for the year	**29,560**	23,808
– over provision in respect of prior years, net *(note)*	**(19,901)**	(483)
Hong Kong profits tax		
– tax for the year	**70**	–
Deferred tax *(note 30)*	**(6,228)**	(1,181)
	3,501	22,144

The Company and one of its subsidiaries, 上海神華物流有限公司 (Shanghai Shenhua Logistics Company Limited) ("Shanghai Shenhua"), are incorporated in Pudong New Area of Shanghai. Pursuant to the implementation guidance of the new Enterprise Income Tax Law ("EIT Law"), the Company and Shanghai Shenhua are subject to Enterprise Income Tax ("EIT") at 24% (2010: 22%) on their assessable profits for the year ended 31 December 2011. Such tax rate will increase to 25% in 2012.

Besides, the Company's subsidiaries, 江蘇蘇中油運有限公司 (Jiangsu Suzhong Oil Shipping Company Limited) ("Suzhong Shipping") and 上海神華物流(東台)有限公司 (Shanghai Shenhua (Dongtai) Logistics Company Limited) ("Shenhua Dongtai"), are treated as small-scale companies for PRC EIT purpose and their EIT is charged at 2.5% (2010: 2.5%) of their revenue.

Profits of other subsidiaries established in the PRC are subject to EIT at 25% (2010: 25%). Profits of subsidiaries established in Hong Kong are subject to Hong Kong profits tax of 16.5% (2010: 16.5%).

Notes to the Financial Statements

For the year ended 31 December 2011

12. INCOME TAX EXPENSE *(continued)*

The income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Profit before income tax expense	**92,982**	102,221
Tax calculated at tax rate of 24% (2010: 22%)	**22,316**	22,488
Effect of different tax rates for subsidiaries	**1,437**	1,918
Income and expense items that are not subject to tax	**(1,923)**	(3,809)
Tax losses not recognised	**1,572**	2,030
Over provision in respect of prior years, net	**(19,901)**	(483)
Income tax expense	**3,501**	22,144

Note:

For the years ended 31 December 2006 and 2007, the Group's non-wholly owned subsidiary, 南通路橋工程有限公司 (Nantong Road and Bridge Engineering Co., Ltd) ("Nantong Road and Bridge"), provided an EIT provision of approximately RMB20.2 million for the timing difference of revenue recognition.

During the year ended 31 December 2011, the Group received the final tax assessment notice from local tax bureau and concluded that the EIT arising from the timing difference of revenue recognition is RMB1.5 million. In the opinion of the directors, the assessment made by the local tax bureau is final and no additional EIT shall be demanded. Accordingly, the over provision of RMB18.7 million was credited to the consolidated statement of comprehensive income.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB19,336,000 (2010: RMB39,190,000).

Notes to the Financial Statements

For the year ended 31 December 2011

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2011	2010
Profit attributable to owners of the Company (RMB'000)	**71,722**	66,972
Weighted average number of ordinary shares in issue (thousands)	**936,190**	936,190
Basic earnings per share (RMB per share)	**0.077**	0.072

Diluted earnings per share equals to basic earnings per share, as there were no potential dilutive ordinary shares issued during the years ended 31 December 2011 and 2010.

15. DIVIDENDS

	Company	
	2011 RMB'000	2010 RMB'000
Interim, declared and paid – Nil (2010: RMB0.011 per share)	**–**	10,298
Final, proposed – Nil (2010: RMB0.022 per share)	**–**	20,596
	–	30,894

The directors do not recommend the payment of any dividend for the year ended 31 December 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

16. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's interests in land use rights are located in the PRC with medium-term lease terms ranging from 40 to 50 years.

	Group RMB'000
2011	
Cost	
At 1 January 2011 and 31 December 2011	**10,011**
Accumulated amortisation	
At 1 January 2011	**766**
Provided for the year	**204**
At 31 December 2011	**970**
2010	
Cost	
At 1 January 2010 and 31 December 2010	10,011
Accumulated amortisation	
At 1 January 2010	562
Provided for the year	204
At 31 December 2010	766
Net book values	
At 31 December 2011	**9,041**
At 31 December 2010	9,245

As at 31 December 2011, no payments for leasehold land held for own use under operating leases were pledged (2010: RMB7,671,000) as security for the Group's borrowings (note 29(a)).

Notes to the Financial Statements

For the year ended 31 December 2011

17. 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
2011						
Cost						
At 1 January 2011	**40,873**	**47,960**	**72,194**	**22,039**	**57,778**	**240,844**
Additions	**3,668**	**1,167**	**316**	**1,434**	**5,074**	**11,659**
Disposals	**–**	**(6,133)**	**–**	**(1,203)**	**(2,737)**	**(10,073)**
Classified as held for sale *(note 27)*	**(12,737)**	**–**	**–**	**–**	**–**	**(12,737)**
At 31 December 2011	**31,804**	**42,994**	**72,510**	**22,270**	**60,115**	**229,693**
Accumulated depreciation and impairment loss						
At 1 January 2011	**4,673**	**9,095**	**19,646**	**7,028**	**25,286**	**65,728**
Provided for the year	**1,897**	**8,301**	**5,375**	**2,253**	**3,354**	**21,180**
Eliminated on disposals	**–**	**(3,983)**	**(1,677)**	**(735)**	**(889)**	**(7,284)**
Classified as held for sale *(note 27)*	**(2,271)**	**–**	**–**	**–**	**–**	**(2,271)**
Impairment loss	**–**	**–**	**–**	**–**	**2,127**	**2,127**
At 31 December 2011	**4,299**	**13,413**	**23,344**	**8,546**	**29,878**	**79,480**
2010						
Cost						
At 1 January 2010	40,873	48,796	72,141	18,326	58,291	238,427
Additions	–	11,160	–	2,837	1,562	15,559
Transfer from construction in progress *(note 18)*	–	1,994	53	1,218	–	3,265
Disposals	–	(13,990)	–	(342)	(2,075)	(16,407)
At 31 December 2010	40,873	47,960	72,194	22,039	57,778	240,844
Accumulated depreciation and impairment loss						
At 1 January 2010	2,858	3,851	14,408	4,797	17,313	43,227
Provided for the year	1,815	10,026	5,238	2,340	5,571	24,990
Eliminated on disposals	–	(4,782)	–	(109)	(798)	(5,689)
Impairment loss	–	–	–	–	3,200	3,200
At 31 December 2010	4,673	9,095	19,646	7,028	25,286	65,728
Net book values						
At 31 December 2011	**27,505**	**29,581**	**49,166**	**13,724**	**30,237**	**150,213**
At 31 December 2010	36,200	38,865	52,548	15,011	32,492	175,116

Notes to the Financial Statements

For the year ended 31 December 2011

17. 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
2011					
Cost					
At 1 January 2011	**19,124**	**7,096**	**2,379**	**1,612**	**30,211**
Disposal	**–**	**–**	**(414)**	**–**	**(414)**
At 31 December 2011	**19,124**	**7,096**	**1,965**	**1,612**	**29,797**
Accumulated depreciation					
At 1 January 2011	**4,163**	**1,348**	**709**	**1,001**	**7,221**
Provided for the year	**909**	**337**	**56**	**192**	**1,494**
Eliminated on disposals	**–**	**–**	**(394)**	**–**	**(394)**
At 31 December 2011	**5,072**	**1,685**	**371**	**1,193**	**8,321**
2010					
Cost					
At 1 January 2010	19,124	7,096	1,156	1,612	28,988
Additions	–	–	7	–	7
Transfer from construction in progress *(note 18)*	–	–	1,218	–	1,218
Disposal	–	–	(2)	–	(2)
At 31 December 2010	19,124	7,096	2,379	1,612	30,211
Accumulated depreciation					
At 1 January 2010	3,255	1,011	521	810	5,597
Provided for the year	908	337	190	191	1,626
Eliminated on disposals	–	–	(2)	–	(2)
At 31 December 2010	4,163	1,348	709	1,001	7,221
Net book values					
At 31 December 2011	**14,052**	**5,411**	**1,594**	**419**	**21,476**
At 31 December 2010	14,961	5,748	1,670	611	22,990

Notes to the Financial Statements

For the year ended 31 December 2011

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2011 and 2010, the following property, plant and equipment of the Group and the Company were pledged as security for the Group's borrowings (note 29(a)):

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Buildings	**14,052**	14,961	**14,052**	14,961
Machinery	**10,895**	–	**–**	–
	24,947	14,961	**14,052**	14,961

During the year ended 31 December 2011, the transportation facilities of the Group was impaired by RMB2,127,000 (2010: RMB3,200,000) due to the decrease in usage of one of the vessels. The impairment was determined by comparing the fair value less costs to sell of the vessel (determined by an independent third party valuer who makes reference to an active market) with its carrying value.

18. CONSTRUCTION IN PROGRESS

Group	RMB'000
At 1 January 2010	2,808
Additions	3,265
Transfer to property, plant and equipment *(note 17)*	(3,265)
Disposals	(1,163)
At 31 December 2010 and 1 January 2011	1,645
Impairment loss	(1,645)
At 31 December 2011	–

Company	RMB'000
At 1 January 2010	–
Additions	1,218
Transfer to property, plant and equipment *(note 17)*	(1,218)
At 31 December 2010, 1 January 2011 and 31 December 2011	–

During the year ended 31 December 2011, the construction in progress was fully impaired as the project related to the construction in progress has been terminated.

Notes to the Financial Statements

For the year ended 31 December 2011

19. INTANGIBLE ASSETS

Group	Goodwill RMB'000	Customer contracts RMB'000	Construction licence *(note)* RMB'000	Computer software RMB'000	Total RMB'000
2011					
Cost					
At 1 January 2011 and 31 December 2011	**16,930**	**18,558**	**131,266**	**782**	**167,536**
Accumulated amortisation					
At 1 January 2011	**–**	**18,558**	**–**	**466**	**19,024**
Provided for the year	**–**	**–**	**–**	**72**	**72**
At 31 December 2011	**–**	**18,558**	**–**	**538**	**19,096**
2010					
Cost					
At 1 January 2010 and 31 December 2010	16,930	18,558	131,266	782	167,536
Accumulated amortisation					
At 1 January 2010	–	18,558	–	394	18,952
Provided for the year	–	–	–	72	72
At 31 December 2010	–	18,558	–	466	19,024
Net book values					
At 31 December 2011	**16,930**	**–**	**131,266**	**244**	**148,440**
At 31 December 2010	16,930	–	131,266	316	148,512

Note: Construction licence represents construction contract tier-one qualification and municipal utility contract tier-one qualification for road and bridge constructions.

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 weighted average annual growth rate of 6% (2010: 6%).

Notes to the Financial Statements

For the year ended 31 December 2011

19. INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill and construction licence: *(continued)*

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

	2012	2013	2014	2015	2016
Weighted average gross margin	12.5%	9.1%	9.1%	9.2%	9.3%
Weighted average growth rate	-6.6%	6.0%	6.0%	6.0%	6.0%
Percentage of working capital over revenue	55%	54%	54%	54%	54%
Discount rate	8.2%	8.2%	8.2%	8.2%	8.2%

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 rate used is pre-tax and reflects specific risks relating to the road and bridge construction segment.

Company	**Computer software** RMB'000
2011	
Cost	
At 1 January 2011 and 31 December 2011	**565**
Accumulated amortisation	
At 1 January 2011	**414**
Provided for the year	**57**
At 31 December 2011	**471**
2010	
Cost	
At 1 January 2010 and 31 December 2010	565
Accumulated amortisation	
At 1 January 2010	358
Provided for the year	56
At 31 December 2010	414
Net book values	
At 31 December 2011	**94**
At 31 December 2010	151

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For the year ended 31 December 2011

20. INVESTMENT IN SUBSIDIARIES

	2011 RMB'000	2010 RMB'000
Unlisted equity investments, at cost	**429,311**	366,230

The following are the details of the Group's subsidiaries at 31 December 2011:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued share capital/ registered capital	Equity interests held Directly	Equity interests held Indirectly
楝華(香港)有限公司 Donghua (Hong Kong) Limited ("Donghua Hong Kong")	Hong Kong, limited liability company	Asphalt trading in Hong Kong and logistic service	HK$39,000,000 of 39,000,000 ordinary shares of HK$1 each	100%	–
武漢華隆公路物資有限公司 Wuhan Hualong Highway Resources Company Limited ("武漢華隆") *(note d)*	PRC, limited liability company	Asphalt trading in the PRC	RMB30,000,000	100%	–
上海楝華瀝青有限公司 Shanghai Tonva Asphalt Company Limited ("Tonva Asphalt") *(note a)*	PRC, limited liability company	Asphalt trading in the PRC	RMB80,000,000	100%	–
鄭州華盛石油制品有限公司 Zhengzhou Huasheng Petroleum Products Co. Ltd.	PRC, limited liability company	Asphalt trading in the PRC	RMB20,000,000	–	100%
泰州華業石油化工有限公司 Taizhou Huaye Petrochemical Company Limited ("Taizhou Huaye")	PRC, limited liability company	Fuel oil and asphalt processing and trading in the PRC	USD3,329,100	–	100%
上海泰華石油化工有限公司 Shanghai Taihua Petrochemical Co., Ltd. ("Shanghai Taihua")	PRC, limited liability company	Fuel oil trading in the PRC	RMB60,000,000	100%	–
Shanghai Shenhua	PRC, limited liability company	Provision of land transportation service in the PRC	RMB108,000,000	100%	–
上海華揚船舶技術服務有限公司 Shanghai Huayang Shipping Technical Service Company Limited	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB22,500,000	–	100%

Notes to the Financial Statements

For the year ended 31 December 2011

20. INVESTMENT IN SUBSIDIARIES *(continued)*

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Issued share capital/ registered capital	Equity interests held	
				Directly	Indirectly
武漢神隆物流有限公司 Wuhan Shenlong Logistics Company Limited ("武漢神隆") *(note d)*	PRC, limited liability company	Provision of land transportation service in the PRC	RMB2,000,000	–	100%
騰華船務有限公司 Tonva Shipping Limited	Hong Kong, limited liability company	Provision of waterway transportation service in the PRC	HK$100,000 of 100,000 ordinary shares of HK$1 each	–	100%
Shenhua Dongtai	PRC, limited liability company	Provision of land transportation service in the PRC	RMB1,000,000	–	100%
Suzhong Shipping *(note b)*	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB16,000,000	–	78.61%
Nantong Road and Bridge *(note c & e)*	PRC, limited liability company	Construction of roads and bridges in the PRC	RMB86,000,000	68.34%	–
江蘇九州市政工程有限公司 Jiangsu Jiuzhou Municipal Engineering Co., Ltd.	PRC, limited liability company	Construction of roads and bridges in the PRC	RMB10,000,000	–	68.34%

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) Tonva Asphalt raised additional registered capital of RMB60,000,000 in 2011.

(b) During the year ended 31 December 2011, the Group acquired additional 23.61% equity interests in Suzhong Shipping from its non-controlling interests with a total consideration of RMB4,965,000. The consideration amount equaled to the net assets acquired.

(c) During the year ended 31 December 2011, the Group acquired additional 5.90% equity interests in Nantong Road and Bridge from its non-controlling interests with total consideration of RMB13,583,000. At the acquisition date, the carrying value of net assets acquired was RMB13,887,000. The differences of RMB304,000 has been credited to retained earnings.

(d) During the year ended 31 December 2010, the Group acquired additional 20% equity interests in 武漢華隆 and 武漢神隆 from their non-controlling interests without any consideration. 武漢華隆 and 武漢神隆 therefore became wholly owned subsidiaries of the Group. The difference of RMB756,000 representing the carrying value of net liabilities of the subsidiaries assumed with nil consideration and has been debited to the retained earnings.

Notes to the Financial Statements

For the year ended 31 December 2011

20. INVESTMENT IN SUBSIDIARIES *(continued)*

(e) Nantong Road and Bridge raised additional registered capital of RMB14,080,000 in 2010, including capital injection from non-controlling interests of RMB5,288,000. After the capital injection, the equity interests held by the Company remained as 62.44% in 2010.

(f) During the year ended 31 December 2011, the liquidation process of the Company's non-wholly owned subsidiary, 江蘇棟華交通材料有限公司 (Jiangsu Tonva Communication Materials Company Limited), was completed.

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Unlisted shares, at cost	**–**	–	**20,636**	24,333
Share of net assets	**42,177**	47,241	**–**	–
	42,177	47,241	**20,636**	24,333

The details of the Group's associates at 31 December 2011 are as follows:

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital	Equity interests held Directly	Equity interests held Indirectly
上海浦東路橋瀝青材料有限公司 Shanghai Pudong Road and Bridge Asphalt-Based Materials Co., Ltd ("Pudong Road. and Bridge")	PRC, limited liability company	Asphalt trading in the PRC	RMB30,000,000	49%	–
江西華通公路物資有限公司*(note)* Jiangxi Huatong Highway Materials Company Limited	PRC, limited liability company	Asphalt trading in the PRC	RMB5,000,000	35%	–
武漢大通華利船務有限公司 Wuhan Datong Huali Shipping Company Limited	PRC, limited liability company	Provision of marine transportation service in the PRC	RMB50,000,000	–	30%

Note: This associate is in the process of liquidation.

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For the year ended 31 December 2011

21. INTERESTS IN ASSOCIATES *(continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2011 RMB'000	2010 RMB'000
Total assets	**124,505**	141,069
Total liabilities	**(19,119)**	(15,967)
Net assets	**105,386**	125,102
Group's share of net assets of associates	**42,177**	47,241
Total revenue	**74,652**	87,970
Total losses for the year	**(3,165)**	(1,103)
Group's share of losses of associates for the year	**(680)**	(192)

22. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group and Company	
	2011 RMB'000	2010 RMB'000
Unlisted equity security, at cost	**800**	800

Available-for-sale financial asset represents investment in an unlisted company in the PRC. It is measured at cost less impairment, if any, at the end of each reporting period because the directors of the Company are of the opinion that the fair value cannot be measured reliably. The directors of the Company have no intention to dispose of the available-for-sale financial asset at the end of reporting period.

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For the year ended 31 December 2011

23. INVENTORIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Asphalt for resale	**42,116**	37,870	**17,330**	29,800
Fuel oil for resale	**6,446**	7,674	**–**	–
Asphalt for construction	**2,860**	3,147	**–**	–
Other construction materials	**15,067**	10,843	**–**	–
	66,489	59,534	**17,330**	29,800

24. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**1,021,153**	771,980	**175,812**	112,434
Commercial notes receivable	**127,324**	151,089	**1,809**	122,535
Retention sum for construction contracts	**356,972**	251,774	**–**	–
Total trade and notes receivables *(note a)*	**1,505,449**	1,174,843	**177,621**	234,969
Prepayments and deposits *(note b)*	**220,924**	147,693	**2,092**	18,024
Other receivables	**35,372**	30,256	**3,279**	5,571
Amounts due from associates *(note c)*	**5,715**	20,103	**–**	18,403
Amounts due from subsidiaries *(note c)*	**–**	–	**111,762**	26,145
	1,767,460	1,372,895	**294,754**	303,112
Less: Impairment losses *(note d)*	**(78,678)**	(61,743)	**(5,157)**	(6,272)
	1,688,782	1,311,152	**289,597**	296,840
Classified as:				
Non-current assets	**269,473**	225,462	**–**	–
Current assets	**1,419,309**	1,085,690	**289,597**	296,840
	1,688,782	1,311,152	**289,597**	296,840

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For the year ended 31 December 2011

24. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade and notes receivables

As at 31 December 2011, trade receivables of RMB50,000,000 (2010: RMB102,517,000) were pledged as security for the Group's borrowings (note 29(a)).

The ageing analysis of trade and notes receivables based on invoice date and before impairment loss is as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Road and bridge construction *(note i)*				
Less than 6 months	**420,250**	244,206	**–**	–
6 months to less than 1 year	**117,366**	79,923	**–**	–
1 year to less than 2 years	**294,063**	374,485	**–**	–
2 years to less than 3 years	**68,538**	21,464	**–**	–
3 years and over	**5,755**	11,863	**–**	–
	905,972	731,941	**–**	–
Sale of fuel oil and asphalt and provision of logistic services *(note ii)*				
Less than 31 day	**262,720**	251,524	**121,420**	136,400
31 to 60 days	**115,876**	52,692	**44,578**	41,279
61 to 90 days	**61,522**	38,894	**–**	29,286
91 days to less than 1 year	**108,563**	79,770	**–**	19,086
1 year to less than 2 years	**42,875**	9,659	**7,480**	2,835
2 years to less than 3 years	**1,711**	2,570	**215**	672
3 years and over	**6,210**	7,793	**3,928**	5,411
	599,477	442,902	**177,621**	234,969
	1,505,449	1,174,843	**177,621**	234,969

Notes to the Financial Statements

For the year ended 31 December 2011

24. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade and notes receivables *(continued)*

Note (i):

In respect of road and bridge construction, the average credit period is negotiated on individual basis in accordance with contract terms. Normally the general credit period is ranging from 0 day to 3 years.

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Less than 6 months past due	**146,159**	92,675	**–**	–
6 months to less than 1 year past due	**24,009**	3,554	**–**	–
1 year to less than 2 years past due	**34,344**	6,635	**–**	–
2 years to less than 3 years past due	**1,140**	122	**–**	–
3 years and over past due	**73**	–	**–**	–
	205,725	102,986	**–**	–

Substantially all customers of road and bridge construction are PRC government-related corporations which have no recent history of default. The credit quality of trade receivables has been assessed by reference to historical information about the counterparty default rates. 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.

Note (ii):

For sale of fuel oil and asphalt and provision of logistic services, the credit terms granted to individual customers vary on a customer by customer basis which is determined by management with reference to the creditability of respective customers. Normally the general credit period is ranging from 0 to 90 days.

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Less than 91 days past due	**368,134**	141,626	**164,189**	67,163
91 days to 1 year past due	**58,654**	62,639	**605**	12,370
Over 1 year past due	**37,384**	4,260	**5,861**	2,596
	464,172	208,525	**170,655**	82,129

Trade receivables that are less than three months past due are not impaired. The amounts that were past due but not impaired relate to a number of independent customers which have no recent history of default. The credit quality of trade receivables has been assessed by reference to historical information about the counterparty default rates.

Notes to the Financial Statements

For the year ended 31 December 2011

24. TRADE AND OTHER RECEIVABLES *(continued)*

(b) Prepayments and deposits

Included in prepayments and deposits was a guaranteed deposit to customer in the road and bridge construction segment in the amount of RMB84,864,000 (2010: Nil). Pursuant to relevant agreement, such amount is receivable within 1 to 5 years and bears interest of 12.9% per annum. The amount of RMB65,391,000 which is receivable over 1 year is classified as non-current asset in the consolidated statement of financial position. The interest income deriving from the above was RMB10,183,000 for the year ended 31 December 2011 (2010: Nil).

(c) Amounts due from associates/subsidiaries

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

(d) Impairment losses

The below table reconciles the impairment loss of trade and notes receivables, and other receivables for the year:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
At 1 January	**61,743**	69,192	**6,272**	8,915
Impairment loss recognised	**27,021**	12,325	**5,157**	6,272
Recovery of impairment loss previously recognised	**(10,086)**	(19,774)	**(6,272)**	(8,915)
At 31 December	**78,678**	61,743	**5,157**	6,272

Notes to the Financial Statements

For the year ended 31 December 2011

25. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2011	2010
	RMB'000	RMB'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses	**2,560,842**	1,752,925
Less: progress billings	**(2,545,031)**	(1,722,053)
Contract work-in-progress at the end of reporting period	**15,811**	30,872
Represented by:		
Amounts due from customers for contract work included in current assets	**33,738**	46,986
Amounts due to customers for contract work included in current liabilities	**(17,927)**	(16,114)
	15,811	30,872

26. RESTRICTED BANK DEPOSITS

The Group's and the Company's restricted bank deposits were denominated in RMB, United States Dollars ("USD") and Hong Kong Dollars ("HK$"), and as collateral for issuance of commercial notes, performance bonds and bid bonds to customers. The effective interest rates on restricted bank deposits were ranging from 0.01% to 2.25% per annum as at 31 December 2011 (2010: 0.01% to 2.25% per annum).

27. ASSETS CLASSIFIED AS HELD FOR SALE

On 25 September 2011, Nantong Road and Bridge entered into the Relocation Compensation Agreement with the Nantong Project Conversion Construction Unit (which acts on behalf of the People's Government of Chong Chuan District of Nantong City, Jiangsu Province, the PRC), pursuant to which Nantong Road and Bridge will receive an aggregate of RMB64,080,000 from the People's Government of Chong Chuan District as relocation compensation for office that are currently occupied by Nantong Road and Bridge. Please refer to the Company's announcement dated 26 September 2011 for details.

Since the completion date is expected to be in 2012, the Group reclassifies the related property, plant and equipment, which is included in road and bridge construction segment, with carrying amount of RMB10,466,000 to non-current assets held for sale, as the transaction is expected to be completed within one year from the end of the reporting period. As at 31 December 2011, a deposits of RMB25,000,000 has been received from Nantong Project Conversion Construction Unit and the amount is included in "other payables" (see note 28).

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For the year ended 31 December 2011

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade payables	**300,472**	291,883	**276**	4,537
Notes payable	**204,887**	173,162	**55,000**	97,194
	505,359	465,045	**55,276**	101,731
Amount due to an associate *(note)*	**2,449**	1,969	**2,449**	1,969
Amounts due to subsidiaries *(note)*	**–**	–	**25,770**	28,318
Deposits received	**110,030**	38,683	**15,920**	32,457
Other payables	**83,400**	54,931	**877**	685
Accruals	**11,219**	7,823	**10,645**	5,357
	712,457	568,451	**110,937**	170,517

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

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of reporting period based on invoice date:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Road and bridge construction:				
Less than 6 months	**324,917**	195,082	**–**	–
6 months to less than 1 year	**8,325**	23,523	**–**	–
1 year to less than 2 years	**26,312**	67,514	**–**	–
2 years to less than 3 years	**19,198**	8,579	**–**	–
3 years and over	**6,971**	6,814	**–**	–
	385,723	301,512	**–**	–
Sale of fuel oil and asphalt and provision of logistic services:				
Less than 31 days	**3,073**	66,496	**–**	35,127
31 to 60 days	**40,000**	27,015	**40,000**	24,461
61 to 90 days	**65,255**	51,450	**5,000**	24,760
91 days to less than 1 year	**10,539**	17,721	**10,000**	16,781
1 year to less than 2 years	**693**	648	**200**	526
2 years to less than 3 years	**–**	198	**–**	76
3 years and over	**76**	5	**76**	–
	119,636	163,533	**55,276**	101,731
	505,359	465,045	**55,276**	101,731

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29. BORROWINGS

		Group		Company	
		2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
Secured	– interest-bearing loans *(note a and c)*	**107,980**	127,000	**50,000**	37,000
	– trust receipt loans *(note b)*	**–**	54,529	**–**	54,529
Unsecured	– interest-bearing loans *(note c)*	**892,500**	458,500	**173,000**	–
		1,000,480	640,029	**223,000**	91,529

At the end of the reporting period, total current and non-current borrowings of the Group were repayable as follows:

	Group		Company	
	2011 **RMB'000**	2010 RMB'000	**2011** **RMB'000**	2010 RMB'000
On demand or within one year	**1,000,480**	605,029	**223,000**	91,529
More than one year, but not exceeding two years	**–**	35,000	**–**	–
	1,000,480	640,029	**223,000**	91,529
Amount due within one year included in current liabilities	**(1,000,480)**	(605,029)	**(223,000)**	(91,529)
Non-current portion	**–**	35,000	**–**	–

Notes to the Financial Statements

For the year ended 31 December 2011

29. BORROWINGS *(continued)*

Notes:

As at the end of reporting period, the summary of assets pledged and guaranteed borrowings are as follows:

(a) The borrowings are secured by:

	2011	2010
	RMB'000	RMB'000
Payments for leasehold land held for own use under operating leases *(note 16)*	–	7,671
Property, plant and equipment *(note 17)*	**24,947**	14,961
Trade receivables *(note 24(a))*	**50,000**	102,517

(b) The trust receipt loans were secured by the restricted bank deposits (note 26) of RMB89,570,000 (2010: RMB47,054,000).

(c) The secured and unsecured borrowings of the Group to the extent of RMB930,480,000 (2010: RMB565,500,000) were guaranteed by certain independent third parties and certain directors of the Company and its subsidiaries. Out of the guarantee amount, RMB117,500,000 (2010: RMB478,500,000) was guaranteed by the directors of the Company.

As at 31 December 2011, one of the banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Company's financial ratios. If the Group was to breach the covenants, the drawn down facilities of RMB50,000,000 as at 31 December 2011 (2010: Nil) would become repayable on demand.

The Company regularly monitors its compliance with these covenants. As at 31 December 2011, none of the covenants relating to drawn down facilities had been breached (2010: None).

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30. DEFERRED TAX

Details of the deferred tax liabilities and assets recognised and movements during the current and prior years:

Deferred tax assets – Group

	Impairment loss on trade and other receivables RMB'000
At 1 January 2010	9,493
Credited to profit or loss	1,773
At 31 December 2010 and 1 January 2011	11,266
Credited to profit or loss	6,577
At 31 December 2011	17,843

Deferred tax liabilities – Group

	Fair value surplus in respect of business combination RMB'000	Capitalisation of borrowing costs RMB'000	Total RMB'000
At 1 January 2010	35,182	–	35,182
(Credited)/charged to profit or loss	(201)	793	592
At 31 December 2010 and 1 January 2011	34,981	793	35,774
(Credited)/charged to profit or loss	(194)	543	349
At 31 December 2011	34,787	1,336	36,123

No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses of RMB9,669,000 (2010: RMB12,442,000) can be carried forward indefinitely and the tax losses of RMB22,761,000 (2010: RMB60,475,000) will expire in five years' time.

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30. DEFERRED TAX *(continued)*

Deferred tax assets – Company

	Impairment loss on trade and other receivables RMB'000
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	2,229

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Deferred tax assets	**3,847**	10,473	**2,229**	2,229
Deferred tax liabilities	**(22,127)**	(34,981)	**–**	–
	(18,280)	(24,508)	**2,229**	2,229

31. SHARE CAPITAL

(a) Authorised and issued share capital

	Company	
	Number of shares	**Amount** RMB'000
Ordinary shares of RMB0.1 each		
Authorised, issued and fully paid:		
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	936,190,000	93,619

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31. SHARE CAPITAL *(continued)*

(b) Capital management policy

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 debts.

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 statement of financial position. The Group regards its equity attributable to the Company's owners as its capital.

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Total borrowings	**1,000,480**	640,029	**223,000**	91,529
Equity attributable to the Company's owners	**598,588**	547,793	**504,049**	493,060
Debt-to-equity ratio	**167.1%**	116.8%	**44.2%**	18.6%

The Group is also subject to externally imposed requirements in relation to certain bank covenants. Please refer to note 29 for details.

Notes to the Financial Statements

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32. RESERVES

Company	Capital reserve *(note a)* RMB'000	Statutory common reserve fund *(note b)* RMB'000	Retained earnings *(note e)* RMB'000	Total RMB'000
At 1 January 2010	221,766	28,951	96,536	347,253
Profit for the year	–	–	62,486	62,486
2010 interim dividends paid *(note 15)*	–	–	(10,298)	(10,298)
Transfer to statutory common reserve fund	–	6,685	(6,685)	–
At 31 December 2010 and 1 January 2011	221,766	35,636	142,039	399,441
Profit for the year	–	–	31,585	31,585
2010 final dividends paid *(note 15)*	–	–	(20,596)	(20,596)
Transfer to statutory common reserve fund	–	3,159	(3,159)	–
At 31 December 2011	221,766	38,795	149,869	410,430

Notes:

(a) The amount represents share capital in excess of nominal value. On 13 November 2007, the Company issued 250,190,000 shares to the subscribers and the H share shareholders, at an issue price of HK$1.10 per share.

(b) Pursuant to the relevant PRC regulations and the Articles of Association of the PRC companies within the Group, each of the PRC companies within the Group is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to a statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand its production operations, or to increase its capital. Upon approval by a resolution of 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 the shareholders, provided that the balance of the statutory common reserve fund after such issue is not less than 25% of the registered capital.

(c) The Group's other reserve represents its share of revaluation surplus recognised as a result of fair value change in identifiable asset and liabilities when the Group acquired an additional equity interests of certain subsidiaries in 2008.

(d) The Group's currency translation reserve represents gain or loss arising on retranslating the net assets of foreign operations into RMB, the presentation currency of the financial statements.

(e) The amount represents cumulative net gains and losses recognised in profit or loss.

Notes to the Financial Statements

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33. FINANCIAL GUARANTEE CONTRACTS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fair value of outstanding financial guarantees	**705**	705	**784**	784

Group

The Group acted as a guarantor for various external borrowings made by certain third party entities of the Group amounting to approximately RMB10,000,000 as at 31 December 2011 (2010: RMB20,000,000).

	Total guarantee		Expiry date	
	2011	2010	**2011**	2010
	RMB'000	RMB'000		
通州市金江交通投資有限公司	**10,000**	10,000	**20 March 2015**	20 March 2015
江蘇戴園建材集團有限公司	**–**	10,000	**–**	26 February 2011
Total	**10,000**	20,000		

All the above companies are independent third parties.

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 4(i)(vi). At inception of these contracts, a liability was recorded in the statement of financial position using the estimated fair value, and expense of the same amount was recorded in the profit or loss.

Company

The Company has provided guarantees to banks for the borrowings of RMB679,500,000 (2010: RMB548,500,000) granted to its subsidiaries.

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34. OPERATING LEASE COMMITMENTS

Operating leases – lessee

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than one year	**8,399**	7,668	**–**	1,273
Later than one year and not later than five years	**16,459**	15,249	**–**	2,545
Later than five years	**9,095**	9,128	**–**	–
	33,953	32,045	**–**	3,818

The leases typically run for an initial period of 1 to 15 years without extension option. None of these leases includes contingent rentals.

Operating leases – lessor

At the reporting date, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of transportation and storage facilities as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than one year	**10,275**	12,477	**–**	–

None of these leases includes contingent rentals.

35. CONTINGENT LIABILITIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees in respect of performance bonds and bid bonds issued by banks	186,424	151,038	–	–

The guarantees in respect of performance bonds and bid bonds issued by banks are arising from the construction projects of the Group's non-wholly owned subsidiary, Nantong Road and Bridge.

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36. RELATED PARTY TRANSACTIONS

(a) During the year, apart from the related party transactions disclosed in note 29(c), the Group entered into the following transactions with related parties:

(i) Sale of fuel oil to

	2011 RMB'000	2010 RMB'000
Pudong Road and Bridge, an associate	1,227	765

(ii) Sale of asphalt to

	2011 RMB'000	2010 RMB'000
Pudong Road and Bridge, an associate	3,179	54,390

(iii) Provision of services to

	2011 RMB'000	2010 RMB'000
Pudong Road and Bridge, an associate	721	1,307

(b) Key management compensation

	2011 RMB'000	2010 RMB'000
Directors' fees, basic salaries and allowances	3,315	2,768
Discretionary bonus	1,724	204
Retirement scheme contributions	213	185
	5,252	3,157

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37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT AND FAIR VALUE

The Group's activities expose itself to a variety of financial risks: market risk (including foreign currency risk and 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

(a) Foreign currency risk

The Group operates mainly in the PRC, and most of the Group's commercial transactions, recognised assets and liabilities are denominated in RMB. In the opinion of the director's, the Groups' exposure to the foreign currency risk is minimal.

(b) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings and guaranteed deposits described in note 24(b). 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 following tables detail the interest rate profile of the Group and the Company at the end of reporting period:

	Group			
	2011		2010	
	Effective interest rate per annum	RMB'000	Effective interest rate per annum	RMB'000
Fixed rate guaranteed deposits	3.1%	89,570	2.3%	47,054
Fixed rate bank deposits	3.1%	6,308	–	–
Floating rate bank deposits	0.5%	211,890	0.4%	88,575
		307,768		135,629
Fixed rate borrowings	7.5%	375,980	5.4%	187,000
Floating rate borrowings	6.8%	624,500	5.4%	453,029
		1,000,480		640,029

Notes to the Financial Statements

For the year ended 31 December 2011

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT AND FAIR VALUE *(continued)*

Risk management *(continued)*

(b) Interest rate risk (continued)

At the respective end of reporting period, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's profit would decrease/increase by approximately RMB3,106,000 (2010: RMB2,745,000) for the year ended 31 December 2011.

	Company			
	2011		2010	
	Effective interest rate per annum	**RMB'000**	Effective interest rate per annum	RMB'000
Fixed rate guarantee deposits	**3.1%**	**17,611**	2.3%	3,026
Floating rate bank deposits	**0.5%**	**37,164**	0.4%	6,087
		54,775		9,113
Fixed rate borrowings	**7.9%**	**48,000**	5.3%	37,000
Floating rate borrowings	**6.3%**	**175,000**	5.8%	54,529
		223,000		91,529

At the respective end of reporting period, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Company's profit would decrease/increase by approximately RMB1,048,000 (2010: RMB378,000) for the year ended 31 December 2011.

(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. 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.

The credit risk on the bank deposits are limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2011

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT AND FAIR VALUE *(continued)*

Risk management *(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 Group also has policy to regularly monitor its liquidity requirements and its compliance with lending covenants, so as to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and long terms.

The table below analyse 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 end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	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 2011				
Borrowings	1,027,132	–	–	1,027,132
Trade and other payables	712,457	–	–	712,457
Financial guarantees issued – maximum amount guaranteed	10,000	–	–	10,000
At 31 December 2010				
Borrowings	620,384	35,295	–	655,679
Trade and other payables	568,451	–	–	568,451
Financial guarantees issued – maximum amount guaranteed	20,000	–	–	20,000
Company				
At 31 December 2011				
Borrowings	227,832	–	–	227,832
Trade and other payables	110,937	–	–	110,937
Financial guarantees issued – maximum amount guaranteed	679,500	–	–	679,500
At 31 December 2010				
Borrowings	92,474	–	–	92,474
Trade and other payables	170,517	–	–	170,517
Financial guarantees issued – maximum amount guaranteed	548,500	–	–	548,500

Notes to the Financial Statements

For the year ended 31 December 2011

37. FINANCIAL INSTRUMENTS – RISK MANAGEMENT AND FAIR VALUE *(continued)*

Fair value estimation

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and trading on active liquid markets are determined with reference to quoted market prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors considered that the carrying amounts of the financial assets and liabilities approximate their fair value, except for the available-for-sale financial asset which is measured at cost less impairment.

38. EVENT AFTER THE REPORTING PERIOD

On 3 February 2012, the Company's subsidiary, Nantong Road and Bridge, signed an agreement with People's Government of Chong Chuan District of Nantong City to acquire a payment for leasehold land held for own use under operating lease in an amount of RMB8,612,000 to build new premises for own use. The consideration shall be paid in full not later than 10 May 2012.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15 March 2012.