

Third Quarterly Report

2005



上海棟華石油化工股份有限公司
SHANGHAI DONGHUA PETROCHEMICAL CO., LTD.*
(a joint stock limited company incorporated in the People's Republic of China)

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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

HIGHLIGHTS

1. Turnover for the 3 and 9 months ended 30 September 2005 was approximately RMB220 million and RMB445 million (3 and 9 months ended 30 September 2004: approximately RMB168 million and RMB363 million). A growth of approximately 31% and 23% was recorded year-on-year respectively for the 3 and 9 months ended 30 September 2005.
2. Profit attributable to the equity holders of the Company for the 3 and 9 months ended 30 September 2005 was approximately RMB17 million and RMB32 million (3 and 9 months ended 30 September 2004: approximately RMB8 million and RMB18 million). A growth of approximately 121% and 76% was recorded year-on-year respectively for the 3 and 9 months ended 30 September 2005.
3. The Board did not recommend an interim dividend for this quarter.

The board of directors (the “Board”) of Shanghai Donghua Petrochemical Co., Ltd (the Company”) is pleased to present the unaudited consolidated results (the “Unaudited Consolidated Results”) of the Company and its subsidiaries (the “Group”) for the 3 and 9 months ended 30 September 2005 together with the comparative unaudited figures for the corresponding periods in 2004.

UNAUDITED CONSOLIDATED RESULTS

	Note	3 months ended		9 months ended	
		30 September	30 September	30 September	30 September
		2005	2004	2005	2004
		Unaudited	Unaudited	Unaudited	Unaudited
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1	220,394	168,209	445,569	363,124
Cost of sales		(186,099)	(150,679)	(382,410)	(320,757)
Gross profit		34,295	17,530	63,159	42,367
Other revenues	1	92	181	1,447	1,245
Distribution costs		(7,490)	(6,053)	(16,349)	(15,118)
General and administrative expenses		(6,372)	(2,014)	(9,404)	(5,922)
Other operating expenses		(94)	(8)	(133)	(109)
Operating profit		20,431	9,636	38,720	22,463
Finance costs		(625)	(619)	(1,077)	(867)
Share of profit of associated companies		299	-	137	-
Profit before taxation		20,105	9,017	37,780	21,596
Taxation	2	(3,135)	(1,248)	(5,652)	(3,307)
Profit for the period		16,970	7,769	32,128	18,289
Attributable to:					
Equity holders of the company		17,067	7,724	32,201	18,338
Minority interest		(97)	45	(73)	(49)
		16,970	7,769	32,128	18,289
		RMB	RMB	RMB	RMB
Earnings per share – basic	3	0.052	0.032	0.119	0.076

MOVEMENTS TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Share premium <i>RMB'000</i>	Share issuance cost <i>RMB'000</i>	Statutory common reserve fund <i>RMB'000</i>	Statutory common welfare fund <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Minority interest <i>RMB'000</i>
At 1/1/2004	-	-	1,517	758	4,988	118
Dividend declared and paid in respect of the period from 1 August 2003 to 31 December 2003	-	-	-	-	(4,800)	-
Profit for the period	-	-	-	-	18,338	(49)
Direct costs incurred for listing of shares on the GEM	-	(3,249)	-	-	-	-
	<u>-</u>	<u>(3,249)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30/9/2004	<u>-</u>	<u>(3,249)</u>	<u>1,517</u>	<u>758</u>	<u>18,526</u>	<u>69</u>
At 1/1/2005	-	(4,578)	3,930	1,964	20,583	335
Issue of shares for listing on the GEM	34,117	12,512	-	-	-	-
Dividend declared and paid in respect of the period from 1 January 2004 to 31 December 2004	-	-	-	-	(5,000)	-
Special dividend declared in respect of the period from 1 January 2005 to 30 June 2005	-	-	-	-	(2,263)	-
Profit for the period	-	-	-	-	32,201	(73)
Direct costs incurred for listing of shares on the GEM	-	(7,934)	-	-	-	-
	<u>-</u>	<u>(7,934)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30/9/2005	<u>34,117</u>	<u>-</u>	<u>3,930</u>	<u>1,964</u>	<u>45,521</u>	<u>262</u>

NOTES:

1. TURNOVER AND REVENUE

Turnover represents the sale of asphalt net of taxes, discounts, returns and allowances, where applicable.

	9 months ended 30 September	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover		
Sales of asphalt	445,569	363,124
Other revenues		
Dividend income from unlisted investments	1,280	960
Subsidy income	42	172
Interest income	81	31
Others	44	82
	1,447	1,245
Total revenues	447,016	364,369

2. TAXATION

	9 months ended 30 September	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
PRC enterprise income tax	5,652	3,307

The Company is subject to the Income Tax Law of the PRC. Being a company incorporated in Pudong New Area of Shanghai, the relevant PRC enterprise income tax rate is 15% (9 months ended 30 September 2004: 15%) on the assessable profit during the Relevant Periods.

Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping"), the subsidiary of the Company, is classified as a small-scale company for income tax purpose. According to a circular issued by Dong Tai city tax bureau in November 2003, the income tax of Suzhong shipping was charged at 1% of its revenue. According to another circular issued by Jiangsu provincial tax bureau in December 2003, the income tax of Suzhong Shipping is charged at 3.3% of its revenue effective from February 2004.

No deferred taxation was recognized for the 9 months ended 30 September 2005 and 30 September 2004.

3. EARNINGS PER SHARE

The calculation of the basic earnings per share for the 3 and 9 months ended 30 September 2005 was based on the unaudited profit attributable to equity holders of RMB17,067,000 and RMB32,201,000, and the weighted average number of shares of approximately 329,565,217 shares and 270,183,150 shares in issue for the 3 and 9 months ended 30 September 2005 respectively.

The calculation of the basic earnings per share for the 3 and 9 months ended 30 September 2004 was based on the unaudited profit attributable to equity holders of RMB7,724,000 and RMB18,338,000, and the weighted average number of shares of 240,000,000 shares in issue for both of the 3 and 9 months ended 30 September 2004.

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

4. DIVIDEND

The Board did not recommend an interim dividend for the 3 months ended 30 September 2005 (2004: Nil).

A special dividend of RMB0.0066 per share that amounted in total to approximately RMB2,263,000 was declared on 12 August 2005 in respect of the 6 months ended 30 June 2005.

5. SUBSEQUENT EVENTS

Subsequent to 30 September 2005, a company named (上海神華物流有限公司) (“上海神華”) was established on 12 October 2005. The registered capital of 上海神華 is RMB5,000,000 in which the Company owns 90% equity interest. 上海神華 is engaged in the provision of asphalt transportation services solely to the Group.

上海神華 owned 15 asphalt vehicles with a total storage capacity of 420 tons up to the date of this report.

The Group intends to increase the number of the asphalt vehicles of 上海神華 for the Group's future business development.

FINANCIAL AND BUSINESS REVIEW

The Group's turnover for the 3 and 9 months ended 30 September 2005 was approximately RMB220 million and RMB445 million (3 and 9 months ended 30 September 2004: approximately RMB168 million and RMB363 million). A growth of approximately 31% and 23% was recorded year-on-year respectively for the 3 and 9 months ended 30 September 2005.

Profit attributable to the equity holders of the Company for the 3 and 9 months ended 30 September 2005 was approximately RMB17 million and RMB32 million (3 and 9 months ended 30 September 2004: approximately RMB8 million and RMB18 million). A growth of approximately 121% and 76% was recorded year-on-year respectively for the 3 and 9 months ended 30 September 2005.

The results of the Group for the reporting period were encouraging. The substantial increase in profit was mainly attributable to the increase in the demand on asphalt in the PRC and were effective control of administrative expenses and distribution costs resulting from an enhancement of the distribution network of the Company.

Listing of H Shares of the Company

On 13 July 2005, the Company issued a total number of 103,000,000 H Shares and was listed on the GEM Board of the Stock Exchange of Hong Kong Limited. A net proceeds of approximately RMB44.41 million was raised.

Together with the existing 240,000,000 domestic shares of the Company in issue, a total of 343,000,000 ordinary shares (including H Shares) are in issue.

Business operations

The Group is principally engaged in sale and deliver of asphalt in the China. Asphalt is a product refined from petroleum normally used for road paving. The Group operates asphalt delivery service by setting up asphalt storage hubs and delivering asphalt by vessels and vehicles.

In the 3rd quarter of 2005, 2 more asphalt tanks with a total storage capacity of 2,000 tons have commissioned operations in Hefei city, Anhui province, China. The commission of the depot has established a strong strategic base to serve the market in the northern part of the Anhui province

At present, the Group operates 6 asphalt storage hubs that comprise a total of 21 asphalt storage tanks and with a total storage capacity of 23,800 tons. The storage hubs are mainly located in the Yangtze River Delta area.

The Group also operates 11 asphalt vessels and 15 asphalt vehicles with a total delivery capacity of approximately 6,320 dead weight tons.

Construction in progress

In the 4th quarter of 2005, the storage hub in Jiaxing city, Zhejiang province, with a capacity of 13,000 tons that the Group has a 24.5% equity interest; and the storage hub in Wuhan city, Hubei province, with a capacity of 15,000 tons that the group has a 76.47% equity interest, are both expected to commence operation.

PROSPECTS

The rapid economic growth in China has created significant demand for highways. The demand of asphalt for highway paving and maintenance purpose are expected to increase steadily.

To narrow the difference of economic growths between the coastal and the inland regions of China, the central government has announced policies to improve the under-developed economies in the central-western and north-eastern regions. Coupled with the coming Olympic Games in Beijing and the World Expo in Shanghai, the needs for new highways and their maintenance have create excellent business opportunities for the Group.

The increasing demand of asphalt has driven up its selling price gradually. The strategy of the Group is to increase its market share and to plan the logistics services effectively to keep the cost of delivery under control. The focus of market development will be on central and eastern China and in provinces like, Jiangsu, Anhui, Hubei, Henan, Jiangxi and Zhejiang.

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

At 30 September 2005, the interests 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, underlying shares and debentures of the Company:

Name of Directors	Capacity	Number of shares			Approximate percentage of shareholding in such class of shares of the Company	Approximate Percentage of shareholding in the registered share capital of the Company
		Personal interest	Family Interest	Total interest		
Qian Wenhua (Executive Director)	Beneficial owner	95,896,000 (domestic shares)	17,927,000 (Note 1) (domestic shares)	113,823,000	47.43	33.19
Lu Yong (Executive Director)	Beneficial owner	31,309,000 (domestic shares)	-	31,309,000	13.05	9.13
Yao Peie (Executive Director)	Beneficial owner	17,273,000 (domestic shares)	-	17,273,000	7.20	5.04
Li Hongyuan (Executive Director)	Beneficial owner	9,200,000 (domestic shares)	-	9,200,000	3.83	2.68
Zhang Jinhua (Executive Director)	Beneficial owner	7,576,000 (domestic shares)	-	7,576,000	3.16	2.21

Note 1: The 17,927,000 shares are held by Liu Huiping, the wife of Qian Wenhua, and such shares are deemed to be family interests held by Qian Wenhua.

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

At 30 September 2005, the persons or company (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO and who were directly and/or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of shareholders	Capacity	Number of shares		Total interest	Approximate percentage of shareholding in such class of shares	Approximate Percentage of shareholding in the registered share capital of the Company
		Personal interest	Family Interest			
Liu Huiping (Note 1)	Beneficial owner	17,927,000 (domestic shares)	95,896,000 (Note 1) (domestic shares)	113,823,000	47.43	33.19
Shenyin Wanguo Strategic Investments (H.K.) Ltd.	Beneficial owner	30,356,000 (H Shares)	-	30,356,000	29.47	8.91
Shenyin Wanguo (H.K.) Limited (Note 2)	Interest of a controlled corporation	30,356,000 (H Shares)	-	30,356,000	29.47	8.91
中塑油品股份有限公司	Beneficial owner	14,500,000 (H Shares)	-	14,500,000	14.08	4.23
Lu Shuidi	Beneficial owner	5,840,000 (H Shares)	-	5,840,000	5.07	1.70

Notes

1. Liu Huiping is the wife of Qian Wenhua.
2. The entire issued share capital of Shenyin Wanguo Strategic Investment (H.K.) Limited is legally and beneficially owned by Shenyin Wanguo (H.K.) Limited. Accordingly, Shenyin Wanguo (H.K.) Limited is deemed to be interested in the shares registered in the name of Shenyin Wanguo Strategic Investment (H.K.) Limited.

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 9 months ended 30 September 2005.

AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.29 of the GEM Listing Rules, the Company established an audit committee with written terms of reference. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive directors, Ms. Ye Mingzhu, Mr. Zhu Shengfu and Mr. Lv Renzhi. Mr. Lv Renzhi is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated results for the 9 months ended 30 September 2005 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

During the 9 months ended 30 September 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DISCLOSURE UNDER GEM LISTING RULES 17.22

The following continuing disclosure was made pursuant to Rule 17.22 of the GEM Listing Rules.

As at 30 September 2005, there were 343,000,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.566 as stated in the Stock Exchange's daily quotation sheets for the trading days from 23 September 2005 to 29 September 2005 (both days inclusive), being the five business days immediately preceding 30 September

2005, the total market capitalisation of the Company was approximately HK\$194,138,000 (equivalent to RMB201,903,520) (the "Total Market Cap") as at 30 September 2005.

As at 30 June 2005, the consolidated total asset value of the Group was approximately RMB\$145,075,000 (the "Total Asset Value").

As at 30 September 2005, trade and note receivables from Shanghai Pudong Road & Bridge Construction Company Limited ("Pudong Construction") was approximately RMB31,800,000 which represented approximately 15.75% of the Total Market Cap and approximately 21.92% of the Total Asset Value.

The trade and note receivables are unsecured, interest free and payable in accordance with the agreed credit terms under the sales contracts.

The Directors confirm that Pudong Construction and its ultimate beneficial owners are not connected persons (as defined in GEM Listing Rules) of the Company.

COMPLETING 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.

COMPLIANCE ADVISOR'S INTERESTS

Pursuant to the compliance adviser agreement dated 12 July 2005 entered into between the Company and Shenyin Wanguo Capital (H.K.) Limited ("SW Capital"), SW Capital has been appointed as the compliance adviser as required under the GEM Listing Rules for the period from 13 July 2005 to 31 December 2007. SW Capital is paid for acting as the Company's compliance adviser.

The Company has been notified by SW Capital, the compliance advisor of the Company, that at 30 September 2005, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital was interested in 30,356,000 H Shares of the Company. Save as disclosed above, none of SW Capital, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

By order of the Board

Qian Wenhua

Chairman

Shanghai, 11 November 2005

As at the date of this report, the Board of Directors of the Company comprises 5 Executive Directors: Qian Wenhua, Lu Yong, Yao Peie, Zhang Jinhua and Li Hongyuan; and 3 Non-Executive Directors: Zhu Shengfu, Lv Renzhi and Ye Mingzhu.