

First Quarterly Report

# 2006



**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)*

(Stock Code: 8251)

\* 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. The Group's turnover for the 3 months ended 31 March 2006 was approximately RMB185 million (3 months ended 31 March 2005: approximately RMB96 million). A growth of approximately 93% was recorded year-on-year.
2. Profit attributable to the equity holders of the Company for the 3 months ended 31 March 2006 was approximately RMB17.5 million (3 months ended 31 March 2005: approximately RMB6.4 million). A growth of approximately 173% was recorded year-on-year.
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 months ended 31 March 2006 together with the comparative unaudited figures for the corresponding period in 2005.

### UNAUDITED CONSOLIDATED RESULTS

		<b>3 months ended</b>	
		<b>31 March 2006</b>	31 March 2005
	<i>Note</i>	<b>Unaudited</b>	Unaudited
		<b>RMB'000</b>	<b>RMB'000</b>
Turnover	2	<b>184,902</b>	95,715
Cost of sales		<b>(158,637)</b>	(83,633)
		<hr/>	<hr/>
Gross profit		<b>26,265</b>	12,082
Other revenues	2	<b>7,545</b>	54
Distribution costs		<b>(5,941)</b>	(3,138)
General and administrative expenses		<b>(3,945)</b>	(1,175)
Other operating expenses		<b>(2,412)</b>	(33)
		<hr/>	<hr/>
Operating profit		<b>21,512</b>	7,790
Finance costs		<b>(798)</b>	(243)
Share of profit /(loss) of associated companies		<b>(131)</b>	-
		<hr/>	<hr/>
Profit before taxation		<b>20,583</b>	7,547
Taxation	3	<b>(3,174)</b>	(1,176)
		<hr/>	<hr/>
Profit for the period		<b>17,409</b>	6,371
		<hr/>	<hr/>
Attributable to:			
Equity holders of the company		<b>17,484</b>	6,382
Minority interest		<b>(75)</b>	(11)
		<hr/>	<hr/>
		<b>17,409</b>	6,371
		<hr/>	<hr/>
Dividend	4	-	-
		<hr/>	<hr/>
		<b>RMB</b>	<b>RMB</b>
		<hr/>	<hr/>
Basic and diluted earnings per share	5	<b>0.025</b>	0.013
		<hr/>	<hr/>

**MOVEMENTS TO AND FROM CONSOLIDATED RESERVES – UNAUDITED**

	Capital reserve	Share issuance cost	Statutory common reserve fund	Statutory common welfare fund	Currency translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2005	-	(4,578)	3,930	1,964	-	20,583	21,899
Profit for the period	-	-	-	-	-	6,382	6,382
At 31/3/2005	-	(4,578)	3,930	1,964	-	26,965	28,281
At 1/1/2006	34,117	-	9,428	4,714	(19)	57,444	105,684
Currency translation differences	-	-	-	-	(55)	-	(55)
Profit for the period	-	-	-	-	-	17,484	17,484
<b>At 31/3/2006</b>	<b>34,117</b>	<b>-</b>	<b>9,428</b>	<b>4,714</b>	<b>(74)</b>	<b>74,928</b>	<b>123,113</b>

**NOTES:**

**1. BASIS OF PREPARATION**

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted in preparing these financial statements are consistent with those followed in the Group's annual audited consolidated financial statements for the year ended 31 December 2005.

**2. TURNOVER AND REVENUE**

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

	<b>3 months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Turnover</b>		
Sales of asphalt	<u>184,902</u>	<u>95,715</u>
<b>Other revenues</b>		
Subsidy income	–	42
Interest income	112	12
Transportation income	7,431	–
Others	<u>2</u>	<u>–</u>
	<u>7,545</u>	<u>54</u>
Total revenues	<u>192,447</u>	<u>95,769</u>

**3. TAXATION**

	<b>3 months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	<i>RMB'000</i>
Current income tax		
– PRC enterprise income tax	2,184	1,176
– Hong Kong profits tax	<u>990</u>	<u>–</u>
	<u>3,174</u>	<u>1,176</u>

The Company is subject to the Income Tax Law of the PRC. Being a company incorporated in Pudong New Area of Shanghai, the relevant PRC enterprise income tax rate is 15% on the assessable profit during the Period.

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

<b>Name of subsidiary</b>	<b>Income tax rate</b>
Wuhan Hualong Highway Resources Company Limited	33%
Donghua (Hong Kong) Limited	17.5%
Shanghai Shenhua Logistics Company Limited	15%
Zhengzhou Huasheng Petrochemical Company Limited	33%
Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping")	3.3%

Remarks:

Suzhong Shipping is classified as a small-scale company for income tax purpose. According to the 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.

Deferred taxation as at 31 March 2006 and 2005 was not significant.

#### **4. DIVIDEND**

The Board did not recommend an interim dividend for the 3 months ended 31 March 2006 (3 months ended 31 March 2005: Nil).

#### **5. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the period was based on the unaudited profit attributable to the equity holders of the Company of RMB17,484,000 (3 months ended 31 March 2005: RMB6,382,000) and the weighted average number of 686,000,000 shares (3 months ended 31 March 2005: 480,000,000 shares) deemed to be in issue at the beginning of the relevant periods assuming that the issuance of bonus shares of 343,000,000 shares at 1 bonus share per 1 ordinary share by capitalizing the Company's capital reserve and retained earnings has been effective. The comparative figure for 2005 has been adjusted accordingly.

The issuance of 343,000,000 bonus shares is subject to the approval by the shareholders at the Annual General Meeting of the Company on 16 May 2006.

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

## **FINANCIAL AND BUSINESS REVIEW**

The Group's turnover for the 3 months ended 31 March 2006 was approximately RMB185 million (3 months ended 31 March 2005: approximately RMB96 million) representing a growth of approximately 93% year-on-year and wholly come from the sales of asphalt. The substantial growth of turnover of the Group was principally attributable to the continuing strong demand on the asphalt and the increase in average selling price and the quantities of the asphalt sold.

The Group's gross profit for the 3 months ended 31 March 2006 was approximately RMB26 million (3 months ended 31 March 2005: approximately RMB12 million). The gross profit margin was approximately 14.2% (3 months ended 31 March 2005: approximately 12.6%). The substantial increase in the gross profit and gross profit margin was mainly attributable to increase in average selling price higher than its cost of sales.

Profit attributable to the equity holders of the Company for the 3 months ended 31 March 2006 was approximately RMB17.5 million (3 months ended 31 March 2005: approximately RMB6.4 million). A growth of approximately 173% was recorded year-on-year for the 3 months ended 31 March 2006. The increase in net profit of the Group was mainly attributable to the improvement in the efficiency of logistic system, increase in scale of operation, the adoption of bulk procurement strategy, the increase in average selling price of asphalt and, as well as the decrease in the asphalt purchase and transportation costs.

### **Other Revenues**

For the 3 months ended 31 March 2006, the Group's other revenues were approximately RMB7.55 million (3 months ended 31 March 2005: approximately RMB54,000). The increase in the Group's other revenues were mainly attributable to the transportation income earned by its subsidiary, Shanghai Shenhua Logistics Company Limited.



## **General and Administrative Expenses**

For the 3 months ended 31 March 2006, the Group's general and administrative expenses were around RMB3.95 million (3 months ended 31 March 2005: approximately RMB1.18 million). The increase was mainly due to the increase in staff costs.

## **Distribution Costs**

For the 3 months ended 31 March 2006, the Group's distribution costs were around RMB5.94 million (3 months ended 31 March 2005: approximately RMB3.14 million). The increase was mainly attributable to the additions of 2 asphalt storage hubs in Changzhou, Jiangsu Province and Nanchang, Jiangxi Province, upgrading the asphalt storage hub in Shanghai and the time charter of 2 ocean carriers.

## **Business operations**

The Group is principally engaged in the provision of one-stop asphalt sales and logistics services, including procurement, storage and delivery services to its customers through its constantly improving logistics system. At present, asphalt is the Group's only product, while the Group's logistics services cover vehicle transportation, ocean transportation, inland water transportation and the storage of asphalt.

The Group's existing market spans across Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province and Hubei Province, which are all along the Yangtze River. Recently, the Group has extended its reach to Henan Province and other inner provinces in order to explore the market in inner China. In the first quarter of 2006, the Group commenced the construction of an asphalt storage hub with a capacity of 38,000 tons in Zhengzhou, Henan Province, and leased 2 storage hubs with respective capacity of 16,000 tons and 15,000 tons in Nanchang, Jiangxi Province and Changzhou, Jiangsu Province from independent third parties.

With the view to providing more quality and efficient transportation services to its customers, the Group purchased 25 delivery vehicles with a total loading capacity of 700 tons and acquired or chartered 14 vessels with a total loading capacity of 18,250 tons. In order to enhance its delivery capability and reduce procurement and distribution cost, the Group plans to add ten more delivery vehicles and one more ocean carrier in the second quarter of 2006.

Benefiting from the commencement of the operation of its storage hubs in 2005 with a total capacity of 32,000 tons in Shanghai, Hefei and Anqing of Anhui Province, Jiujiang City of Jiangxi Province, Jiaxing City of Zhejiang Province, the Group further expanded its market in these regions in the first quarter of 2006 and recorded a growth of 93% in turnover during the same period. Meanwhile, with two ocean carriers with a total loading capacity of 9,100 tons under time charter and 25 delivery vehicles commencing operation, the transportation cost has decreased when compared with the corresponding period last year. The above measures contributed to a 173% growth in the Group's net profit over the corresponding period last year.

## **PROSPECTS**

The Chinese government always supports the construction of infrastructure facilities, such as roads. With the steady growth of the domestic economy, the coordinated development of Central and Western China and the establishment of new rural villages, the demand for roads is rising, resulting in the enormous demand of asphalt. It is expected that 95% of the villages and towns will be accessible by asphalt (cement) roads during the period under the "Eleventh Five-Year Plan". According to the long-term plan of China, 34 expressways with a total length of 44,000 km and linking different parts of the country and the main routes of the 5 vertical and 7 horizontal (「五縱七橫」) national highways will be built. These, coupled with the preparation for Beijing 2008 Olympics and the 2010 Shanghai World Expo, are expected to fuel the consumption of asphalt to 13 million tons in 2006, which will create enormous business opportunities for the Group.

Take the Group's existing market as an example, the expressways known to be built in Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi and Henan will extend more than 2,200 km every year from 2006 to 2010, which translates into a demand for more than 1 million tons of asphalt. On the other hand, the repair and construction of a large number of provincial highways, urban roads and city and town roads will also create a high consumption of millions tons of asphalt.

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

At 31 March 2006, 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		Total long interest	Approximate percentage of shareholding in such class of shares of the Company	Approximate Percentage of shareholding in the registered share capital of the Company
		Personal interest	Family interest			
Qian Wenhua (Executive Director)	Beneficial owner	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

*Notes*

- 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.
- 2: The above long positions in the shares, underlying shares and debentures of the Company do not include any entitlement of bonus shares at 1 bonus share per 1 ordinary share held by capitalizing the Company's capital reserve and retained earnings. The issuance of bonus shares is subject to the approval by the shareholders at the Annual General Meeting of the Company on 16 May 2006.

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

At 31 March 2006, 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 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of shareholders	Capacity	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	17,160,000 (H Shares)	-	17,160,000	16.66	5.00
Shenyin Wanguo (H.K.) Limited (Note 2)	Interest of a controlled corporation	17,160,000 (H Shares)	-	17,160,000	16.66	5.00
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.
3. The above interests do not include any entitlement of bonus shares at 1 bonus share per 1 ordinary share held by capitalizing the Company's capital reserve and retained earnings. The issuance of bonus shares is subject to the approved by the shareholders at the Annual General Meeting of the Company on 16 May 2006.

### **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 3 months ended 31 March 2006.

### **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 3 months ended 31 March 2006 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 3 months ended 31 March 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

### **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 ADVISER'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 adviser of the Company, that as at 31 March 2006, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital was interested in 17,160,000 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, 8 May 2006

*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; 1 Non-executive Director: Hsu Chun-min; and 3 Non-executive Directors: Zhu Shengfu, Lv Renzhi and Ye Mingzhu.*