



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)

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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 for the purpose of giving information with regard to Shanghai Donghua Petrochemical Co., Ltd. (the “Company”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board of Directors (the “Board”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three and six months ended 30 June 2006 together with comparative unaudited figures for the corresponding periods in 2005.

CONDENSED UNAUDITED CONSOLIDATED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2006	2005	2006	2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	247,579	129,460	432,481	225,175
Cost of sales		(225,649)	(112,678)	(384,286)	(196,311)
Gross profit		21,930	16,782	48,195	28,864
Other revenues	2	19,178	1,301	26,723	1,355
Distribution costs		(4,684)	(5,721)	(10,625)	(8,859)
General and administrative expenses		(4,726)	(1,857)	(8,671)	(3,032)
Other operating expenses		(9,337)	(6)	(11,749)	(39)
Operating profit	4	22,361	10,499	43,873	18,289
Finance costs	5	(1,601)	(209)	(2,399)	(452)
Share of profit/(loss) of associated companies		288	(162)	157	(162)
Profit before taxation		21,048	10,128	41,631	17,675
Taxation	6	(2,241)	(1,341)	(5,415)	(2,517)
Profit for the period		18,807	8,787	36,216	15,158
Attributable to:					
Equity holders of the Company		18,760	8,752	36,244	15,134
Minority interests		47	35	(28)	24
		18,807	8,787	36,216	15,158
Earnings per share for profit attributable to equity holders of the Company during the period (Expressed in RMB per share)	7	0.027	0.018	0.053	0.032
Dividend	8	-	2,263	5,008	2,263

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		42,179	21,762
Construction-in-progress		43,893	34,874
Investment in associates		9,150	7,604
Available-for-sale investments		3,152	3,152
		98,374	67,392
Current assets			
Inventories	9	94,829	27,754
Trade and other receivables	10	165,496	70,080
Cash and bank balances		94,613	97,886
		354,938	195,720
Total assets		453,312	263,112
LIABILITIES			
Current liabilities			
Trade and other payables	11	128,695	81,407
Taxation payable		3,414	4,286
Short-term bank loans	12	145,023	35,500
Current portion of bank loan (secured)	12	1,800	-
Dividend payable		5,008	-
		283,940	121,193
NON-CURRENT LIABILITY			
Bank loan (secured)	12	6,450	-
Total liabilities		290,390	121,193
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		68,600	34,300
Proposed dividends		-	13,583
Other reserves		88,870	92,101
Equity attributable to the Company's equity holders		157,470	139,984
Minority interest		5,452	1,935
		162,922	141,919
Total liabilities and equity		453,312	263,112
Net current assets		70,998	74,527
Total assets less current liabilities		169,372	141,919

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY –
UNAUDITED**

	Share		Statutory	Statutory	Currency	Retained	Total	
	Share	issuance	Capital	common	translation	earnings		
	capital	cost	reserve	reserve	reserve			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1/1/2005	24,000	(4,578)	-	3,930	1,964	-	20,583	45,899
Profit for the period	-	-	-	-	-	-	15,134	15,134
Currency translation differences	-	-	-	-	-	(19)	-	(19)
Direct costs incurred for listing of shares on GEM	-	(5,676)	-	-	-	-	-	(5,676)
At 30/6/2005	<u>24,000</u>	<u>(10,254)</u>	<u>-</u>	<u>3,930</u>	<u>1,964</u>	<u>(19)</u>	<u>35,717</u>	<u>55,338</u>
At 1/1/2006	34,300	-	34,117	9,428	4,714	(19)	57,444	139,984
Bonus issue	34,300	-	(34,117)	-	-	-	(183)	-
Currency translation differences	-	-	-	-	-	-	(167)	(167)
Profit for the period	-	-	-	-	-	-	36,244	36,244
Dividend declared and paid in respect of the year 2005	-	-	-	-	-	-	(13,583)	(13,583)
Dividend declared in respect of the period from 1 January 2006 to 30 June 2006	-	-	-	-	-	-	(5,008)	(5,008)
Minority interest	-	-	-	-	-	-	-	-
At 30/6/2006	<u>68,600</u>	<u>-</u>	<u>-</u>	<u>9,428</u>	<u>4,714</u>	<u>(19)</u>	<u>74,747</u>	<u>157,470</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

	For the six months ended 30 June	
	2006	2005
	RMB'000	<i>RMB'000</i>
Net cash (outflow)/ inflow from operating activities	(57,190)	31,980
Net cash outflow from investing activities	(63,856)	(6,771)
Net cash (outflow)/inflow from financing	117,773	(7,500)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	(3,273)	17,709
Cash and cash equivalents at beginning of the period	97,886	7,617
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	94,613	25,326
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	94,613	25,326
	<hr/>	<hr/>

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements (“interim financial statements”) of the Group for the six months ended 30 June 2006 have been prepared in accordance with Hong Kong Accounting Standard No. 34 – Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”). The interim financial statements have been prepared on the basis of historical cost convention, as modified by the revaluation of available-for-sale investments. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

2. TURNOVER AND REVENUE

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

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Turnover:		
Sales of asphalt	432,481	225,175
Other revenues:		
Dividend income from unlisted investments	7,549	1,280
Subsidy income	2,000	42
Interest income	403	33
Transportation income	16,040	–
Others	731	–
	26,723	1,355
Total revenues	459,204	226,530

3. SEGMENT INFORMATION

The Group operates principally in one business segment, which is trading of asphalt along with the provision of corresponding logistic services in The People's Republic of China (“PRC”). All of the Group's assets are located in PRC, and all sales are made to customers situated in PRC. Accordingly, no separate segment information is disclosed.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Crediting:		
Reversal of provision for impairment of receivables	—	(578)
Charging:		
Depreciation of fixed assets	1,499	641
Staff costs	4,412	2,224
Cost of inventories	378,197	196,050
Operating lease rental expenses in respect of		
– Land and buildings	1,565	1,590
– Transportation facilities	12,204	180

5. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interest on bank loans	2,399	452

6. TAXATION

	For the six months ended 30 June	
	2006	2005
	RMB'000	<i>RMB'000</i>
PRC enterprise income tax	3,089	2,517
Hong Kong profits tax	2,326	–
	5,415	2,517

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

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

Name of subsidiary	Income tax rate
Wuhan Hualong Highway Resources Company Limited ("Hualong Company")	33%
Donghua (Hong Kong) Limited ("Donghua Hong Kong")	17.5%
Shanghai Shenhua Logistic Company Limited ("Shenhua Company")	tax exempt for 2006
Zhengzhou Huasheng Petrochemical Company Limited ("Huasheng Company")	33%
Quanjiao Puxing Petrochemical Products 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 a 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 periods as the effect of all temporary differences is not material.

7. EARNINGS PER SHARE

The calculation of the earnings per share for the three months and six months ended 30 June 2006 is based on the Group's profit attributable to equity holders of the Company of RMB18,760,000 and RMB36,244,000, respectively, and the weighted average number of 686,000,000 shares (three months and six months ended 30 June 2005: 480,000,000 shares) deemed to be in issue at the beginning of the relevant periods assuming that the issuance of bonus shares at one bonus share for every existing ordinary share held by capitalizing the Company's capital reserve and retained earnings has been effective. The comparative figures for 2005 has been adjusted accordingly.

The issuance of 343,000,000 bonus shares was approved by the shareholders of the Company at the annual general meeting of the Company held on 16 May 2006 but is subject to the final approval by the relevant authorities of PRC.

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

8. INTERIM DIVIDEND

The Directors have declared an interim dividend of not more than RMB5,007,800 for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB2,263,800). The above interim dividend was reflected as a dividend payable as at 30 June 2006.

9. INVENTORIES

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Asphalt for resale	94,829	27,754

No inventories were carried at net realisable value.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Trade receivables	58,900	32,538
Commercial notes receivable	65,899	32,099
	124,799	64,637
Less: Provision for impairment of receivables	(1,365)	(1,365)
	123,434	63,272
Prepayments and deposits	36,190	6,074
Due from related parties	-	250
Other receivables	5,872	484
	165,496	70,080

The ageing analysis of trade and notes receivables, arising mainly from sales of asphalt to customers and with credit terms of 30 days to 90 days, is as follow:

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
0 – 30 days	78,565	43,363
31 – 60 days	7,033	11,343
61 – 90 days	19,798	3,934
91 days – one year	18,095	4,924
One year – two years	1,308	1,073
Over three years	-	-
	124,799	64,637

11. TRADE AND OTHER PAYABLES

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Trade payables	91,912	20,025
Bills payable	19,260	-
Due to related parties	-	800
Advances from customers	-	46,847
Other payables	12,511	11,530
Accruals	5,012	2,205
	128,695	81,407

The ageing analysis of trade payables is as follow:

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
0 – 30 days	28,433	18,735
31 – 60 days	50,328	985
61 – 90 days	-	65
91 days – one year	12,971	131
One year – two years	180	109
Over three years	-	-
	91,912	20,025

12. BANK LOANS

As at 30 June 2006, short-term bank loans of RMB2,500,000 and bank loans of RMB8,250,000 are secured by office premises of the Company with a net book value of RMB21,892,000 (original cost of RMB22,382,000). In addition, short term bank loans included amounts of RMB99,990,000 which are secured by the inventories of the Group.

As at 30 June 2006, short-term bank loans of RMB10,000,000 are guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party.

As at 31 December 2005, short-term bank loans comprised:

- (1) bank loans of RMB15,000,000 guaranteed by Shanghai Jianpu Imports & Exports Limited, an independent third party; and
- (2) bank loans of RMB2,500,000 secured by office premises of the Company with a net book value of RMB3,603,000 (original cost of RMB3,814,000).

13. SUBSEQUENT EVENT

Subsequent to 30 June 2006, the Company had received a draft letter of intent from CLSA Capital Partners (HK) Limited on 13 July 2006, relating to a possible investment in the share capital of the Company by CLSA Capital Partners (HK) Limited, Aria Investment Partners II, L.P. and Aria Investment Partners III, L.P.. The Company and CLSA Capital Partners (HK) Limited signed the letter of intent on 16 July 2006. The operative terms of the letter of intent are not intended by the parties to be legally binding. Definitive agreements have not yet been entered into by the parties up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

The Group's turnover for the six months ended 30 June 2006 was approximately RMB432.5 million (six months ended 30 June 2005: approximately RMB225.2 million) representing a growth of approximately 92.1% from the first half of 2005. The turnover was generated from the sales of asphalt. The substantial growth of turnover of the Group was principally attributable to the expansion of operation scale throughout PRC, the increase in sales prices and sales volume of asphalt.

Gross profit

The Group's gross profit for the six months ended 30 June 2006 was approximately RMB48.2 million (six months ended 30 June 2005: approximately RMB28.9 million). The substantial growth in gross profit was mainly attributable to the Group's bulk procurement strategy, the increase in sales prices and sales volume of asphalt. The gross profit margin was approximately 11.1% (six months ended 30 June 2005: approximately 12.8%). The drop in the gross profit margin was mainly due to the level of increase in asphalt purchase costs was higher than that of the increase in selling prices.

Other revenues

The Group's other revenues for the six months ended 30 June 2006 were approximately RMB26.7 million (six months ended 30 June 2005: approximately RMB1.4 million). The increase in the Group's other revenues was mainly attributable to the increase in transportation income earned by its subsidiaries, dividend income from unlisted investments and financial subsidies received from the Finance Bureau of the local PRC Government.

Distribution costs

The Group's distribution costs for the six months ended 30 June 2006 were approximately RMB10.6 million (six months ended 30 June 2005: approximately RMB8.9 million). The increase was mainly attributable to the growth in sales volume and the addition of three asphalt storage hubs in Changzhou in Jiangsu Province, Nanchang in Jiangxi Province and Wuhan in Hubei Province, PRC respectively.

General and Administration Expenses

The Group's general and administration expenses for the six months ended 30 June 2006 were approximately RMB8.7 million (six months ended 30 June 2005: approximately RMB3.0 million). The rise in these expenses was mainly due to the increase in staff (including Directors and senior management staff) costs, and the increase in office expenses resulting from the addition of a subsidiary and the expansion of the Group's operations.

Profit attributable to shareholders

Profit attributable to equity holders of the Company for the six months ended 30 June 2006 was approximately RMB36.2 million (six months ended 30 June 2005: approximately RMB15.1 million), representing an increase of approximately 139.7% from the first half of 2005. The increase in profits of the Group was mainly attributable to the improvement in the efficiency of logistic system, the adoption of bulk procurement strategy, the increase in selling prices and sales volume, and the increase in transportation income and dividend income from unlisted investment.

Construction in progress

As at 30 June 2006, the construction in progress comprises the following:

- (i) Zhengzhou project, which is expected to commence operation in the third quarter of 2006;
- (ii) Wai Gao Qiao project, which is expected to commence operation in third quarter of 2006;

- (iii) Quanjiao project, which is expected to commence operation in the forth quarter of 2006;
- (iv) Changzhou project, which is expected to commence operation in the third quarter of 2006;
- (v) Xiangtang district, Nan Chang City project, which is expected to commence operation in the third quarter of 2006; and
- (vi) two ocean vessels, which are purchased by the Company and Donghua Hong Kong respectively, and are expected to commence operation in the third quarter of 2006.

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, and 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 along the Yangtze River. The Group operates nine storage hubs with a total capacity of 99,000 tons mainly located in the Yangtze River Delta area. In addition, the Group is constructing two storage hubs with respective capacity of 38,000 tons and 12,000 tons in Zhengzhou in Henan Province and Quanjiao in Anhui Province in order to explore the markets in Henan Province, Anhui Province and their vicinities.

With the view to providing better quality and efficient delivery services to its customers, the Group has purchased 34 delivery vehicles with a total loading capacity of 810 tons and acquired or time chartered 7 vessels with a total loading capacity of 18,136 tons. In order to enhance its delivery capacity and reduce procurement and distribution cost, the Group may acquire more vehicles and vessels.

PROSPECTS

The PRC government has strongly emphasised the development of infrastructural facilities, such as roads. With the steady growth of the domestic economy, the well coordinated development of central and western regions of PRC and the establishment of more rural villages, the demand for roads is rising which has led to a constant increase in demand for 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 PRC, 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 factors, coupled with the preparation for Beijing 2008 Olympics and the 2010 Shanghai Expo, are expected to fuel the demand for asphalt of up to 13 million tons in 2006. The prospect of the Group is considered to be extremely positive.

CAPITAL STRUCTURE

As at 30 June 2006, the Group had total assets less current liabilities of approximately RMB169.4 million (31 December 2005: RMB141.9 million), comprising noncurrent assets of about RMB98.4 million (31 December 2005: RMB67.4 million), net current assets of about RMB71.0 million (31 December 2005: RMB74.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group had total cash and bank balances of approximately RMB94.6 million and RMB97.9 million as at 30 June 2006 and 31 December 2005 respectively; and total bank loans of approximately RMB153.3 million and RMB35.5 million as at 30 June 2006 and 31 December 2005 respectively. The debt to equity ratio as at 30 June 2006 and 31 December 2005 was 97.3% and 25.4% respectively. The Group regards that it has sufficient working capital to fund its operations.

FOREIGN EXCHANGE EXPOSURE

The Group's trade receivables were denominated in Renminbi whereas purchases were either denominated in Renminbi or United States Dollar. As such, the Group did not have significant foreign currency risks. The Group did not pursue any hedging or other relevant strategy.

PLEDGE OF ASSETS

As at 30 June 2006, the Company's office premises have been pledged to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any significant contingent liabilities.

EMPLOYEE INFORMATION

As at 30 June 2006, the Group employed about 183 employees. Total employee remuneration, including that of the Directors and mandatory provident fund contributions, for the period under review amounted to approximately RMB4.4 million.

Employees are remunerated according to their performance and work experience. In addition to basic salaries, discretionary bonus may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

DISCLOSURE UNDER GEM LISTING RULES 17.15 TO 17.21

The Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules as at 30 June 2006.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

The Group adheres strictly to its development targets to build up its networks along the Yangtze River as well as in the central mainland provinces and coastal areas. The Group is committed to improve its logistic facilities to provide its customers with one-stop asphalt sales and delivery services by increasing asphalt vehicles, vessels and train wagons.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

The prospectus of the Company dated 30 June 2005 (the “Prospectus”) described the business objectives and their expected progress of development in order to achieve the long term business targets. During the period under review, the actual progress of the plan is as follows:

EXTENDING THE STORAGE CENTRES:

PROJECT: TAI HE ROAD, SHANGHAI

Progress as Scheduled

Acquire pier, storage tanks and land use rights, upgrade the facilities and operations

Actual Performance

The Company has terminated this deal after due consideration and rearranged the usage of the proceeds (the details are set out in the paragraph headed “USE OF PROCEEDS FROM ISSUANCE OF H SHARES TO THE PERIOD ENDED 30 JUNE 2006” in this report).

PROJECT: WAI GAO QIAO, SHANGHAI

Progress as Scheduled

Acquire storage facilities, upgrade the facilities and operations

Actual Performance

Two storage tanks with 10,000 tons capacity are under construction and are expected to commence operation in the third quarter of 2006. The delay of the project is caused by longer than expected government approval procedures.

PROJECT: SET UP STORAGE CENTRES ALONG THE YANGTZE RIVER COASTAL AREA

	Progress as Scheduled	Actual Performance
Hefei City in Anhui Province	Develop business in Anhui Province	Met the schedule
Jiaxing City in Zhejiang Province	Develop business in Zhejiang Province	Met the schedule
Jiujiang City in Jiangxi Province	Develop business in Jiangxi Province	Met the schedule
Wuhan City in Hubei Province	Develop business in Hubei Province	Met the schedule

PROJECT: SET UP STORAGE CENTRES IN THE INLAND PROVINCES

	Progress as Scheduled	Actual Performance
Shanxi Province	Ceased negotiation due to unfavourable terms offered by the third party	Cancelled the previous project and will look for other suitable projects at an appropriate time
Shaanxi Province	Ceased negotiation due to unfavourable terms offered by the third party	Cancelled the previous project and will look for other suitable projects at an appropriate time

PROJECT: SET UP “DONGHUA HONG KONG”

Progress as Scheduled	Actual Performance
Procure overseas supply and asphalt trading business through ocean carriers	Met the schedule

Besides the above business objectives, the Group has implemented the followings:

- **Storage centre in Zhengzhou City in Henan Province:**

Huasheng Company, an indirect wholly owned subsidiary of the Company, commenced the construction of a storage hub with 38,000 tons capacity on a piece of land with a site area of approximately 100,000 square meters in Zhengzhou City in Henan Province, PRC. The investment budget for the project is approximately RMB20 million and the project is expected to be completed in the third quarter of 2006.

- **Storage centre in Changzhou City in Jiangsu Province:**

Shenhua Company, an indirect wholly owned subsidiary of the Company, has leased from an independent third party storage tanks situated at Changzhou City with a total capacity of 15,000 tons. The tanks have been upgraded and commissioned in the second quarter of 2006. In addition, another tank with 5,000 tons capacity is under construction, and is expected to commence operation in the third quarter of 2006.

- **Storage centre in Xiangtang District, Nanchang City in Jiangxi Province:**

Shenhua Company, an indirect wholly owned subsidiary of the Company, leased from an independent third party storage tanks with 15,000 tons capacity situated at Xiangtang District, Nanchang City. The tanks are being upgraded and expected to commence operation in the third quarter of 2006.

- **Storage centre in Quanjiao City in Anhui Province:**

On 31 May 2006, the Company entered into an agreement with two independent third parties relating to the Company's investment in an enterprise established in PRC to build a storage hub with 12,000 tons capacity on a piece of land with a site area of approximately 29,673 square meters in Quanjiao City in Anhui province. The Company's investment amounted to RMB6.5 million, which represented 65% of the registered capital of the said enterprise. The project is expected to be completed in the fourth quarter of 2006.

- **Ocean Carriers**

On 18 November 2005, the Company entered into an agreement with an independent third party to acquire an ocean carrier with 3,250 tons of loading at RMB20.88 million. The vessel is under construction, and is expected to operate in the third quarter of 2006.

On 15 May 2006, Donghua Hong Kong, a wholly owned subsidiary of the Company, entered into a vessel purchase contract with an independent third party to acquire an ocean carrier with 3,800 tons of loading at HK\$18 million. The vessel is being upgraded and is expected to operate in the third quarter of 2006.

USE OF PROCEEDS FROM ISSUANCE OF H SHARES TO THE PERIOD ENDED 30 JUNE 2006

The H shares of the Company were listed on GEM of the Stock Exchange on 13 July 2005. The net proceeds raised were approximately RMB44 million.

The original use of the proceeds as published in the Prospectus included using RMB40 million to fund certain acquisitions in Shanghai, PRC, including land use rights, piers and storage tank facilities, to extend the intermediate storage capacities of the Group in Shanghai, PRC ("Proposed Acquisitions"). These Proposed Acquisitions were budgeted in accordance with a letter of intent signed with an independent third party.

At an extraordinary general meeting of the Company held on 10 March 2006, the Company obtained approval from the shareholders of the Company for the termination of the Proposed Acquisitions and the change in use of proceeds. The Directors were authorized to determine the usage of the proceeds which they consider necessary, desirable, appropriate and is in the interest of the Company. Up to the end of 30 June 2006, the Group has used RMB20 million to build storage tanks with 38,000 tons capacities in Zhengzhou City in Henan Province, PRC in order to penetrate the Henan market. Other amounts of RMB6.4 million and RMB7.2 million have been used respectively to increase the equity interest in (i) Hualong Company to complete the construction of storage hub in Wuhan; and (ii) Shenhua Company to purchase asphalt vehicles for transportation. The balance was used as working capital.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

The H Shares of the Company were listed on GEM of the Stock Exchange on 13 July 2005. The interests and 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”) which, (a) were required to be notified 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), were required, pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings 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	Approximate
		Personal interest	Family Interest		percentage of shareholding in such class of shares of the Company	percentage of shareholding in the registered share capital of the Company
Qian Wenhua (Executive Director)	Beneficial owner	95,896,000 (domestic shares)	17,927,000 (Note 1) (domestic shares)	113,823,000	47.23	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

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			
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.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as the Directors are aware, the persons or corporations (not being a Director, supervisor or chief executive of the Company) who 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 are as follows:

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			
Liu Huiqing (Note 1)	Beneficial owner	17,927,000 (domestic shares)	95,896,000 (Note 1) (domestic shares)	113,823,000	41.43	33.19
中塑油品股份有限公司	Beneficial owner	14,500,000 (H Shares)	-	14,500,000	14.08	4.23

Note:

1. Liu Huiqing is the wife of Qian Wenhua.

Directors' and Supervisors' right to acquire shares or debentures

None of the Directors and Supervisors or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, the Company had 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. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

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 financial statements for the six months ended 30 June 2006, and was of an opinion that the preparation of such results complied with the applicable accounting and reporting standards.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser's 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 of the Company as required under the GEM Listing Rules at a fee for the period from 13 July 2005 to 31 December 2007 or until the compliance adviser's agreement is terminated in accordance with the terms and conditions set out therein.

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 as at 30 June 2006.

The Company has been notified by SW Capital that as at the date of this report, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital, was interested in 1,020,000 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.

CORPORATE GOVERNANCE

Throughout the period under review, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules, except that a nomination committee to nominate board members to the Group has not yet been established. The Company will consider setting up the nomination committee when necessary.

Qian Wenhua

Chairman

Shanghai, PRC, 10 August 2006

As at the date of this report, the Board comprises five executive Directors: Qian Wenhua, Lu Yong, Yao Peie, Zhang Jinhua and Li Hongyuan; one non-executive Director: Hsu Chun-min and three independent non-executive Directors: Zhu Shengfu, Lv Renzhi and Ye Mingzhu.