

Third Quarterly Report

2006



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

(Stock Code: 8251)

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

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HIGHLIGHTS

1. The Group's turnover for the 3 and 9 months ended 30 September 2006 was approximately RMB306 million and RMB739 million (3 and 9 months ended 30 September 2005: approximately RMB220 million and RMB446 million) respectively. A growth of approximately 39% and 66% was recorded period-on-period respectively for the 3 and 9 months ended 30 September 2006.
2. Profit attributable to equity holders of the Company for the 3 and 9 months ended 30 September 2006 was approximately RMB16 million and RMB52 million (3 and 9 months ended 30 September 2005: approximately RMB17 million and RMB32 million) respectively. A decrease of approximately 9% and an increase of approximately 61% was recorded period-on-period respectively for the 3 and 9 months ended 30 September 2006.
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 of the Company and its subsidiaries (together the “Group”) for the 3 and 9 months ended 30 September 2006 together with comparative unaudited figures for the corresponding periods in 2005.

UNAUDITED CONSOLIDATED RESULTS

	Note	3 months ended		9 months ended	
		30 September 2006 Unaudited RMB'000	30 September 2005 Unaudited RMB'000	30 September 2006 Unaudited RMB'000	30 September 2005 Unaudited RMB'000
Turnover	2	306,371	220,394	738,852	445,569
Cost of sales		(274,928)	(186,099)	(659,214)	(382,410)
Gross profit		31,443	34,295	79,638	63,159
Other revenues	2	10,224	92	36,947	1,447
Distribution costs		(9,597)	(7,490)	(20,222)	(16,349)
General and administrative expenses		(5,876)	(6,372)	(14,547)	(9,404)
Other operating expenses		(7,678)	(94)	(19,427)	(133)
Operating profit		18,516	20,431	62,389	38,720
Finance costs		(2,280)	(625)	(4,679)	(1,077)
Share of profit of associates		1,538	299	1,695	137
Profit before taxation		17,774	20,105	59,405	37,780
Taxation	3	(2,221)	(3,135)	(7,636)	(5,652)
Profit for the period		15,553	16,970	51,769	32,128
Attributable to:					
Equity holders of the Company		15,558	17,067	51,802	32,201
Minority interest		(5)	(97)	(33)	(73)
		15,553	16,970	51,769	32,128
		RMB	RMB	RMB	RMB
Basic and diluted earnings per share	4	0.023	0.025	0.076	0.047

MOVEMENTS TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Capital reserve	Share issuance cost	Statutory common reserve fund	Statutory common welfare fund	Exchange translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	–	(4,578)	3,930	1,964	–	20,583	21,899
Issue of shares for listing on GEM	34,117	12,512	–	–	–	–	46,629
Dividend declared and paid in respect of the period from 1 January 2004 to 31 December 2004	–	–	–	–	–	(5,000)	(5,000)
Special dividend declared in respect of the period from 1 January 2005 to 30 June 2005	–	–	–	–	–	(2,263)	(2,263)
Profit for the period	–	–	–	–	–	32,201	32,201
Direct costs incurred for listing of shares on GEM	–	(7,934)	–	–	–	–	(7,934)
	<u>34,117</u>	<u>–</u>	<u>3,930</u>	<u>1,964</u>	<u>–</u>	<u>45,521</u>	<u>85,532</u>
At 30 September 2005							
At 1 January 2006	34,117	–	9,428	4,714	(19)	57,444	105,684
Bonus issue	(34,117)	–	–	–	–	(183)	(34,300)
Currency translation differences	–	–	–	–	(524)	–	(524)
Profit for the period	–	–	–	–	–	51,802	51,802
Dividend	–	–	–	–	–	(18,591)	(18,591)
	<u>–</u>	<u>–</u>	<u>9,428</u>	<u>4,714</u>	<u>(543)</u>	<u>90,472</u>	<u>104,071</u>
At 30 September 2006							

NOTES:

1. BASIS OF PREPARATION

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, 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.

	9 months ended	
	30 September	
	2006	2005
	RMB'000	RMB'000
Turnover		
Sales of asphalt	738,852	445,569
Other revenues		
Dividend income from unlisted investments	7,580	1,280
Transportation income	26,717	-
Subsidy income	2,000	42
Interest income	487	81
Others	163	44
	36,947	1,447
Total revenues	775,799	447,016

3. TAXATION

	9 months ended	
	30 September	
	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax	4,500	5,652
Hong Kong profits tax	3,136	-
	7,636	5,652

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	33%
Donghua (Hong Kong) Limited	17.5%
Shanghai Shenhua Logistic Company Limited	tax exempt for 2006
Zhengzhou Huasheng Petrochemical Company Limited	33%
Quanjiao Puxing Petrochemical Products Company Limited	33%
Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping")	3.3%
Shanghai Donghe Materials Co., Ltd.	15%

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.

4. EARNINGS PER SHARE

The calculation of the basic earnings per share for the 3 and 9 months ended 30 September 2006 was based on the unaudited profit attributable to equity holders of RMB15,558,000 and RMB51,802,000, respectively and the weighted average number of 686,000,000 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 have 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 and was approved by the relevant authorities of PRC during the 3 months ended 30 September 2006.

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

5. DIVIDEND

The Board did not recommend an interim dividend for the 3 months ended 30 September 2006 (2005: Nil).

The Company has paid an interim dividend of approximately RMB5,007,800 for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB2,263,800).

6. SUBSEQUENT EVENTS

Subsequently on 11 October 2006, the Company has entered into an agreement with Mumiya Limited and Babylon Limited in respect of a proposed placing to these two subscribers of 175,000,000 new H shares in the Company at an issue price of HK\$1.10 per placing share. The 175,000,000 placing shares represent approximately 20.33% of the enlarged issued share capital of the Company. CLSA Capital Partners is the adviser to the general partners of Aria Investment Partners II, L.P. and Aria Investment Partners III, L.P., which are the holding companies of these two subscribers.

The Board also proposes to accompany the placing with an open offer for the H shareholders in order to maintain their respective pro-rata shareholding in the Company.

The placing and open offer will be subject to, amongst others, the approval from the China Securities Regulatory Commission, the approval of the shareholders of the Company at an extraordinary general meeting and the approvals of the H shareholders and domestic shareholders of the Company at their respective class meetings. The extraordinary general meeting and class meetings are expected to convene in January 2007.

FINANCIAL AND BUSINESS REVIEW

Turnover

The Group's turnover for the 3 and 9 months ended 30 September 2006 was approximately RMB306 million and RMB739 million respectively (3 and 9 months ended 30 September 2005: approximately RMB220 million and RMB446 million). A growth of approximately 39% and 66% was recorded period-on-period respectively for the 3 and 9 months ended 30 September 2006. The substantial increase in turnover of the Group was principally attributable to the increasing in average selling price of asphalt and the expansion of operation scale in PRC.

Gross profit

The Group's gross profit for the 3 and 9 months ended 30 September 2006 was approximately RMB31,443,000 and RMB79,638,000 (3 and 9 months ended 30 September 2005: approximately RMB34,295,000 and RMB63,159,000) respectively. The gross profit margin for the 3 and 9 months ended 30 September 2006 was approximately 10% and 11% (3 and 9 months ended 30 September 2005: approximately 16% and 14%). The drop in the gross profit margin was mainly squeezed by the increase in asphalt purchase costs.

Other Revenues

For the 3 and 9 months ended 30 September 2006 the Group's other revenues were approximately RMB10,224,000 and RMB36,947,000 (3 and 9 months ended 30 September 2005: approximately RMB92,000 and RMB1,447,000) respectively. The increase in the Group's other revenues were mainly attributable to the increase in transportation income earned by its subsidiaries.

General and Administrative Expenses

For the 3 and 9 months ended 30 September 2006 the Group's general and administrative expenses were approximately RMB5,876,000 and RMB14,547,000 (3 and 9 months ended 30 September 2005: approximately RMB6,372,000 and RMB9,404,000) respectively. The rise in the expenses for the 9 months ended 30 September 2006 was mainly due to the increase in staff costs, and the increase in the office expenses resulting from the addition of subsidiaries and expansion of the Group's operations.

Distribution Costs

For the 3 and 9 months ended 30 September 2006 the Group's distribution costs were around RMB9,597,000 and RMB20,222,000 (3 and 9 months ended 30 September 2005: approximately RMB7,490,000 and RMB16,349,000) respectively. The increase was mainly attributable to expansion of the Company's operation scale and the addition of asphalt storage tanks in Changzhou, Nanchang, Wuhan, Qianjiang and Shanghai.

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 steady improving logistics system. Asphalt is the Group's sole product. The Group's logistics operation involves asphalt delivery by motor vehicles, ocean carriers, inland river carriers and storage of asphalt by tanks.

At present, the Group's market spans along the Yangtze River covering, Shanghai, Jiangsu Province, Anhui Province, Hubei Province, Jiangxi Province and Zhejiang Province, and penetrates further to the inland province i.e. Henan Province in PRC.

As at 30 September 2006, the Group has 10 asphalt storage hubs in operation with a total storage capacity of more than 110,000 tons. In addition, the Group manages 34 asphalt delivery vehicles and 7 asphalt delivery vessels with a total loading capacity of 18,946 tons.

ISSUE AND LISTING OF BONUS SHARES

At the annual general meeting of the Company on 16 May 2006, the shareholders of the Company have approved the issuance of 343,000,000 bonus shares. The bonus shares have been dispatched to the qualifying shareholders on 12 September 2006 and dealings were commenced on 13 September 2006. Together with 343,000,000 shares of the Company original in issue, a total of 686,000,000 shares are currently in issue.

PROSPECTS

The PRC economic growth has created significant demand for roads, resulting in the enormous demand for asphalt. According to the plans of PRC, 95% of the villages and towns will be accessible by asphalt (cement) roads during the period under the “Eleventh Five-Year Plan”, and 34 expressways with a total length of 44,000 km and 5 vertical and 7 horizontal main national highways (五縱七橫) will be built under a long-term plan. These, coupled with the preparation for 2008 Olympics and the 2010 Shanghai World Expo, have presented excellent opportunities for the Group.

With the commencement of the abovementioned economic plans, the Group has expanded its operation scale accordingly. The Group will continue to take these opportunities to further extend the market in PRC.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 30 September 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	Personal interest	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
			Family Interest	Total long interest		
Qian Wenhua (Executive Director)	Beneficial owner	191,792,000 (domestic shares)	35,854,000 (Note 1) (domestic shares)	227,646,000	47.23	33.19
Lu Yong (Executive Director)	Beneficial owner	62,618,000 (domestic shares)	-	62,618,000	13.05	9.13
Yao Peie (Executive Director)	Beneficial owner	34,546,000 (domestic shares)	-	34,546,000	7.20	5.04
Li Hongyuan (Executive Director)	Beneficial owner	18,400,000 (domestic shares)	-	18,400,000	3.83	2.68
Zhang Jinhua (Executive Director)	Beneficial owner	15,152,000 (domestic shares)	-	15,152,000	3.16	2.21

(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.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

At 30 September 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 Directors	Capacity	Personal interest	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
			Family Interest	Total long interest		
Liu Huiqing (Note 1)	Beneficial owner	35,854,000 (domestic shares)	191,792,000 (Note 1) (domestic shares)	227,646,000	41.43	33.19
中塑油品股份有限公司	Beneficial owner	29,000,000 (H Shares)	-	29,000,000 (H Shares)	14.08	4.23
Shenyin Wanguo Strategic Investments (H.K.) Ltd	Beneficial owner	13,716,000 (H Shares)	-	13,716,000 (H Shares)	6.66	2.00
Shenyin Wanguo (H.K.) Limited (Note 2)	Interest of a controlled corporation	13,716,000 (H Shares)	-	13,716,000 (H Shares)	6.66	2.00

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 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 announcement 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 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 9 months ended 30 September 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS INTERESTS IN A COMPETING BUSINESS

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

The Company has been notified by Shenyin Wanguo Capital (H.K.) Limited ("SW Capital"), the compliance advisor of the Company, that at 30 September 2006, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital was interested in 13,716,000 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, PRC, 10 November 2006

As at the date of this report, the Board of the Company 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.