

First Quarterly Report

2007



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)

* For identification purposes only

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This report, for which the directors of Shanghai Donghua Petrochemical Co., Ltd. (the “Company”) 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 (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.

HIGHLIGHTS

1. The Group's turnover for the 3 months ended 31 March 2007 was approximately RMB152,974,000 (3 months ended 31 March 2006: approximately RMB192,333,000). A decrease of approximately 20% was recorded year-on-year.
2. Profit attributable to the equity holders of the Company for the 3 months ended 31 March 2007 was approximately RMB22,005,000 (3 months ended 31 March 2006: approximately RMB17,484,000). A growth of approximately 26% was recorded year-on-year.
3. The Board did not recommend an interim dividend for this quarter.

The board of the Directors (the “Board”) of 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 2007 together with the comparative unaudited figures for the corresponding period in 2006.

UNAUDITED CONSOLIDATED RESULTS

		3 months ended	
		31 March 2007	31 March 2006
	<i>Note</i>	Unaudited RMB'000	Unaudited RMB'000 (restated)
Turnover	2	152,974	192,333
Cost of sales		(122,727)	(160,489)
Gross profit		30,247	31,844
Other revenues	2	11,695	114
Distribution costs		(7,506)	(5,941)
General and administrative expenses		(5,628)	(3,945)
Other operating expenses		(512)	(560)
Operating profit		28,296	21,512
Finance costs		(3,895)	(798)
Share of profit of associated companies		(266)	(131)
Profit before taxation		24,135	20,583
Taxation	3	(2,309)	(3,174)
Profit for the period		21,826	17,409
Attributable to:			
Equity holders of the Company		22,005	17,484
Minority interest		(179)	(75)
		21,826	17,409
Dividends	4	-	-
		RMB	RMB
Basic and diluted earning per share for profit attributable to equity holders of the Company during the period	5	0.032	0.025

MOVEMENTS TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Capital reserve cost	Share issuance reserve	Statutory common fund	Statutory welfare reserve	Currency translation	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1/1/2006	34,117	-	9,428	4,714	(19)	57,444	105,684
Currency translation reserve	-	-	-	-	(55)	-	(55)
Profit for the period	-	-	-	-	-	17,484	17,484
	<u>34,117</u>	<u>-</u>	<u>9,428</u>	<u>4,714</u>	<u>(74)</u>	<u>74,928</u>	<u>123,113</u>
At 1/1/2007	-	-	20,639	-	(934)	99,416	119,121
Currency translation differences	-	-	-	-	(407)	-	(407)
Profit for the period	-	-	-	-	-	22,005	22,005
	<u>-</u>	<u>-</u>	<u>20,639</u>	<u>-</u>	<u>(1,341)</u>	<u>121,421</u>	<u>140,719</u>

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 2006.

2. TURNOVER AND REVENUE

Turnover consists of sales from asphalt and income from logistics services.

	3 months ended	
	31 March	
	2007	2006
	RMB'000	<i>RMB'000</i>
		(restated)
Turnover		
Sales of asphalt	114,203	184,902
Logistic income	38,771	7,431 ¹
	152,974	192,333
Other revenues		
Dividend income from unlisted investment	9,808	–
Subsidy income	1,600	–
Interest income	147	112
Others	140	2
	11,695	114
Total revenues	164,669	192,447

During the first quarter of 2006, logistics services did not qualify as a separate segment. However, with the subsequent expansion of its logistics services through certain subsidiaries of the Group in 2006, logistics services business qualified as a separate segment by the end of 2006, and the corresponding figures for first quarter of 2006 have been restated.

¹ The logistic income for the first quarter of 2006 was included in other revenues.

3. TAXATION

	3 months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	1,806	2,184
– Hong Kong profits tax	503	990
	2,309	3,174

The Company is subject to the Income Tax Law of the People's Republic of China (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 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 Logistics Company Limited	15%
	(50% of income tax is exempted in 2007)
Zhengzhou Huasheng Petrochemical Company Limited	33%
Quanjiao Puxing Petrochemical Company Limited	33%
Wuhan Shenlong Logistics Company Limited	18%
Shanghai Donghe Resources Company Limited	33%
Tonva Shipping Limited	17.5%
Panva Shipping Limited	17.5%

Dong Tai Shi Suzhong Oil Shipping Company Limited ("Suzhong Shipping"), a 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 onwards.

Deferred taxation as at 31 March 2007 and 2006 was not significant.

4. DIVIDEND

The Board did not recommend an interim dividend for the 3 months ended 31 March 2007 (3 months ended 31 March 2006: 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 RMB22,005,000 (3 months ended 31 March 2006: RMB17,484,000) and the weighted average number of 686,000,000 shares (3 months ended 31 March 2006: 686,000,000 shares).

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

FINANCIAL AND BUSINESS REVIEW

(a) Asphalt trading business

The Group's turnover for sales of asphalt for the 3 months ended 31 March 2007 was approximately RMB114,203,000 (3 months ended 31 March 2006: approximately RMB184,902,000) representing a decrease of approximately 38.2% year-on-year. The decrease was primarily due to the decrease in the number of newly commenced road construction projects in the second half of 2006 resulted from the effect of the macroeconomic austerity measures last year. This affected the demand for asphalt during the reporting period and led to a decrease in the sales amount of asphalt as compared to last year. In addition, the drop in the price of asphalt was also one of the reasons for the decrease in turnover. During the reporting period, the selling price of asphalt recorded an year-on-year drop of approximately 17%.

The Group's gross profit for sales of asphalt for the 3 months ended 31 March 2007 was approximately RMB20,588,000 (3 months ended 31 March 2006: approximately RMB26,265,000). The gross profit margin was approximately 18.0% (3 months ended 31 March 2006: approximately 14.2%). The increase in gross profit margin was mainly attributable to the effective logistics operation which results in a greater decrease in the cost of sales as compared to the decrease in the selling price of asphalt.

(b) Logistic business

For the 3 months ended 31 March 2007, the Group has logistic revenue of approximately RMB38,771,000 (3 months ended 31 March 2006: approximately RMB7,431,000), representing 25.3% of the turnover of the Group. Cost of logistic business amounted to approximately RMB29,112,000 (3 months ended 31 March 2006: approximately RMB1,852,000), representing 23.7% of the total costs of sales of the Group. The substantial growth of the revenue from the logistics business was principally attributable to the addition of logistics and transportation equipment and the expansion of the Group's logistics business since 2006.

As at 31 March 2007, the Group's gross profit from the logistic business was approximately RMB9,659,000, representing a gross profit margin of 24.9%.

Other Revenue

For the 3 months ended 31 March 2007, the Group's other revenue amounted to approximately RMB11,695,000 (3 months ended 31 March 2006: approximately RMB114,000 (restated)). The increase in other revenue was resulted from the dividend income received from the investment in unlisted company and the increase in the financial subsidy provided by the local government of the PRC.

GENERAL AND ADMINISTRATIVE EXPENSES

For the 3 months ended 31 March 2007, the general and administrative expenses of the Group were approximately RMB5,628,000 (for the 3 months ended 31 March 2006: approximately RMB3,945,000). The increase was principally due to the expansion of the Company's scale and the increase in staff costs.

DISTRIBUTION COSTS

For the 3 months ended 31 March 2007, the distribution costs of the Group were approximately RMB7,506,000 (for the 3 months ended 31 March 2006: approximately RMB5,941,000). The increase in distribution costs was mainly attributable to the expansion of the scale of logistics business.

Business operations

The Group is principally engaged in the provision of one-stop asphalt sales and logistics services through its constantly improving logistics system, to provide procurement, storage and delivery services to its customers.

The business scope of the Group covers the downstream region of Yangtze River and the central region of China, including Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Hubei Province and Henan Province. The Group currently operates 11 asphalt storage hubs of total capacity of 114,000 tons, while two asphalt storage hubs of total capacity of 38,000 tons and 22,000 tons are under construction.

The Group operates 4 ocean carriers, 3 river carriers and 32 vehicles for special use of asphalt, total loading capacity reaching 18,946 tons. The improvement in logistic capacity further reduces the consolidated costs of the Group.

PROSPECTS

The PRC government implemented certain measures targeting at the release of banking funds which also have adverse impact on the road construction projects and the demand for asphalt. However, as the measures do not target at the road construction industry, the influence over the asphalt industry is limited and is diminishing in 2007. More highways and roads in towns and cities will be built in the PRC, providing opportunities to the asphalt industry. The Group will seize every opportunity to enhance the logistic scale and services, endeavour to expand its market, reduce operating costs and improve profitability in accordance to its fixed operating strategy. The Group believes that it will maintain healthy operation under the flourishing economy of the PRC.

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

At 31 March 2007, 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 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 <i>(Executive Director)</i>	Beneficial owner	191,792,000 (domestic shares)	35,854,000 <i>(Note 1)</i> (domestic shares)	227,646,000	47.43	33.18
Lu Yong <i>(Executive Director)</i>	Beneficial owner	62,618,000 (domestic shares)	-	62,618,000	13.06	9.13

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		
Yao Peie <i>(Executive Director)</i>	Beneficial owner	34,546,000 (domestic shares)	-	34,546,000	7.20	5.04
Li Hongyuan <i>(Executive Director)</i>	Beneficial owner	18,400,000 (domestic shares)	-	18,400,000	3.83	2.68
Zhang Jinhua <i>(Executive Director)</i>	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.

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

At 31 March 2007, 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 Person	Capacity	Number of shares				Total short position	Approximate percentage of shareholding in such class of shares of the Company	Approximate percentage of shareholding in the registered share capital of the Company
		Personal interest	Family interest	Total long position	Total			
Liu Huiping (Note 1)	Beneficial owner	35,854,000 (domestic shares)	191,792,000 (Note 1) (domestic shares)	227,646,000	-	47.43	33.18	
Simesa Oil Co., Ltd. (中塑油品股份有限公司)	Beneficial owner	28,204,000 (H Shares)	-	28,204,000	-	13.69	4.11	
Shenyin Wanguo (H.K.) Ltd	Interest of a controlled corporation	30,720,000 (H Shares)	-	30,720,000	- 12,500,000	14.91 6.06	4.48 1.79	
Mumiya Limited and Babylon Limited	Beneficial owner (Note 2)	175,000,000 (H Shares)	-	175,000,000	-	84.95	25.51	

Notes:

1. Liu Huiping is the wife of Qian Wenhua.
2. In October 2006, the Company entered into a subscription agreement with Mumiya Limited and Babylon Limited to place 175,000,000 new H shares to these two subscribers at a price of HK\$1.10 per share and to offer not more than 75,190,000 new H shares to its existing H shareholders at the same price by way of a public offer. 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 the Subscribers.

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 2007.

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 2007 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 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

COMPETING INTERESTS

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the compliance adviser agreement dated 12 July 2006 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 2006 to 31 December 2007. SW Capital is paid for acting as the Company's compliance adviser.

The Company has been notified by SW Capital, that as at 31 March 2007, Shenyin Wanguo Strategic Investments (H.K.) Ltd., an affiliated company of SW Capital held 5,720,000 H Shares of the Company. SW Capital entered into an underwriting agreement with the Company on 10 November 2006 in relation to the underwriting of the open offer of the Company, details of which are set out in a circular of the Company dated 1 December 2006. 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, the PRC, 11 May 2007

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.