

First Quarterly Report

2008



TONVA
上海栋华

上海棟華石油化工股份有限公司

SHANGHAI TONVA 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 Tonva 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 revenue for the 3 months ended 31 March 2008 was approximately RMB232,451,000 (3 months ended 31 March 2007: approximately RMB152,974,000). An increase of approximately 51.95% was recorded year-on-year.
2. Profit attributable to the equity holders of the Company for the 3 months ended 31 March 2008 was approximately RMB10,314,000 (3 months ended 31 March 2007: approximately RMB22,005,000). A decrease of approximately 53.13% was recorded year-on-year.
3. The Board did not recommend an interim dividend for this quarter.

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 3 months ended 31 March 2008 together with comparative unaudited figures for the corresponding period in 2007.

UNAUDITED CONSOLIDATED RESULTS

		For the 3 months ended 31 March	
		2008	2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Revenue	2	232,451	152,974
Cost of sales		(208,010)	(122,727)
Gross profit		24,441	30,247
Other income	2	12,638	11,695
Distribution costs		(7,929)	(7,506)
Administrative expenses		(5,113)	(5,628)
Other losses		(4,040)	(512)
Operating profit		19,997	28,296
Finance costs – net		(5,553)	(3,895)
Share of loss of associates		(2,276)	(266)
Profit before taxation		12,168	24,135
Income tax expense	3	(1,020)	(2,309)
Profit for the period		11,148	21,826
Attributable to:			
Equity holders of the Company		10,314	22,005
Minority interest		834	(179)
		11,148	21,826
Basic and diluted earning per share for profit attributable to equity holders of the Company during the period (Expressed in RMB per share)	4	0.011	0.032
Dividend	5	–	–

MOVEMENT TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Capital reserve	Statutory common reserve fund	Currency translation reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2007	–	20,639	(934)	99,416	119,121
Currency translation difference	–	–	(407)	–	(407)
Profit for the period	–	–	–	22,005	22,005
	<u>–</u>	<u>–</u>	<u>–</u>	<u>22,005</u>	<u>22,005</u>
At 31 March 2007	<u>–</u>	<u>20,639</u>	<u>(1,341)</u>	<u>121,421</u>	<u>140,719</u>
At 1 January 2008	221,766	25,227	(3,363)	125,841	369,471
Currency translation difference	–	–	(1,522)	–	(1,522)
Profit for the period	–	–	–	10,314	10,314
	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,314</u>	<u>10,314</u>
At 31 March 2008	<u>221,766</u>	<u>25,227</u>	<u>(4,885)</u>	<u>136,155</u>	<u>378,263</u>

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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 2007.

2. REVENUE AND OTHER INCOME

Revenue consists of sales from asphalt and fuel oil and income from logistics services.

	3 months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
Revenue		
Sales of asphalt	108,290	114,203
Sales of fuel oil	116,008	–
Logistic income	8,153	38,771
	232,451	152,974
Other income		
Dividend income from unlisted investments	6,393	9,808
Subsidy income	–	1,600
Agency income	5,025	–
Interest income	511	147
Others	709	140
	12,638	11,695
Total revenues	245,089	164,669

3. TAXATION

	3 months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
PRC enterprise income tax	952	1,806
Hong Kong profit tax	68	503
	<u>1,020</u>	<u>2,309</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 25% on the assessable profit for the year.

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	25%
Donghua (Hong Kong) Limited	17.5%
Shanghai Shenhua Logistic Company Limited	25%
Zhenzhou Huasheng Petrochemical Company Limited	25%
Quanjiao Puxing petrochemical Company Limited	25%
Wuhan Shenlong Logistics Company Limited	25%
Tonva Shipping Limited	17.5%
Panva Shipping Limited	17.5%
Shanghai Taihua Petrochemical Co., Ltd.	25%
Shanghai Huayang Shipping Technical Service Limited	25%
Taizhou Henghua Asphalts Company Limited	25%
Taizhou Huaye Petrochemical Company Limited	25%

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 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.

4. EARNINGS PER SHARE

The calculation of the earnings per share for the three months ended 31 March 2008 is based on the unaudited profit attributable to equity holders of the Company of RMB10,314,000 and the weighted average number of 936,190,000 shares (3 months ended 31 March 2007: 686,000,000 shares).

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

5. DIVIDEND

The Board did not recommend an interim dividend for the 3 months ended 31 March 2008 (3 months ended 31 March 2007: Nil).

BUSINESS AND FINANCIAL REVIEW

Business Operations

The Group is principally providing one-stop, purchasing, storage and transportation, asphalt and fuel oil sales to customers through the continuously refining logistic system in the PRC.

The business scope of the Group mainly covers the downstream region of Yangtze River and some inland provinces of the PRC, including Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Hubei Province and Henan Province. The Group currently operates 10 asphalt storage hubs of total capacity of 152,000 tons and 1 fuel oil storage hub with 10,000 tons in capacity, while another asphalt storage hub of capacity of 20,000 tons is under construction.

The Group currently operates 2 ocean carriers, 2 river carriers and 32 delivery vehicles. The total loading capacity of those vehicles and carriers are 8,508 tons.

Prospects

Comparing with weak market demand in 2007, the constructions of roads in PRC started to recover in the first quarter of 2008. Especially due to the Shanghai World Expo in 2010, the construction for new roads and maintenance work for the current roads are starting. Thus, being an enterprise that providing one-stop, purchasing, storage and transportation, asphalt sales and provision of related logistic services and the main business area is in The Yangtze River Delta region, the Group will try hard to grasp this opportunity in 2008.

The Group also engaged in the fuel oil trading business and duly commenced the operation of this business in August 2007. Both fuel oil and asphalt are side products that abstracted from crude oil. The operation of fuel oil is quite similar as asphalt. Thus, rely on the rich experience on asphalt trading, the development of fuel oil business is very fast. Also, since fuel oil trading business is less affected by seasonal factor, the revenue generated from fuel oil trading has reached to 50% group revenue in the first quarter of 2008. Furthermore, the asphalt trading business also helps to expand the logistic services business.

Asphalt Trading Business

The Group's revenue for asphalt trading for the 3 months ended 31 March 2008 was approximately RMB108,290,000 (3 months ended 31 March 2007: approximately RMB114,203,000), representing a decrease of approximately 5.2% comparing with the corresponding period last year. The decrease was mainly affected by the snowing storm widely around the PRC and deferred of the progress on the road constructions. Also, the effect of macroeconomic austerity measures starting from last year affect the demand of asphalt within the reporting period and result the drops of sales quantities with the corresponding period last year.

The Group's gross profit for asphalt trading for the 3 months ended 31 March 2008 was approximately RMB16,339,000 (3 months ended 31 March 2007: approximately RMB20,588,000). The gross profit margin was approximately 15.1% (3 months ended 31 March 2007: approximately 18.0%). The decrease in gross profit margin was mainly attributable to the purchase price keep rising starting from end of last year. However, the rising of selling price is less than that purchase price.

Logistic Services Business

The Group's revenue for logistic services for the 3 months ended 31 March 2008 was approximately RMB8,153,000 (3 months ended 31 March 2007: approximately RMB38,771,000), representing a decrease of approximately 79.0% comparing with the corresponding period last year. The decrease was mainly affected by the snowing storm widely around the PRC and reduced the logistic services income. On the other hand, the decrease of the logistic services income also caused by ceased rental of 2 ocean carriers with total capacity 9,000 tons in January 2008 due to highly rental cost.

The Group's gross profit for logistic services for the 3 months ended 31 March 2008 was approximately RMB1,199,000 (3 months ended 31 March 2007: approximately RMB9,659,000). The gross profit margin was approximately 14.7% (3 months ended 31 March 2007: approximately 24.9%). The decrease in gross profit margin was mainly attributable to the cost of fuel is keep rising and the fixed cost such as depreciation and rental cost couldn't be reduced as comparing with the drop of the income.

Fuel Oil Trading Business

The Group's revenue for fuel oil trading for the 3 months ended 31 March 2008 was approximately RMB116,008,000 (3 months ended 31 March 2007: Nil). Also, the Group's gross profit for fuel oil trading for the 3 months ended 31 March 2008 was approximately RMB6,903,000 (3 months ended 31 March 2007: Nil). The gross profit margin was approximately 6.0% (3 months ended 31 March 2007: Nil).

Other income

The Group's other income for the 3 months ended 31 March 2008 were approximately RMB12,638,000 (3 months ended 31 March 2007: approximately RMB11,695,000). The increase was mainly due to an agency income from logistic services business.

Distribution costs

The Group's distribution costs for the 3 months ended 31 March 2008 were approximately RMB7,929,000 (3 months ended 31 March 2007: approximately RMB7,506,000) which similar to the corresponding period last year.

Administrative expenses

The Group's administrative expenses for the 3 months ended 31 March 2008 were approximately RMB5,113,000 (3 months ended 31 March 2007: approximately RMB5,628,000). The decrease was principally due to decrease of income in asphalt and logistics services and caused dropping in corresponding variable cost in administrative expenses.

Other losses

The Group's other losses for the 3 months ended 31 March 2008 were approximately RMB4,040,000 (3 months ended 31 March 2007: approximately RMB512,000). The increase was mainly due to foreign exchange loss arising from the proceeds in Hong Kong Dollars from placing and open offer in 2007 for the amount of approximately RMB3,577,000 due to appreciation of RMB. The group has converted all the Hong Kong Dollars to RMB in the first quarter of 2008, no such losses will be expected in the remaining periods of 2008.

Profit attributable to shareholders

Profit attributable to equity holders of the Company for the 3 months ended 31 March 2008 was approximately RMB10,314,000 (3 months ended 31 March 2007: approximately RMB22,005,000), representing an decrease of approximately 53.1% comparing with the corresponding period last year.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 31 March 2008, the interests of long 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 of the Company:

Name of Directors	Capacity	Number of shares			Approximate percentage of shareholding in such class of shares of the Company	Approximate percentage of shareholding in the registered share capital of the Company
		Personal interest	Family interest	Total long position		
Qian Wenhua	Beneficial owner	191,792,000 (domestic shares)	35,854,000 (Note 1) (domestic Shares)	227,646,000	47.43	24.32
Lu Yong	Beneficial owner	62,618,000 (domestic shares)	-	62,618,000	13.05	6.69
Li Hongyuan	Beneficial owner	18,400,000 (domestic shares)	-	18,400,000	3.83	1.96
Zhang Jinhua	Beneficial owner	15,152,000 (domestic shares)	-	15,152,000	3.16	1.62

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 2008, 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 338 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				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 short position		
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
Yao Peie	Beneficial owner	34,546,000 (domestic shares)	-	34,546,000	-	7.20	3.69
Simosa Oil Co., Ltd (中塑油品股份有限公司)	Beneficial owner	38,498,460 (H Shares)	-	38,498,460	-	8.44	4.11
Calyon Capital Markets Asia B.V.	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
Calyon Capital Markets International SA	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
CLSA B.V.	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69

Name of Person	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 position	Total short position		
CLSA Capital Partners Limited (formerly known as CLSA Funds Limited)	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
CLSA Private Equity Management Limited	Investment manager	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
Credit Agricole S.A.	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
SAS Rue la Boetie	Interest in a controlled corporation	175,000,000 (H shares)	-	175,000,000 (Note 2)	-	38.36	18.69
Aria Investment Partners III, L.P. ("Aria III")	Interest in a controlled corporation	140,000,000 (H shares)	-	140,000,000 (Note 2)	-	30.69	14.95
Babylon Limited	Beneficial owner	140,000,000 (H shares)	-	140,000,000 (Note 2)	-	30.69	14.95
Aria Investment Partners II, L.P. ("Aria II")	Interest in a controlled corporation	35,000,000 (H shares)	-	35,000,000 (Note 2)	-	7.67	3.74
Mumiya Limited	Beneficial owner	35,000,000 (H shares)	-	35,000,000 (Note 2)	-	7.67	3.74

Notes:

1. Liu Huiping is the wife of Qian Wenhua.
2. Mumiya Limited and Babylon Limited hold 35,000,000 and 140,000,000 H shares of the Company respectively. As Aria II controls more than one-third of the voting power at general meetings of Mumiya Limited, Aria II is deemed to be interested in 35,000,000 H shares held by Mumiya Limited pursuant to the SFO. Aria III controls more than one-third of the voting power at general meetings of Babylon Limited and is thus deemed to be interested in 140,000,000 H shares held by Babylon Limited pursuant to the SFO. As CLSA Private Equity Management Ltd. is the investment manager of Aria II and Aria III, it is deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO. Credit Agricole S.A. controls more than one-third of the voting power at general meetings of Calyon S.A., which in turn controls more than one-third of the voting power at general meetings of Calyon Capital Markets International SA, which in turn controls more than one-third of the voting power at general meetings of Calyon Capital Markets Asia B.V., which in turn controls more than one-third of the voting power at general meetings of CLSA B.V., which in turn controls more than one-third of the voting power at general meetings of CLSA Capital Partners Limited, which in turn controls more than one-third of the voting power at general meetings of CLSA Private Equity Management Ltd. Therefore, Credit Agricole S.A., Calyon S.A., Calyon Capital Markets International SA, Calyon Capital Markets Asia B.V., CLSA B.V. and CLSA Capital Partners Limited are deemed to be interested in the 175,000,000 H shares in aggregate pursuant to the SFO.

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 during the 3 months ended 31 March 2008.

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. Li Li. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the 3 months ended 31 March 2008, 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 3 months ended 31 March 2008, 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.

By order of the Board
Qian Wenhua
Chairman

Shanghai, the PRC, 9 May 2008

As at the date of this report, the Board comprises five executive Directors: Qian Wenhua, Lu Yong, Mo Luojiang, Zhang Jinhua and Li Hongyuan; two non-executive Director: Hsu Chun-min and Josephine Price and three independent non-executive Directors: Zhu Shengfu, Li Li and Ye Mingzhu.