TONVA 上海栋华

SHANGHAI TONVA PETROCHEMICAL CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8251

First Quarterly Report 2011

*For identification purposes only

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

GEM has been positioned as a market designed to accommodate companies to which a high investment risk maybe attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 2011 was approximately RMB699,162,000 (3 months ended 31 March 2010: approximately RMB562,240,000). A growth of approximately 24.4% was recorded year-on-year.

2. Profit attributable to the owners of the Company for the 3 months ended 31 March 2011 was approximately RMB15,406,000 (3 months ended 31 March 2010: approximately RMB15,263,000). A growth of approximately 0.9% was recorded year-on-year.

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 months ended 31 March 2011 together with comparative unaudited figures for the corresponding periods in 2010.

UNAUDITED CONSOLIDATED RESULTS

	Note	For the three months ended 31 March 2011 RMB'000	2010 RMB'000
Turnover	*2*	**699,162**	562,240
Cost of sales		**(648,426)**	(501,930)
Gross profit		**50,736**	60,310
Other income and gains	*2*	**532**	37
Distribution costs		**(2,440)**	(3,190)
Administrative expenses		**(10,376)**	(23,417)
Operating profit		**38,452**	33,740
Finance costs		**(12,124)**	(7,511)
Share of losses of associates		**(610)**	(3,627)
Profit before income tax expenses		**25,718**	22,602
Income tax expenses	*3*	**(6,565)**	(7,254)
Profit for the period		**19,153**	15,348
Profit attributable to:			
– Owners of the Company		**15,406**	15,263
– Non-controlling interests		**3,747**	85
		19,153	15,348
Earning per share for profit attributable to owners of the Company during the period **(Expressed in RMB per share)**	*4*	**0.016**	0.016
Dividends	*5*	**–**	10,298

MOVEMENT TO AND FROM CONSOLIDATED RESERVES – UNAUDITED

	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Other reserve RMB'000	Currency Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2010	221,766	29,797	17,912	(5,340)	134,602	398,737
Currency translation difference	–	–	–	(57)	–	(57)
Profit for the period	–	–	–	–	15,263	15,263
Balance at 31 March 2010	221,766	29,797	17,912	(5,397)	149,865	413,943
Balance at 1 January 2011	221,766	39,928	17,912	(5,821)	180,389	454,174
Currency translation difference	–	–	–	(331)	–	(331)
Profit for the period	–	–	–	–	15,406	15,406
Balance at 31 March 2011	221,766	39,928	17,912	(6,152)	195,795	469,249

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 2010.

2. TURNOVER

Turnover represents of sales from asphalt and fuel oil, income from logistic services and road and bridge constructions net of taxes, discounts, returns and allowances, where applicable and after eliminating sales with the Group.

	For the three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
Turnover:		
Sales of asphalt	**65,753**	177,457
Sales of fuel oil	**490,444**	163,570
Logistic services	**13,561**	11,602
Road and bridge constructions	**129,404**	209,611
	699,162	562,240
Other income and gains:		
Interest income	**47**	11
Consultancy fee income	**253**	–
Others	**232**	26
	532	37
Total revenues	**699,694**	562,277

3. TAXATION

	For the three months ended 31 March	
	2011	2010
	RMB'000	RMB'000
PRC enterprise income tax	**6,565**	7,254
Hong Kong profit tax	**–**	–
	6,565	7,254

The Company and one of its subsidiaries, Shanghai Shenhua Logistics Company Limited ("Shanghai Shenhua"), are incorporated in Pudong New Area of Shanghai. Pursuant to the implementation guidance of the new CIT Law ("EIT Law"), the Company and Shenhua Logistics are subject to Enterprise Income Tax ("EIT") 24% (for the three months ended 31 March 2010: 22%) on their assessable profit for the three months ended 31 March 2011. Such tax rate will increase to 25% in 2012.

Besides, the Company's subsidiaries, Jiangsu Suzhong Oil Shipping Company Limited ("Suzhong Shipping") and Shanghai Shenhua Logistics (Dongtai) Company Limited ("Shenhua Dongtai"), are treated as small-scale companies for PRC EIT purpose. According to a circular issued by Jiangsu provincial tax bureau in December 2003, the income tax of Suzhong Shipping and Shenhua Dongtai are charged at 2.5% of their revenue.

Profits of others subsidiaries established in the PRC are subject to EIT at 25% (for the three months ended 31 March 2010: 25%). Profits of subsidiaries established in Hong Kong are subject to Hong Kong profit tax of 16.5% (for the three months ended 31 March 2010: 16.5%).

4. EARNINGS PER SHARE

The calculation of the earnings per share for the three months ended 31 March 2011 is based on the profit attributable to owners of the Company of approximately RMB15,406,000 (for the three months ended 31 March 2010: RMB15,263,000) and the number of 936,190,000 shares (three months ended 31 March 2010: 936,190,000 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 three months ended 31 March 2011 (three months ended 31 March 2010: RMB10,298,090).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

In the first quarter of 2011, driven by the Twelfth Five-Year Plan on National Economic and Social Development of the PRC ("the Twelfth Five-Year Plan"), the PRC spared no effort to develop the construction of infrastructure, coupled with strategic adjustments of the Group, the business of the Group maintained steady growth. As to the fuel oil trading business, the Group pursued the strategy of generating high sales volume by selling at low margins, therefore boosting the income from fuel oil with sales volume and gross profit significantly increased by approximately 213.5% and 154.5% over the corresponding period last year. As to the asphalt business, the sales volume of asphalt in the first quarter of this year decreased by approximately 63.8% over the corresponding period last year. This was mainly due to the sales volume of asphalt recording a significant surge in the corresponding period last year driven by road construction projects of the Shanghai World Expo, while the sales volume in the first quarter of this year returned to the normal level. As to the road and bridge construction business, the profit margin in this quarter increased with improvement in management and cost control and the tenders won by the road and bridge construction business keep increasing, including projects won in early March with a total contract value of over RMB300,000,000. As to the logistics business, income from logistics increased in line with surge in fuel oil sales volume. For the three months ended 31 March 2011, the Group's turnover was approximately RMB699,162,000, representing an increase of approximately 24.4% when compared with the corresponding period last year.

Business Operation

The Group is principally engaged in the trading of asphalt and fuel oil, road and bridge construction and the provision of logistics service in the PRC. Through domestic and overseas procurement, the Group offers one-stop services to its clients from sales, storage to delivery of asphalt and fuel oil covering the Yangtze River region and some inland regions. Meanwhile, the Group is also active in developing logistics services by providing storage and transportation services for the asphalt and fuel oil trade, which are beneficial to the Group's domestic distribution of asphalt and fuel oil. The road and bridge construction business further expands the business scale of the Group. It generates synergies for the Group and reduces integrated costs, hence expanding the room for development of the Company's business and creating new profit drivers.

Asphalt Trading Business

For the three months ended 31 March 2011, turnover of the Group's asphalt trading business was approximately RMB65,753,000 (for the three months ended 31 March 2010: approximately RMB177,457,000), representing a decrease of approximately 62.9% when compared with the corresponding period last year. The income from the asphalt trading business accounted for approximately 9.4% of the Group's total turnover.

Gross margin of the asphalt trading business decreased from approximately 17.3% in the corresponding period last year to approximately 14.1% in the reporting period. For the three months ended 31 March 2011, gross profit of the Group's asphalt trading business was approximately RMB9,240,000 (for the three months ended 31 March 2010: approximately RMB30,619,000), representing a decrease of approximately 69.8% when compared with the corresponding period last year.

The decrease of income and gross profit from the asphalt trading business during the period was mainly attributable to a rapid surge in demand for asphalt in Shanghai in the corresponding period last year, when the road construction projects of the Shanghai World Expo were in full swing. Common factors for the low season of road construction projects, namely severe cold weather and the Lunar New Year, characterized this year, and the sales volume of asphalt during the period decreased by approximately 63.8% when compared with the corresponding period last year.

Fuel Oil Trading Business

For the three months ended 31 March 2011, turnover of the Group's fuel oil trading business was approximately RMB490,444,000 (for the three months ended 31 March 2010: approximately RMB163,570,000), representing an increase of 199.8% when compared with the corresponding period last year. The income from fuel oil trading business accounted for approximately 70.1% of the Group's total turnover. Sales volume of fuel oil during the period recorded a significant surge of approximately 213.5% when compared with last year.

For the three months ended 31 March 2011, gross profit of the Group's fuel oil trading business was approximately RMB13,664,000 (for the three months ended 31 March 2010: approximately RMB5,370,000), representing an increase of approximately 154.5% when compared with the corresponding period last year, while gross margin decreased from approximately 3.3% in the corresponding period last year to approximately 2.8% in the reporting period this year, which was mainly caused by the Group's aim to capture market share by pursuing the fuel oil sales strategy of generating high sales volume by selling at low margins and maintaining the supply of high quality oil products.

Road and Bridge Construction Business

For the three months ended 31 March 2011, turnover of the Group's road and bridge construction business was approximately RMB129,404,000 (for the three months ended 31 March 2010: approximately RMB209,611,000), representing a decrease of approximately 38.3% when compared with the corresponding period last year. The income from road and bridge construction business accounted for 18.5% of the Group's total turnover.

For the three months ended 31 March 2011, gross profit of the Group's road and bridge construction business was approximately RMB24,880,000 (for the three months ended 31 March 2010: approximately RMB22,394,000), representing an increase of approximately 11.1% when compared with the corresponding period last year, while the gross margin increased from approximately 10.7% in the corresponding period last year to approximately 19.2% in the reporting period this year.

Logistics Business

For the three months ended 31 March 2011, turnover of the Group's logistics business was approximately RMB13,561,000 (for the three months ended 31 March 2010: approximately RMB11,602,000), representing an increase of 16.9% when compared with the corresponding period last year. The income from logistics business accounted for approximately 1.9% of the Group's total turnover. The increase in income from logistics was mainly driven by the significant surge in the sales volume of fuel oil and the proactive approach in developing asphalt storage business during the period.

The gross margin for the logistics business increased from approximately 16.6% in the corresponding period last year to approximately 21.8% during the reporting period. For the three months ended 31 March 2011, gross profit of the Group's logistics business was approximately RMB2,953,000, representing an increase of approximately 53.2% when compared with the corresponding period last year.

Other Income and Gains

For the three months ended 31 March 2011, other income and gains of the Group were approximately RMB532,000 (for the three months ended 31 March 2010: approximately RMB37,000), representing an increase of approximately 1,337.8% when compared with the corresponding period last year. Other income for the corresponding period this year included an amount of approximately RMB253,000 of consultancy fee on asphalt, while no such kind of income was recorded in the corresponding period last year.

Distribution costs

For the three months ended 31 March 2011, distribution costs of the Group were approximately RMB2,440,000 (for the three months ended 31 March 2010: approximately RMB3,190,000), representing a decrease of approximately 23.5% when compared with the corresponding period last year. The decrease in distribution costs was mainly caused by the Group's lower distribution costs in asphalt business.

Administrative Expenses

For the three months ended 31 March 2011, administrative expenses of the Group were approximately RMB10,376,000 (for the three months ended 31 March 2010: approximately RMB23,417,000), representing a decrease of approximately 55.7% when compared with the corresponding period last year. The decrease in administrative expenses was mainly caused by reversal of approximately RMB2,300,000 from discount value on the construction receivables in accordance with the Hong Kong Accounting Standards in connection with the Group's road and bridge business due to good repayment record while there was approximately RMB11,000,000 provision in the corresponding period last year.

Profit Attributable to Shareholders

For the three months ended 31 March 2011, the profit attributable to owners of the Group was approximately RMB15,406,000 (for the three months ended 31 March 2010: approximately RMB15,263,000). The basic and diluted earnings per share attributable to owners of the Company during the period were RMB0.016 (for the three months ended 31 March 2010: approximately RMB0.016).

Outlook

The year 2011 marks the first year of the Twelfth Five-Year Plan. As the Chinese economy continues to thrive, the PRC will significantly increase infrastructure projects and continue to expand the highway network. The market demand for asphalt will maintain steady growth and the Group will continue to expand asphalt business.

Road and bridge construction business will be the focus in the development plan of the Group in 2011. In 2011, Nantong Highway and Bridge, a subsidiary of the Group, has RMB1 billion of road and bridge construction projects under or pending construction, which are to be completed within the next 18 months. Moreover, in March 2011, it won two new projects with a total contract value of over RMB300 million, laying a solid foundation for the Group's turnover and earnings from the road and bridge construction business. The Group will capitalize on the opportunities brought by the Twelfth Five-Year Plan, actively explore markets and reach more customers.

As to fuel oil, the Group will continue to pursue the strategy of generating a high sales volume by selling at low margins. Coupled with increasing the supply of fuel oil to capture market share, sales volume for fuel oil this year is expected to record a significant surge when compared with last year.

As to the logistics business, the Group will continue to improve the logistics management system to raise operational efficiency and reduce operational costs. Coupled with the synergy of the asphalt trading business and fuel oil trading business, the logistics business will maintain steady growth momentum.

The Group will utilize its own competitive edges and execute operational strategies for business segments. Through continuous improvement in management and profitability of the business segments, the Group will capitalize on opportunities brought by the Twelfth Five-Year Plan, actively explore new markets and promote the development of four business segments to strive for steady investment returns to the shareholders.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 31 March 2011, 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 Personal interest	Family interest	Total long 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
Qian Wenhua (Executive Director)	Beneficial owner	225,706,000 (domestic shares)	35,854,000 *(Note 1)* (domestic shares)	261,560,000	54.49	27.94
Lu Yong (Executive Director)	Beneficial owner	62,618,000 (domestic shares)	–	62,618,000	13.05	6.69
Li Hongyuan (Executive Director)	Beneficial owner	50,254,000 (domestic shares)	–	50,254,000	10.47	5.37
Zhang Jinhua (Executive Director)	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 2011, 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 deem 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: Personal interest	Number of shares: Family interest	Total long position	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
Liu Huiping *(Note 1)*	Beneficial owner	35,854,000 (domestic shares)	225,706,000 *(Note 1)* (domestic shares)	261,560,000	–	54.49	27.94
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
Credit Agricole Securities Asia B.V. (formerly known as 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

Name of Person	Capacity	Number of shares: Personal interest	Family interest	Total long position	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
Credit Agricole Corporate and Investment Back (formerly known as Calyon S.A.)	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
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. SAS Rue la Boetie controls more than one-third of the voting power at the general meetings of Credit Agricole S.A., which in turn controls more than one-third of the voting power at general meetings of Credit Agricole Corporate and Investment Bank (formerly known as 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 Credit Agricole Securities Asia B.V. (formerly known as 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 period ended 31 March 2011.

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, Mr. Li Li, Ms. Ye Mingzhu and Mr. Zhu Shengfu and one non-executive Director, Mr. Chan Cheuk Wing Andy. Mr. Li Li is the chairman of the audit committee.

The audit committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 31 March 2011, and was of an opinion that the preparation of such results complied with the applicable accounting and reporting standards and that adequate disclosures have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2011, 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 or the management shareholders and their respective associates (as defined under the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

By order of the Board
Qian Wenhua
Chairman

Shanghai, the PRC, 3 May 2011

As at the date of this report, the Board comprises six executive Directors: Qian Wenhua, Lu Yong, Zhang Jinhua, Jin Xiaohua, Li Hongyuan and Mo Luojiang; two non-executive Directors: Chan Cheuk Wing Andy and Hsu Chun-min; three independent non-executive Directors: Li Li, Ye Mingzhu and Zhu Shengfu.