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

2012

*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 2012 was approximately RMB837,840,000 (3 months ended 31 March 2011: approximately RMB699,162,000). A growth of approximately 19.8% was recorded year-on-year.

2. Profit attributable to the owners of the Company for the 3 months ended 31 March 2012 was approximately RMB17,151,000 (3 months ended 31 March 2011: approximately RMB15,406,000). A growth of approximately 11.3% 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 2012 together with comparative unaudited figures for the corresponding periods in 2011.

UNAUDITED CONSOLIDATED RESULTS

	Note	For the three months ended 31 March 2012 RMB'000	2011 RMB'000
Turnover	*2*	**837,840**	699,162
Cost of sales		**(784,360)**	(648,426)
Gross profit		**53,480**	50,736
Other income and gains	*2*	**6,061**	532
Distribution costs		**(3,306)**	(2,440)
Administrative expenses		**(6,999)**	(10,376)
Operating profit		**49,236**	38,452
Finance costs		**(19,098)**	(12,124)
Share of losses of associates		**(1,036)**	(610)
Profit before income tax expenses		**29,102**	25,718
Income tax expenses	*3*	**(8,876)**	(6,565)
Profit for the period		**20,226**	19,153
Profit attributable to:			
– Owners of the Company		**17,151**	15,406
– Non-controlling interests		**3,075**	3,747
		20,226	19,153
Earning per share for profit attributable to owners of the Company during the period **(Expressed in RMB per share)**	*4*	**0.018**	0.016
Dividends	*5*	**–**	–

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 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
Balance at 1 January 2012	221,766	58,917	17,912	(6,456)	212,830	504,969
Currency translation difference	–	–	–	(2)	–	(2)
Profit for the period	–	–	–	–	17,151	17,151
Balance at 31 March 2012	221,766	58,917	17,912	(6,458)	229,981	522,118

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 2011.

2. TURNOVER

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

	For the three months ended 31 March	
	2012	2011
	RMB'000	RMB'000
Turnover:		
Road and bridge constructions	**97,341**	129,404
Sales of fuel oil	**653,741**	490,444
Sales of asphalt	**76,050**	65,753
Logistic services	**10,708**	13,561
	837,840	699,162
Other income and gains:		
Interest income	**192**	47
Consultancy fee income	**5,131**	253
Others	**738**	232
	6,061	532
Total revenues	**843,901**	699,694

3. TAXATION

	For the three months ended 31 March	
	2012	2011
	RMB'000	RMB'000
PRC enterprise income tax	**8,876**	6,565
Hong Kong profit tax	**–**	–
	8,876	6,565

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") 25% (for the three months ended 31 March 2011: 24%) on their assessable profit for the three months ended 31 March 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 2011: 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 2011: 16.5%).

4. EARNINGS PER SHARE

The calculation of the earnings per share for the three months ended 31 March 2012 is based on the profit attributable to owners of the Company of approximately RMB17,151,000 (for the three months ended 31 March 2011: RMB15,406,000) and the number of 936,190,000 shares (three months ended 31 March 2011: 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 2012 (three months ended 31 March 2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

During the first quarter of 2012, the Group recorded steady business growth through timely and effectively realigning its business structure according to market changes and optimising the resource allocation for its major business segments. The road and bridge construction business witnessed a drop in revenue in the first quarter, mainly attributable to the relatively slower construction progress of the bid-wining projects during the period, including certain roadbed construction projects, as compared to the corresponding period of last year. As at 31 March 2012, the backlog of bid-wining construction contracts not yet recognized as revenue amounted to approximately RMB600 million, most of which will be completed within the next 12 to 15 months. On fuel oil trading business, revenue and gross profit for the first quarter increased respectively by approximately 33.3% (turnover) and 80.2% (gross profit) year-on-year, as the Group introduced certain varieties of higher margins in order to refine the product mix of the business segment. As to asphalt trading business, the gross margin was approximately 7.4%, holding the line for 2011 but lower than the level for the corresponding period of last year at approximately 14.1%, mainly attributable to the relatively higher gross margin for the first quarter last year as a result of higher price difference achieved on sales of asphalt inventories which were then stockpiled at lower prices. For the three months ended 31 March 2012, turnover of the Group was approximately RMB837,840,000, representing an increase of approximately 19.8% over the corresponding period of last year.

Business Operations

The Group is a conglomerate incorporating the road and bridge construction and the petrochemical product supply chain services. The road and bridge construction business mainly comprises the construction of highways and municipal roads in the PRC. The petrochemical product supply chain service business mainly comprises the provision of one-stop services including purchase, storage and transportation to the Group's customers based on its well-established logistics system, covering fuel oil trading business, asphalt trading business and the auxiliary logistics services provided for fuel oil trading business and asphalt trading business.

Road and Bridge Construction Business

For the three months ended 31 March 2012, turnover of the Group's road and bridge construction business was approximately RMB97,341,000 (for the three months ended 31 March 2011: approximately RMB129,404,000), representing a decrease of approximately 24.8% from the corresponding period of last year and accounting for 11.6% of the Group's total turnover. The year-on-year decrease in revenue was mainly attributable to the relatively slower construction progress of the bid-wining projects during the period, including certain roadbed construction projects, as such projects have different construction schedules and even for a same project, the construction volumes within a given period of time in different stages typically differ from each other. As at 31 March 2012, the backlog of bid-wining construction contracts not yet recognized as revenue amounted to approximately RMB600 million, most of which will be completed within the next 12 to 15 months.

For the three months ended 31 March 2012, gross profit of the Group's road and bridge construction business was approximately RMB22,650,000 (for the three months ended 31 March 2011: approximately RMB24,880,000), representing a decrease of approximately 9.0% from the corresponding period of last year, whereas gross margin increased from approximately 19.2% in the corresponding period of last year to approximately 23.3% in the reporting period.

Petrochemical Product Supply Chain Service Business

The business arm comprises the provision of one-stop services including purchase, storage and transportation to the Company's customers based on its well-established logistics system, covering fuel oil, asphalt and logistics services. With sound business footholds in place, the Group has extended its presence to Shanghai, Jiangsu, Jiangxi, Anhui, Sichuan, Zhejiang, Hubei, Hunan and Henan. During the period, revenue from the Group's petrochemical product supply chain service business was approximately RMB740,449,000 (for the three months ended 31 March 2011: approximately RMB569,758,000), accounting for approximately 88.4% of the Group's total turnover. This business arm is summarised by segments as follow.

Fuel Oil Trading Business

For the three months ended 31 March 2012, turnover of the Group's fuel oil trading business was approximately RMB653,741,000 (for the three months ended 31 March 2011: approximately RMB490,444,000), representing an increase of 33.3% over the corresponding period of last year and accounting for approximately 88.3% of revenue from the Group's petrochemical product supply chain service business.

For the three months ended 31 March 2012, gross profit of the Group's fuel oil trading business was approximately RMB24,624,000 (for the three months ended 31 March 2011: approximately RMB13,664,000), representing an increase of approximately 80.2% from the corresponding period of last year, whereas gross margin increased from approximately 2.8% in the corresponding period of last year to approximately 3.8% in the reporting period.

The increases in revenue and gross profit of fuel oil trading business for the reporting period were mainly attributable to the introduction of certain varieties with higher profit margin during the first quarter this year, to which supports were prioritised with respect to resources and services, in order to further diversify the product mix based on the foundation established in 2011.

Asphalt Trading Business

For the three months ended 31 March 2012, turnover of the Group's asphalt trading business was approximately RMB76,050,000 (for the three months ended 31 March 2011: approximately RMB65,753,000), representing an increase of approximately 15.7% from the corresponding period of last year and accounting for approximately 10.3% of revenue from the Group's petrochemical product supply chain service business.

For the three months ended 31 March 2012, gross profit of the Group's asphalt sales was approximately RMB5,647,000 (for the three months ended 31 March 2011: approximately RMB9,240,000), representing a decrease of approximately 38.9% from the corresponding period of last year. The gross margin for the period was approximately 7.4% which is in time with the level for 2011 but lower than the level for the corresponding period of last year at approximately 14.1%. The decrease was mainly attributable to the relatively higher gross margin for the first quarter of last year as a result of higher price difference achieved on sales of asphalt inventories which were then stockpiled at lower prices.

Logistics Business

Logistics business mainly comprises the provision of auxiliary services to fuel oil and asphalt trading businesses to enable the Group to provide one-stop supply chain services to its customers. For the three months ended 31 March 2012, turnover of the Group's logistics business was approximately RMB10,708,000 (for the three months ended 31 March 2011: approximately RMB13,561,000), representing a decrease of approximately 21.0% from the corresponding period of last year. The decrease was mainly attributable to the less storage of asphalt and fuel oil to reduce risks from volatile asphalt and fuel oil prices since this year, as well as a corresponding drop in revenue from logistics business due to the adoption of direct sales (i.e., skipping the handling through the Company's oil tanks) for certain business to cut down logistics costs. Revenue from logistics business accounted for approximately 1.4% in the Group's petrochemical product supply chain service business.

Other Income and Gains

For the three months ended 31 March 2012, the Group's other income and gains were approximately RMB6,061,000 (for the three months ended 31 March 2011: approximately RMB532,000), surging by approximately 1,039.3% over the corresponding period of last year. This was attributable to the inclusion of asphalt consulting income amounting to approximately RMB5,131,000 during the period of this year, as compared with a similar income of only approximately RMB253,000 for the corresponding period of last year.

Distribution Costs

For the three months ended 31 March 2012, the Group's distribution costs were approximately RMB3,306,000 (for the three months ended 31 March 2011: approximately RMB2,440,000), representing an increase of approximately 35.5% over the corresponding period of last year. The increase was mainly attributable to the higher relevant distribution costs due to a year-on-year increase in sales revenue from the Group's asphalt trading business during the period.

Administrative Expenses

For the three months ended 31 March 2012, the Group's administrative expenses were approximately RMB6,999,000 (for the three months ended 31 March 2011: approximately RMB10,376,000), representing a decrease of approximately 32.5% from the corresponding period of last year. The decrease in administrative expenses was mainly attributable to the reversal of the provision of approximately RMB11,000,000 in 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 the smooth collection of receivables during the period, as compared with only approximately RMB2,300,000 being reversed in the corresponding period of last year.

Profit Attributable to Shareholders

For the three months ended 31 March 2012, profit attributable to owners of the Group was approximately RMB17,151,000 (for the three months ended 31 March 2011: approximately RMB15,406,000). The basic and diluted earnings per share for profit attributable to owners of the Company during the period was RMB0.018 (for the three months ended 31 March 2011: approximately RMB0.016).

PROSPECTS

In 2012, the second year of the Twelfth Five-Year Plan, it is expected that China will continue the investments in infrastructure construction in line with its economic development, and the Company's business will benefit from the positive overall economic environment under the potentially relaxed credit policies on infrastructure projects.

On road and bridge construction business, the segment is expected to continue the steady growth momentum in 2012 as the Group focuses on small and medium road and bridge construction projects which are less susceptible to the volatility of the macro economy.

On fuel oil trading business, the Company will further promote product diversification by launching high value-added product varieties, while constantly expanding its customer base and enhancing its market competitiveness to explore and achieve additional potential market share.

As to the asphalt trading business, it is expected to benefit from the State's ongoing infrastructure investments, together with the launch of the Shanghai Disneyland project in the future, which are believed to fuel the continuous and steady growth in domestic demand for asphalt.

In addition, on 20 April 2012, the Company submitted to the Stock Exchange of Hong Kong the application for transferring its listing to the Main Board after it was approved by the CSRC on 27 March 2012. Pushing ahead with the proposed transfer of listing to the Main Board, the Group believes the move will facilitate the buoyant trading of its H shares, which is beneficial for uplifting its corporate image and the investment community's awareness and thus is constructive for the Group's future development.

DISCLOSURE OF INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

At 31 March 2012, 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 2012, 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	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
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	–	38.36	18.69 *(Note 2)*
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 2012.

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 2012, 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 2012, 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, 9 May 2012

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.