SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD

(Incorporated in the People's Republic of China)

ANNUL REPORT 1999

Important:
The Board of Directors of Shenzhen Petrochemical Industry (Group) Co., Ltd. (hereinafter referred to as the Company) hereby confirms that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. This Report is Prepared in Chinese and English, in the event of any discrepancy between the two version, the Chinese version shall prevail. Horwath China (Shenzhen) Certified Public Accountants presented an Auditors' Report is carrying qualifications of the explanations. The Board of Directors and the Supervisory Committee of the Company have made detailed explanation about the relevant issues involved in the qualifications of the explanations to which the investors should attach necessary importance in reading this report.

Ⅰ. About the Company

Legal Name in Chinese: **深圳石化工业集团股份有限公司**

Legal Name in English: Shenzhen Petrochemical Industry (Group) Co., LTD

(Short form in English: SPEC)

Legal Representative: Mr. Chen Yongqing

Secretary of the Company: Mr. Cai Jianping

Liaison Address: SPEC Building, Hongli (W.) Rd, Futian District, Shenzhen PRC

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E-mail: caijp@shihua.spec.com.cn

Newspapers chosen for Disclosing the Information: Securities Times and Ta Kung Pao

Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: http://www.cninfo.com.cn

Place Where the Annual Report is Prepared and Placed: secretariat of the Board of Directors on the 4th floor of SPEC Building., Hongli (W.) Rd, Futian District, Shenzhen PRC

Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Share Name and Share Code:	SHEN SHIHUA – A	0013
	SHEN SHIHUA – B	2013

Ⅱ. Financial Highlights

1. Consolidated Profit and Loss Account (Calculated according to the IAS)

For the year ended 31st December, 1999

(Unit: RMB' 000)

Year	1999	1998
Items		
Turnover	641,032	591,699
Operating profit (loss) before exceptional item	(74,073)	(4,096)
Exceptional item	10,012	12,607
Share of profits of companies disposed in restructuring	(3,967)	492
Share of profits of associated companies	14,687	14,972
Provision for long-term investment	(43,918)	(3,871)
Profit before taxes	(97,259)	20,014
Income taxes	(5,341)	4,623
Profit before minority interests	(102,600)	21,243
Minority interests	(14,848)	(12,575)
Profit attributable to shareholders	(117,448)	2,906
Basic earning (loss) per share	RMB (0.39)	RMB0.009
Retained earnings at 1 January, 1999	4,698	3,038
Profit for the year	(117,448)	2,906
Transferred to statutory surplus reserve & welfare public fund	2,019	1,246
Dividends	----	----
Others	----	----
Retained earnings at 31 December, 1999	(119,467)	4,698

2. Impact of IAS adjustments on net profit (Unit: RMB' 000)

As reported in the "A" shares consolidated audited statutory financial statements under PRC accounting standards	10,098
IAS and adjustments	
Provision for bad and doubtful debts and other liabilities	(77,119)
Provision for Inventories lower of cost and realizable value	(6,509)
Provision for loss on investments	(43,918)
Amount of adjustments	(127,546)
As reported after IAS adjustment in the "B" shares financial statements	(117,448)

Ⅲ Changes in Share Capital and Particulars about the Shareholders

1. Changes in share capital

	Before the change	Changes (+ / -) this time						After the change
		Shares allotted	Bonus shares	Public reserve capitalization	Shares issued additionally	Other	Sub-total	
1. Shares not yet in circulation								
(1) Promoters' shares	164,546,553							164,546,553
Including:								
Stated-owned shares	164,546,553							164,546,553
Domestic legal person shares								
Foreign legal person shares								
Others								
(2) Domestic legal person shares	54,724,424							54,724,424
(3) Employees' shares								
(4) Preference shares or others								
Including:								
Shares allotted and capitalized								
Total	219,270,977							219,270,977
2. Shares in circulation								
(1) Ordinary shares (in RMB)	51,324,002							51,324,002
(2) Domestically listed foreign shares	32,760,000							32,760,000
(3) Foreign investment shares listed abroad								
(4) Others								
Total	84,084,002							84,084,002
3. Total shares	303,354,979							303,354,979

(2). Issuance and Listing of shares

No shares issued in the past three years by the end of the reporting period. No change occurred in total number and the structure of the share capital of the Company in the reporting period.

2. About the shareholders

(1) Total number of shareholders at the end of the report period.

Ended Dec. 31, 1999, the Company had totally 35,139 registered shareholders (including legal person and natural persons), including 32,889 shareholders of A-shares and 2,250 shareholders of B-shares.

(2) Shares held by the Top Ten Shareholders ended in the report period.

Name of Shareholders	Number of Shares	Percentage of total share capital
Shenzhen Petrochemical Corp. (state-owned shares)	164,546,553	54.24%
China Ping An Insurance Co., Ltd.	23,400,000	7.71%
China Communication Securities Co., Ltd.	19,380,532	6.39%
Shenzhen Jingye Plastics Co., Ltd.	2,208,772	0.73%
China Baoan Group Co., Ltd.	1,560,000	0.51%
Shenzhen Silverland Investment Co., Ltd.	1,560,000	0.51%
Everbright Bank of China Shenzhen Securities Dept.	1,484,936	0.49%
Xie Jianzhu (B-share)	1,230,000	0.41%
Chen Jinsong (B-share)	1,212,160	0.40%
China Prime Investment Management Co., Ltd.	936,000	0.31%
Total	217,518,953	71.70%

Note: A. In the report period, there was no change in quantity of shares held by the shareholders holding more than 5% of the total, namely Shenzhen Petrochemical Corp. and China Ping An Insurance Co., Ltd. 21,000 shares reduced the quantity of the shares held by China Communication Securities Co., Ltd. There was no pledge or freeze on shares held by the above three shareholders.

B. With the exception as otherwise specified, the shareholders as listed on the above table were all legal person shareholders.

(3) Shareholders holding over 10% (including 10%)

Shenzhen Petrochemical Corp.: holding proportion: 54.24%; legal representative: Chen Yongqing; business scope: invest to initiate industrial enterprises, domestic trading, materials supply and marketing, development of high and new high-tech products.

(4) Change in holding shareholder in the report period

In the report period, the name of the control shareholder of the Company was changed from Shenzhen SPEC Conglomerate Co., Ltd. to Shenzhen Petrochemical Corp.

Ⅳ. Shareholders General Meeting

1. Public Notice and Convening

The Company published the public notice on holding the 8th Shareholders' General Meeting on Securities Times and Hong Kong Commercial Daily dated May 22, 1999 and the supplementary public notice on the Shareholders' General Meeting on Securities Times and Hong Kong Commercial Daily dated June 19, 1999. The 8th Shareholders' General Meeting was held as scheduled on June 25, 1999. The total shares held by the shareholders/authorized shareholders' representatives present at the meeting were 215,771,164 shares (including 285,028 B-shares), representing 71.1% of the total shares of the Company. The meeting was held in conformity with the relevant provisions as specified in the Company Law of PRC and the Articles of Association of the Company.

2. Resolutions as Adopted at the Shareholders' General Meeting and the Newspapers for Disclosing the Information and the Date of Disclosure

The 8th Shareholders' General Meeting examined and adopted the following reports and proposals by voting in written form:

(1) ' 98 Work Report of the Board of Directors
(2) ' 98 Work Report of the Supervisory Committee
(3) ' 98 Audited Financial Statements and Auditors' Report
(4) ' 98 Profit Distribution Proposal
(5) Proposal on Renewing the Engagement of the Certified Public Accountants for the Year 1999
(6) Proposal on Implementing the Strategic Reorganization
(7) Proposal on Changing the Name of the Company
(8) Proposal on Amending the Articles of Association
(9) Proposal on Authorization to the Board of Directors
(10) Proposal on the personnel changes in the Board of Directors
(11) Proposal on the personnel changes in the Supervisors Committee

The resolutions of the 8th Shareholders' General Meeting were published on Securities Times and Hong Kong Commercial Daily dated June 26, 1999.

3. Elections and Changes of Directors and Supervisors

With a view to better implementing the strategic reorganization, the Company approved Dao Mingzhao, Zheng Yuhua, Wan Li, Wang Nanning, Huang Yongtao and Dai Jingjiao no longer to hold the posts of directors of the Company; Zeng Shiquan, Chen Yanqing, Xin Yu and Xie Jianguo no longer to hold the posts of supervisors. The 8th Shareholders' General Meeting elected Wang Miaoquan, Ying Qirui, Lei Hui, Ding Fuyi, Xin Yu, Meng Deying, Cai Jianping and Wu Sheng as new directors of the Company. The present Board of Directors consists of 13 members, namely Chen Yongqing, Li Yinrong, Wang Miaoquan, Ying Qirui, Lei Hui, Wang Jiarong, Ding Fuyi, Li Linsen, Xin Yu, Zhou Zhen, Meng Deying, Cai Jianping and Wu Sheng. Chen Yongqing takes the post of the Chairman of the Board. The meeting also elected Zheng Yuhua and Shi Guanghua as supervisors of the Company. In addition, Zou Shouchang and Shi Qing replaced Xin Yu and Xie Jianguo acting as the staff representative supervisors. The present Supervisory Committee consists of five members, namely Zhen Yuhua, Shi Guanghua, Liao Hongli, Zou Shouchang and Shi Qing. The Supervisory Committee elected Zheng Yuhua as the Chairman of the Supervisory Committee.

Ⅴ. Report of the Board of Directors

1. Operation in the Report Period

In the year 1999, the Company realized a turnover of RMB 641,032 million.

In the report period, the Company and its holding shareholder, Shenzhen Petrochemical Corp. (hereinafter referred to as the Group) jointly brought forth the proposal on strategic reorganization which was approved by Shenzhen State Owned Property Administration Committee and Shenzhen Investment Holding Corporation and examined and approved at the 8th Shareholders' General Meeting of the Company. The proposal was formally implemented commencing on July 1, 1999. According to the reorganization proposal, the Company shall implement the reorganization of the industrial structure and the enterprise organization structure accordingly: The industrial production enterprises are to remain in the Company. Meanwhile, the Company is to introduce high tech industry including bio-pharmaceuticals and to transfer the subsidiaries and associated enterprises of non-industrial enterprises to the Group to realize a fundamental shift in the industrial structure of the Company. The Company has been restructured from a diversified enterprise group into an industrial enterprise group of high technology mainly engaged in the main business lines of chemical new materials, plastic processing, fine chemicals and bio-pharmaceuticals. After the reorganization, the Company will have more definite development orientation and can concentrate its resource on the development of the leading industry.

(1) Main Business Lines in the Report Year

The major industrial subsidiaries of the Company have kept on the trend of stable and healthy development. Through restructuring the traditional industries with high technology, the Company has reinforced the technical innovation and technical creation and achieved a significant success. In the report year, the sale income of the main industrial subsidiaries was RMB 610 million, an increase of 9.9% over the same period of the previous year. Shenzhen SPEC Plastics Co., Ltd. adopted advanced technology and carried out technical innovation over No. 1 Production Line of PVC Sheet, which was imported in the early 1980s. After innovation, the production line recovered its capability in producing higher value-added sheeting, improved production efficiency and product quality, increased the varieties of products and heightened the market competitiveness. The output of various plastic products with PVC was 33,000 tons. Shenzhen SPEC Beauty Star Hotas Plastics Co., Ltd. successfully introduced CAD/CAM technology into the design and processing of plastic molds, effectively expanded its R&D capability, improved the production efficiency and product quality. The output of 70 million pieces of high grade cosmetic packing materials and its major products represented by high quality plastic composite hoses have been directly exported to Japan and Korea. Shenzhen SPEC Chemical Fibers Co., Ltd. produced 16,000 tons of various polypropylene staple fiber spun yarns and is still keeping the domestic leading position in production scale, product quality and varieties. Shenzhen SPEC Fine Chemical Co., Ltd.

produced 3100 tons of fine chemical products, including high temperature organic silicone and plastic processing reagent, etc. The YTG Railway Oleo-gear developed by Shenzhen SPEC Electric Appliance Industrial Co., Ltd. has been certified as National New Product in 1999.

Shenzhen SPEC Bio-pharmaceutical Industry Co., Ltd. completed factory building construction, production equipment installation and equipment testing and adjusting, for its EPO (Erythropoietin) bioengineering project (a key project of bio-pharmaceutical industry of Shenzhen) at the end of 1999. The trial production was conducted on Feb. 28, 2000. The first phase of the project of the newly established Shenzhen SPEC Donghong Laminating and Coating Fibers Co., Ltd. has been put into production. Its major products, materials for bag and garment, are of high added value and are highly marketable, enjoying a prosperous market potential.

In the report period, the Company was certified as an enterprise with Provincial Technical Innovation Superiority by Guangdong Province.

(2) Operations of Main Consolidated Subsidiaries (unit: RMB' 000)

Company Name	Main Business Lines	**Turnover**	**Total of Profit**
Shenzhen SPEC Plastics Group Co., Ltd.	Production and sales of PVC sheets and products	277,330	17,854
Shenzhen SPEC Chemical Fibers Co., Ltd.	Production and sales of polypropylene filament	171,097	15,039
Shenzhen SPEC Fine Chemical Co., Ltd.	Production and sales of organic silicone and chemical reagents	72,425	3,745
Shenzhen SPEC Beauty Star Hotas Plastics Co., Ltd.	Production and sales of high grade plastic packing products	49,961	10,063
Shenzhen SPEC Investment & Development Co., Ltd.	Equity investment and securities investment	----	4,502

(3) Problems and Difficulties in Operation and the Solution

In the report period, the sustainable international high price of crude oil has caused price rising of raw materials and supplementary chemical materials resulting in a rise of the production cost of Company. At the same time, the effective demand of the domestic market was in deficiency so that the prices of the industrial products have kept declining and the market competition is even more intense. To tackle the above difficulties, the Company reinforced the fundamental management work of various subsidiaries, and insisted on reforming the traditional industry with high technology and innovated production equipment. In the report year, various industrial subsidiaries had completed 64 technical innovation projects and 37 scientific research projects which had effectively promoted upgrading and regeneration of the products, improved the production efficiency and product quality, reduced raw material consumption and strengthened the market competitiveness of the products.

2. Financial Status

(1) Financial Status

Due to the provision for assets lower, the decrease amount of Shareholders' equity of RMB 141 million and profit attributable to shareholders of RMB 120 million.

(2) Notice to the matters as mentioned in the audit report carrying qualifications of the explanations presented by Horwath China (Shenzhen) Certified Public Accounts.

Premium: After the right issue was carrying out in year 1993, the holding shareholder of the Company named Shenzhen Investment Holding Corporation has given up the right of purchasing. In order to build up the funds, the Company and the underwriter have sold right issue to the domestic legal persons and the agreement price was RMB 7 Yuan per share. Some purchase agreement has instalment terms. The terms were stated that part of money of purchasing would be paid after the list of legal person shares. However, the monetary policy has changed, and the listing problem of the legal person share is not completely solved. A total amount of unpaid share capital and share premium of RMB 26,233,250 and amount of capital together with accrued interest totalling RMB 4,133,009 refunded to the underwriter has formed. The problem mention above will be either solved by deducting the income from premium over face value following the examination& approval formalities accordingly, or wait to be paid after the legal person shares is listed.

3. Investment

(1) The Company invested RMB 50 million for factory building construction, purchasing equipment and complementary facilities of Shenzhen SPEC Bio-pharmaceutical Industry Co., Ltd., a company with registered capital of RMB 53 million that was transferred to the Company from the Group through assets reorganization. After the project is put into production, the Company shall be involved in the high tech bioengineering field, which will become a new economic growth point of the Company.

(2) Shenzhen SPEC Beauty Star Hotas Plastics Co., Ltd. invested RMB 30 million for extension of the factory buildings, adding new equipment and complementary facilities with a view to expanding the production capacity and increasing the market share of its products.

(3) Shenzhen SPEC Plastics Co., Ltd. invested RMB 7.1 million for restructuring No. 1 PVC production line with a view to improving the quality of its PVC sheet products and reinforcing the market competitiveness of the products.

(4) The Company additionally invested RMB 3 million for constructing the complementary facilities of Shenzhen SPEC Donghong Laminating and Coating Fibers Co., Ltd.

4. Influence to Arise from China's Joint in WTO upon the Company

After China joins WTO, the customs duties will be decreased and trading barriers will be cancelled. Huge amount of foreign products will enter the Chinese market, causing impact on the domestic market and intensify the competition. However, since most products of the principal subsidiaries of the Company are directly or indirectly exported and they are taking a domestic leading position (i.e. PVC sheet materials, polypropylene filament yarn, chemical fiber materials for cases and bags and high-grade cosmetic packing containers, etc.) and are highly competitive in the international market. As most of the raw materials of these products is imported, as the decrease of the customs duties, the cost of the Company's products will be somewhat reduced resulting from a decrease of customs duties and the competitiveness of the products shall be reinforced. In addition, the Company is putting into production a bio-pharmaceutical project, which has its own intellectual right over EPO, the main product of the project, and enjoys superiority over the similar products made in foreign countries in respect of the cost. In conclusion, China's joint in WTO will not make significant unfavorable influence upon the operation of the Company.

5. Business Plan of the New Year

(1) Continue to implement the plan of strategic reorganization as jointly put forward by the Company and the Group, its holding shareholder, further conduct the transfer of the liabilities with banks between the Company and its holding shareholder; improve the industrial system dominated by new chemical materials, plastic processing, fine chemicals and bio-engineering industries, focus on the leading industries and further establish an effective operation mechanism and accounting system.

(2) Quicken the construction of EPO bio-pharmaceutical project of Shenzhen SPEC Bio-pharmaceutical Industry Co., Ltd., and application of the GMP certification and the pharmaceutical production license. To launch the product to the market as soon as possible with a view to forming a new economic growth point. Allocate full resources for the newly established chemical fiber material project the extension project of multi-layer composite plastic hose project.

(3) Insist on technical progress, restructure the traditional industries with high technology technical innovation, adopt the famous brand strategy, continue to promote industrial upgrading and renewed products. Maintain stable and healthy development of the existing industry.

(4) Actively develop projects of new industries of high technology and high added value.

6. Routine Work of the Board of Directors

(1) Board Meetings and Resolutions

In the report period, the Board of Directors held four meetings, with the details as follows:

A. The 2nd meeting of the 3rd Board of Directors was held on April 28, 1999. The meeting examined and adopted ’98 Auditors’ Report, ’98 Annual Report, ’98 Profit Distribution Preplan and the Agenda for the 8th Shareholders’ General Meeting and discussed the issues in connection with assets reorganization. The resolution of the meeting was published on Securities Times and Hong Kong Commercial Daily dated April 30, 1999.

B. The 3rd meeting of the 3rd Board of Directors was held on June 18, 1999. The meeting examined and adopted the proposal on implementing the strategic reorganization and the supplementary proposal to be submitted to the 8th Shareholders’ General Meeting. The resolutions were published on Securities Times and Hong Kong Commercial Daily dated June 19, 1999.

C. The 4th meeting of the 3rd Board of Directors was held on June 25, 1999 and adopted the following resolutions: Li Yinrong was engaged as the General Manager of the Company; Wang Miaoquan, Sun Jiangning and Mu Xiangfeng were engaged as deputy General Managers; Meng Deying was engaged as chief financial supervisor. The resolution of the meeting was published on Securities Times and Hong Kong Commercial Daily dated June 26, 1999.

D. The 5th meeting of the 3rd Board of Directors was held on Nov. 17, 1999. The meeting discussed the issues in connection with the standardized operation of the Company and the formed the relevant resolution.

In addition, the Board of Directors of the Company examined and adopted ’99 Interim Consolidated

Financial Statements (un-audited) and '99 Interim Report of the Company by means of joint signing dated August 26, 1999. The concerned resolutions were published on Securities Times and Hong Kong Commercial Daily dated August 28, 1999.

(2) Execution of the Resolutions of the Shareholders' General Meeting
In the report period, the Board of Directors seriously implemented the resolutions of the Shareholders' General Meeting and has on the whole completed the implementation of the strategic reorganization of the Company and achieved success.

7. Particulars of the management and staff members of the Company
(1) Directors, supervisors and senior executives

Name	Sex	Age	Titles	Office-term	Shares held at beginning of period	Shares held at end of period	Increase/decrease within in period
Chen Yongqing	Male	59	Chairman of the Board	June,1998 to June, 2001	22,776	22,776	0
Li Yingrong	Male	58	Director	June,1998 to June, 2001	8,208	8,208	0
			General Manager	June,1999 to June, 2001			
Wang Miaoquan	Male	52	Director	June,1999 to June, 2001	0	0	0
			Vice General Manager				
Ying Qirui	Male	62	Director	June,1999 to June, 2001	0	0	0
Lei Hui	Female	40	Director	June,1999 to June, 2001	0	0	0
Wang Jiarong	Male	49	Director	June,1998 to June, 2001	0	0	0
Ding Fuyi	Male	45	Director	June,1999 to June, 2001	0	0	0
Li Linsen	Male	53	Director	June,1998 to June, 2001	6,240	6,240	0
Zhou Zhen	Male	36	Director	June,1998 to June, 2001	0	0	0
Xin Yu	Male	36	Director	July,1999 to July, 2001	0	0	0
Meng Deying	Female	37	Director, chief financial supervisor	June,1999 to June, 2001	12	12	0
Cai Jianping	Male	36	Director	June,1999 to June, 2001	0	0	0
			Secretary of the Company	June, 1998 to June, 2001			
Wu Sheng	Male	34	Director	June, 1999 to June, 2001	0	0	0
Zheng Yuhua	Male	48	Chairman of Supervisory Committee	June, 1999 to June, 2001	15,320	15,320	0
Shi Guanghua	Male	53	Supervisor	June, 1999 to June, 2001	0	0	0
Liao Hongli	Female	34	Supervisor	June, 1998 to June, 2001	0	0	0
Zou Shouchang	Male	34	Supervisor	June, 1999 to June, 2001	0	0	0
Shi Qing	Male	40	Supervisor	June, 1999 to June, 2001	0	0	0
Sun Jiangning	Male	42	Vice General Manager	June, 1999 to June, 2001	0	0	0
Mu Xiangfeng	Male	43	Vice General Manager	June, 1999 to June, 2001	0	0	0

Note:
A. In the report period, there were altogether 7 directors, supervisors and senior executives who get salary paid by the Company, with total amount of RMB 637,000 including 2 persons with annual salaries below RMB 50,000 respectively (who enjoyed the pay from the Company commencing in August, 1999), and 1 person with annual salaries from RMB 50,000 to RMB 100,000 and 4 persons with annual salaries above RMB 100,000.

B. Directors, supervisors and senior executives who do not get salary from the Company: Chen Yongqing, Zheng Yuhua, Ying Qirui, Lei Hui, Wang Jiarong, Ding Fuyi, Li Linsen, Zhou Zhen, Xin Yu, Shi

Guanghua, Wu Sheng, Zou Shouchang and Liao Hongli, altogether 13 persons.

C. In the report year, due to the implementation of the strategic reorganization, Dao Mingzhao, Zheng Yuhua, Wan Li, Wang Nanning, Huang Yongtao and Dai Jingjiao no longer held the posts of directors; Zeng Shiquan, Chen Yanqing, Xin Yu and Xie Jianguo no longer held the posts of supervisors; Chen Yongqing no longer held the post of General Manager of the Company, Zheng Yuhua and Zhao Gesheng no longer held the posts of deputy General Manager of the Company.

D. The Company held the 3rd meeting of the 3rd Board of Directors on June 25, 1999. At the meeting, Li Yinrong was engaged as General Manager, and Wang Miaoquan, Sun Jiangning and Mu Xiangfeng were engaged as deputy General Managers of the Company.

(2) Quantity and Profession (Occupation) Composition of the Employees
Ended the report year, the Company had totally 2,607 employees. Classified based on education background, there were 43 employees holding master's degree or higher, 265 holding regular college diploma, 298 holding junior college diploma, 679 holding polytechnic school diploma. Classified based on the professional titles, 41 employees holding senior professional title, 131 holding medium professional titles and 232 holding junior professional titles.

8. Profit Distribution Preplan
As audited according to the Chinese accounting standards and international accounting standards, the net profit of the Company in the year 1999 was respectively RMB 10,098 million and RMB-117,448 million. The profit distribution preplan is stated as follows:
After allotting 10% statutory public reserve and 10% public welfare from the net profit (calculated according to PRC accounting standards), profit attributable to shareholders is a negative number.
The Board of Directors recommended that for the year 1999, the Company would not distribute cash dividend and not conduct capitalization of the capital public reserve.

The aforesaid profit distribution preplan is subject to the examination and approval at the 9th Shareholders' General Meeting.

9. Miscellaneous
The Company chose Securities Times as the newspaper for disclosing the information of the Company. There was no other change in the report period.

Ⅵ Report of the Supervisory Committee
In 1999, in accordance with the Company Law, regulations and laws concerning listing company and Articles of Association of the Company, the Supervisory Committee fulfill its responsibilities of monitoring diligently. During the report period, two meetings were held. The 2nd meeting of 3rd Supervisory Committee was held on April 28, 1999, and were examined the 1998 audit report, 1998 work report of the Supervisory Committee were examined. The 3rd meeting of 2nd Supervisory Committee was held on June 26, 1999, and Mr. Zheng Yuhua was elected as the Chairman of the Supervisory Committee.

1. Particulars about the Operation of the Company according to the Laws
In the report period, the Supervisory Committee attended several board meetings and General Manager office meetings on which fundamental business and operation issues were discussed. In the Supervisory

Committee's opinion, in the report year, the decision-making procedures on important events, specially the strategic reorganization, are in accordance with the relevant provisions as specified in the Company Law of PRC and the Articles of Association of the Company. The Company has quite completed regulations and rules and internal control system in connection with the internal management. Directors and senior executives had committed no action against laws, regulations, the Articles of Association or the interest of the Company while doing their duties.

2. About Inspection of the Financial Affairs

In the report period, the Supervisory Committee inspected the operation and financial status of the Company, checked the accounting books and other relevant accounting documentation. There is no action against the law, regulations of the state and the Articles of Association of the Company. In the Supervisory Committee's opinion, '99 Auditors' Report as presented by Horwath China (Shenzhen) Certified Public Accountants had truly reflected the financial status and operation achievements of the Company.

3. Assets Acquisition/Sales

In the report period, the Company and its holding shareholder, the Group, had implemented strategic reorganization. The Company has transferred the shares or equity held by the Company in 28 enterprises including Shenzhen SPEC Storage & Transportation Co., Ltd. to the Group. The assignment prices of the shares or equity of the aforesaid enterprises were determined by adjusted the net assets or investment volume in '98 Auditors' Report of the Company in accordance with the concerned resolutions of the Shareholders' General Meeting. The transactions were carried out in a fair way and no inside transactions were found, causing no harm to the interests of the shareholders or loss of the Company's assets.

4. Related Transactions

In the report period, the transactions between the Company and the related enterprises mainly consisted of assignment of shares and equity, borrowings and running accounts in the strategic reorganization. Such transactions were usually carried out according to the terms and conditions as specified in the ordinary commercial clauses without harming any interest of the Company.

5. Comments on the issues involved in the qualifications of the explanations opinion in the auditors' report as presented by the certified public accountants.

The Supervisory Committee has noticed the issues involved in the qualifications of the explanations in the auditors' report as presented by Horwath China (Shenzhen) Certified Public Accountants and agrees to the explanations about such issues as made by the Board of Directors.

Ⅷ Significant Events

1. The important lawsuit and arbitration events

During the period from June, 1996 to March, 1997, the Company offered guarantees to Shenzhen Sunlight Industrial Co., Ltd. (hereinafter referred to as Sunlight Co., Ltd.), with which the Company had signed mutual guarantee agreement, for its borrowings amounting to RMB 5 million from Shenzhen Construction Bank Meilin Office, RMB 6 million from Shenzhen Development Bank Luohu Branch, RMB 5 million and HKD 1.8 million from Shenzhen Industrial and Commercial Bank Luohu Branch. Because Sunlight Co., Ltd. failed to timely repay the principal and interest of the borrowings, the said banks brought suits respectively to Shenzhen Intermediate People's Court and Luohu District People's Court and asked Sunlight Co., Ltd. and the Company to implement the obligation for repaying the borrowings and joint responsibility for the liquidation respectively. Now the courts have judged Shenzhen Development Bank Luohu Branch and Shenzhen Industrial and Commercial Bank Luohu Branch have won the suits. For the other case, Sunlight Co., Ltd., the Company and Shenzhen Construction Bank Meilin Branch have closed the case through conciliation.

2. In the report period, there were no such events in which involved any punishment on any director or senior executive imposed by the supervisory or administrative authority.

3. About the changes in the holding shareholder, members of the Board of Directors and General Manager of the Company

(1). In the report year, the name of the holding shareholder of the Company had been changed from Shenzhen SPEC Conglomerate Co., Ltd. to Shenzhen Petrochemical Crop.

(2). In the report year, due to the implementation of the strategic reorganization, Dao Mingzhao, Zheng Yuhua, Wan Li, Wang Nanning, Huang Yongtao and Dai Jingjiao no longer held the posts of directors. The 8th Shareholders' General Meeting of the Company elected Wang Miaoquan, Ying Qirui, Lei Hui, Ding Fuyi, Xin Yu, Meng Deying, Cai Jianping and Wu Sheng directors of the Company. At the present, the Board of Directors consists of 13 members, namely Chen Yongqing, Li Yinrong, Wang Miaoquan, Ying Qirui, Lei Hui, Wang Jiarong, Ding Fuyi, Li Linsen, Zhou Zhen, Xin Yu, Meng Deying, Cai Jianping and Wu Sheng.

(3). In the report year, due to the implementation of the strategic reorganization, Mr. Chen Yongqing, Chairman of the Board no long held the post of General Manager of the Company. The Board of Directors engaged Li Yinrong as General Manager of the Company.

4. Assets acquisition/sales, absorption and merger

In the report year, by approval of Shenzhen State Owned Property Administration Committee, Shenzhen Investment Holding Company and the 8th Shareholders' Meeting of the Company, the Company and its holding shareholder, the Group, implemented strategic reorganization. The basis date is set for July 1, 1999. In accordance with the principle of the industrial classification specified in the strategic reorganization plan, the Company would assign the equity of the enterprises of non-industrial sector to the Group and the assignment prices were based on the net assets or investment volume as confirmed in the auditing for the year 1998. (In accordance with the resolutions of the 8th Shareholders' General Meeting, corresponding adjustment has been made over the net loss arising from the current assets to be settled and the debit balance arising from the public reserve for residence houses). On June 28, 1999, the Company and the Group signed the Contract for Enterprise Transfer in the Strategic Reorganization. The Company assigned the shares or equity of the 28 subsidiaries including Shenzhen SPEC Storage & Transportation Co., Ltd. held by it to the Group at the price of RMB 465,083,809.25. The loss/gain arising from the said assignment of the assets or equity belonged to the Company from January 1, 1999 to the basis date of reorganization. Ended the report year, most procedures for changing the industrial and commercial registration in connection with the said assignment of the shares or equity to the Group had been completed. The Group had paid RMB 60 million to the Company and completed the procedures of taking over two thirds of the bank loans from the Company. In addition, the Group is in the process of handling the procedures of changing the registration with relavant industrial & commercial authorities in connection with assigning 100% equity of Shenzhen SPEC Bio-Pharmaceutical Industry Co., Ltd. to the Company in the said strategic reorganization.

For the detail about the strategic reorganization plan, please refer to the public notice of the Board of Directors as published on Securities Times and Hong Kong Commercial Daily dated June 19, 1999.

5. Significant Related Transactions

(1) In the report year, the Company and its holding shareholder, the Group, implemented strategic reorganization. The Company had assigned equity of the subsidiaries of non-industrial sector to the Group at the price based on the net assets or investment volume totaling RMB 470 million on the basis of auditing in the year 1998 and the afterwards adjustment. Please refer to the previous item.

(2) Ended the report period, the Company should collect receivables from the Group and its subsidiaries totaling RMB 1,200 million, a big growth over the previous year. The main reason is that while implementing the strategic reorganization with the Group in the report year, the Company assigned shares/equity of its subsidiaries of non-industrial sector to the Group. After the assignment, the original borrowings of the said subsidiaries from the Company had turned into receivables of the Company from the Group or such subsidiaries. The Group is going to gradually reduce the related transactions by undertaking the bank liabilities for the Company.

6. Separation in Personnel, Assets and Financial Affairs between the Listed Company and Holding Shareholder

The Company and its holding shareholder, the Group, had settled the problems of “cross office-taking” among the executives, the management structure of “one staff team, two company names” and etc. between the Company and its holding shareholder. The Company has now become independent in personnel, assets and finance.

7. In the report period, the Company renewed the engagement of Shenzhen Zhongtian Certified Public Accountants and Horwath China (Shenzhen) Certified Public Accountants for auditing the accounts of the Company for the year 1999 respectively according to the Chinese Accounting Standard and International Accounting Standard respectively.

8. Other Significant Contracts (including Guarantees, etc.) and the Implementation

With a view to meeting the requirement of bank financing, the Company has signed mutual guarantee agreements with several enterprises. In the report year, the Company offered loan guarantee for RMB 353 million to Shenzhen Lionda Holdings Co., Ltd., offered loan guarantee for RMB 138 million to Gin Tian Industry (Group) Co., Ltd. , offered loan guarantee for RMB 168 million to China Bao An Group Co., Ltd.. and offered loan guarantee for RMB 242 million to Shenzhen Neptune Group Co., Ltd. (see note 23)

9. Change of the name of the Company

Through approval of the 8th Shareholders’ General Meeting of the Company and verification of Guangdong Province Administration for Industry and Commerce, the Company has changed its name from Shenzhen Petrochemical (Holdings) Co., Ltd. to Shenzhen Petrochemical Industry (Group) Co., Ltd. (in short form SPEC). The short form of the stock and the stock code remain unchanged.

Ⅷ Financial Reports

1. Auditors' Report (attached hereafter)
2. Accounting Statements (attached hereafter)
3. Notes to Accounting Statements (attached hereafter)

Ⅸ Other Information of the Company

First registration date of the Company: Jan.14, 1992

Registered Address of the Company:
SPEC Building, Hongli (W.) Rd., Futian District, Shenzhen PRC

Business registration number of the Company: 4400001008296

Tax (State tax / Local tax) registration number: 440301190325614

Trustee Company of the unlist share of the Company: Shenzhen Securities Registration Co., Ltd.

Certified Public Accountants engaged by the Company: Shenzhen Zhongtian Certified Public Accountants
Address: 16F., Aihua Building, Shennan (C.) Rd., Shenzhen PRC

Horwath China (Shenzhen) Certified Public Accountants
Address: 16F., Aihua Building, Shennan (C.) Rd., Shenzhen PRC

Ⅹ Documents for Reference

1. Accounting statements with the personal signatures and seals of legal representative, person in charge of the financial affairs and person in charge of handling accounting affairs.

2. Original of Auditors' Report with the seal of Shenzhen Zhongtian Certified Public Accountants as well as personal signatures and seals of certified public accountants.

3. Originals of all documents and manuscripts of public notices of the Company disclosed in public on the newspapers designated by China Securities Regulatory Commission in the report period.

By Order of the Board
Chen Yong Qing
Chairman

Shenzhen PRC
April 22, 2000

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE TEAR ENDED 31 DECEMBER, 1999

REPORT OF THE AUDITORS TO THE HOLDERS OF B SHARES OF
SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO.,LTD
深圳石化工业集团有限公司
(INCORPORATED IN THE PROPLE' S REPUBLIC OF CHINA)

We have audited the consolidated financial statements on pages 2 to 33 which have been prepared in accordance with International Accounting Standards.

RESPECTIVE RES0PONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements, which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.
It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION
We conducted our audit in accordance with International Standards on Auditing. An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY
In forming our opinion, We have considered the adequacy of the disclosures made in the financial statements concerning the proper treatment of unpaid capital and refund together with accrued interest to the Company's underwriter of RMB 26,233,250.00 and RMB 4,133,009.00 respectively and are awaiting the decision and direction from the Shenzhen Securities Management Office and Shenzhen State-owned Property Management Bureau in respect of this matter. Details of the circumstances relating to this fundamental uncertainty is described in note 14 . Our opinion is not qualified in this respect.

OPINION
In our opinion, the financial statements give a true and fair view, in all material respects, of the state of affairs of the group as at 31 December, 1999 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Accounting Standards.

Horwath China (Shenzhen)
Certified Public Accountants
Shenzhen， China.
12 April, 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 1999

	Notes	1999 RMB'000	1998 RMB'000
TURNOVER	3	641,032 ========	591,669 ========
OPERATING PROFIT (LOSS) BEFORE EXCEPTIONAL ITEM	5	(74,073)	(4,096)
EXCEPTIONAL ITEM	6	10,012	12,607
SHARE OF PROFITS OF COMPANIES DISPOSED IN ESTRCTURING	4, 30	(3,967)	492
SHARE OF PROFITS OF ASSOCIATED COMPANIES		14,687	14,972
PROVISION FOR LONG-TERM INVESTMENT		(43,918)	(3,871)
PROFIT BEFORE TAXES	21	(97,259)	20,104
INCOME TAXES	7	(5,341)	(4,623)
PROFIT BEFORE MINORITY INTERESTS		(102,600)	15,481
MINORITY INTERESTS		(14,848)	(12,575)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		(117,448)	2,906
BAISIC EARNING (LOSS) PER SHARE	9	RMB (0.39)	RMB0.009

(The accompanying notes from an integral part of these financial statements)

~~CONSOLIDATED STATEMENT OF RETAINED EARNINGS~~

FOR THE YEAR ENDED 31 DECEMBER, 1999

	Notes	1999	1998
		RMB'000	RMB'000
RETAINED EARNINGS AT 1 JANUARY, 1999		4,698	3,038
PROIT FOR THE YEAR		(117,448)	2,906
TRANSFERRED TO STATUTORY SURPLUS RESERVE & WELFARE PUBLIC FUND	8	2,019	1,246
DIVIDENDS			
OTHERS			
RETAINED EARNINGS AT 31 DECEMBER, 1999		(119,467)	4,698
		=======	======

(The accompanying notes from an integral part of these financial statements)

~~CONSOLIDATED BALANCE SHEET~~

FOR THE YEAR ENDED 31 DECEMBER, 1999

	Notes	1999	1998
		RMB'000	RMB'000
FIXED ASSETS	10	649,285	534,657
DEFERRED EXPENDITURES	11	25,234	5,822
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES		3,117	6,632
SHARE OF PROFITS IN COMPANIES DISPOSED		—	467,240
INTERESTS IN ASSOCIATED COMPANIES	12	28,949	110,738
LONG TERM INVESTMENTS	13	48,700	48,587
NET CURRENT ASSETS(LIABILITIES)	14	(33,477)	(337,484)
		721,808	836,192
FINANCED BY:			
SHARE CAPITAL		303,355	303,355
RESERVES		227,265	368,148
SHAREHOLDERS' EQUITY		530,620	671,503
LONG TERM BANK LOANS		31,243	36,088
LONG TERM PAYABLES		25,421	6,241
MINORITY INTERESTS		134,524	122,360
		721,808	836,192

(The accompanying notes from an integral part of these financial statements)

~~CONSOLIDATED STATEMENT OF CASH FLOWS~~

FOR THE YEAR ENDED 31 DECEMBER, 1999

	1999
	RMB'000
CASH FLOW FROM OPERATING ACTIVITIES	
Operating profit before taxation	(117,448)
Profit attributable to minority share holders	14,848
Accumulated depreciation	33,940
Amortization of deferred assets	3,908
Loss from disposal of fixed assets	259
Interest received	(42,224)
Interest paid	67, 292
Exchange loss(gain)	(611)
Share of profits of associated companies and companies transferred	(10,720)
Provision for long-term investment	43,918
Decrease (Increase) in inventories	(25,916)
Decrease(Increase) in accounts receivable	17,422
Increase(decrease) in accounts payable	23,816
Provision for inventories	6,567
Others	(1,565)
Net cash inflow from operating activities	13,486
Returns on investments and servicing of finance	
Interest received	924
Interest paid	(64,645)
Total cash outflow from returns on investments And servicing of finance	(50,235)
Taxation	
Income tax payment	(4,418)
INVESTING ACTIVITIES	
Purchase of fixed assets, tangible assets and increase in deferred expenditures	(127,529)
Proceeds from disposal of fixed assets	2,753
Increase in investments returned	458,646
Increase in dividends received	4,273
Others	(298)
Net cash outflow from investing activities	337,845
Net cash outflow before financing activities	283,192
FINANCING ACTIVITIES	
Decrease in bank and other loans	(297,339)
Increase in minority shareholders' investment	1,430
Decrease in dividends payable	(907)
Others	(3,580)
Net cash inflow from financing activities	(300,396)
Increase (decrease) in cash and cash equivalents	(17,204)
Opening cash and cash equivalents	136,617
Closing cash and cash equivalents	119,413

	======

ANALYSIS OF CASH AND CASH EQUIVALENTS

Cash and bank balances	113,780
Short term investments	5,633
	119,413
	======

(The accompanying notes from an integral part of these financial statements)

1. THE COMPANY AND ITS PRINCIPAL ACTIVITIES

Shenzhen Petrochemical Holding Company Limited (the "Company") was formed by the merger of two state-owned enterprises, Shenzhen Petrochemical Industry Company (incorporated in February 1983), and Shenzhen Gulf Petrochemical Industry Corporation (incorporated in September 1984). On 12 November, 1991, the Company receive approval from the Shenzhen Municipal People's Government to reorganize into a company with limited liabilities. On the approval of the People's bank of China Shenzhen branch, the Company issued A Share for the PRC investors and B Shares for the overseas investors. A Shares and B Shares are listed on the Shenzhen Stock Exchange and carry equal rights.

The principal activities of the Company and its subsidiaries (the "Group") include the manufacturing and trading of petrochemical products, plastic products and chemical fiber, printing, packaging , imports and exports.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Federation of Accountants. This basis of accounting differs from that adopted in the preparation of the PRC statutory financial statements of the Group, which were prepared in accordance with the PRC Accounting Standards. To conform to IAS, adjustments have been made to the PRC statutory financial statements. Details of impact of such adjustments on the net assets as at 31December, 1999 and net profit for the year then ended, are included in note 29 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries as set out in note 4 as at 31 December 1999 and of the results for the year then ended. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company if more than 50 percent of its equity or the group for long-term investment purposes holds voting right directly or indirectly.

Associated companies

An associated company is a company, other than a subsidiary, in which the group holds not less than 20% of the equity as a long-term investment and has the ability to exercise a significant influence in its management.

The Group under the equity method of accounting accounts for the results of associated companies. At the balance sheet date, the Group's investment in associated companies is stated at its share of net assets, other than goodwill.

Turnover

Turnover represents the proceeds and receivable of good sold to customers outside the group, less sales tax, returns and discounts, together with the proceeds from the sale of completed properties.

Depreciation and amortization

Fixed assets are depreciated at rates sufficient to write off their costs or valuations over their estimated useful lives on a straight line basis, taking into account an estimated residual value of 5 percent of the asset value, at the following rates per annum:

Land and buildings	2.71%-3.17%
Machinery and equipment	9.5%
Motor vehicles	15.83%
Furniture, fixtures and office equipment	11.875%-19%
Leasehold improvements	20%-35%

No depreciation is provided on construction in progress prior to its completion.

Operating leases

The income and expenses under operating leases are dealt with in profit and loss account on a straight-line basis over the lease terms.

Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily available to known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue from the sale of goods is recognized when the risks and reward of ownership of the goods are transferred to customers.

Borrowing costs

Borrowing costs are expended in profit and loss account in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Foreign currency translation

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction s. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People’s Bank of China prevailing at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

Deferred taxation

Deferred taxation arising from the tax effect of material timing differences is computed using the liability method. It

is recognized in the financial statements to the extent that it is probable a liability will crystallize in the foreseeable future.

Deferred expenditures

Deferred expenditures are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Pre-operating expenses	5 years
Others	5 years or benefit periods

The pre-operating expenses are expenses for setting up of certain subsidiaries and amortization commences in the first year of operation of the subsidiaries.

Investments

Listed and unlisted investments held for long term investment purpose are stated at cost less provision for permanent diminution in value.

Short-term investments are stated at the lower of cost market value or net realizable value at the balance sheet date. Dividend income from investments is accounted when dividends are declared or received.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out or weighted average basis and comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Value added tax

Value added tax is calculated in accordance with the relevant tax laws of the PRC, expressed in the 'Output Tax' of purchase, which is not included in sales income, and cost of purchase. Except in special situation, value added tax will affect the profit and loss account. For goods manufactured and sold in Shenzhen ESZ, the value added tax is exempted in accordance with the local tax regulations of the Shenzhen city. Excess output over input value added tax is dealt with in the profit and loss account as an exceptional item.

4.SUBSIDIARIES

At 31 December, 1999 the Company held the following subsidiaries

(a) Subsidiaries held at 31 December, 1999

Company Name	Registered Capital	Proportion of Shares Held		Principal Activities	Consolidat-ed or not
	'000	1999	1998		
Shenzhen SPEC Investment & Development Co., Ltd.	RMB40,000	100%	100%	Security investment and consulting	Yes
Shenzhen SPEC Fine Chemical Co., Ltd.	RMB2,870	100%	100%	Petrochemical products manufacturing and trading	Yes

Shenzhen SPEC (Holding) Technical Center	RMB2,100	100%	100%	Petrochemical products development	Yes
Shenzhen SPEC Printing Co., Ltd.	RMB1,510	100%	100%	Printing	Yes
Shenzhen SPEC Keyi Fine Chemical Co., Ltd.	RMB1,000	100%	100%	Fine chemicals manufacturing and trading	Yes
Shenzhen SPEC Donghong Laminating & Coating Fabrics Co., Ltd.	RMB80,000	75%	75%	Laminating and coating	Yes
Shenzhen SPEC Beauty Star Fotas Plastics Co., Ltd.	USD2,300	70%	70%	Plastic products manufacturing	Yes
Shenzhen SPEC Plastics Co., Ltd.	RMB9,930	65.405%	65.405%	PVC material manufacturing and trading	Yes
Shenzhen SPEC Fibers Co., Ltd	USD3,203	51%	51%	Chemical fibers manufacturing	Yes
Shenzhen SPEC Bio-Pharmaceutical Industry Co., Ltd.*	RMB53,000	100%	100%	Bio products development	Yes
Shenzhen Tongda Packing Products Co., Ltd.**	RMB3,500	100%	100%	Packing materials manufacturing	No
Shenzhen SPEC Home Appliance Accessory Co., Ltd.**	RMB4,130	51.57%	51.27%	Home appliances repairing and maintenance	No

*. This company was purchased under the restructuring plan in June, 1999. From July, 1999, it is included in the consolidation in preparation of the statutory financial statements.

**.These subsidiaries have been contracted out to third parties and are in liquidation. The Board of Directors is of the opinion that these companies' operating results and net assets have no significant effect on the Company. Therefore, they have not been included in the consolidation.

(b) Subsidiaries transferred at 30 June, 1999 under the restructuring plan

Company Name	Registered Capital	Proportion of Shares Held		Principal Activities	Consolidat-ed or not
	'000	1999	1998		No
Shenzhen SPEC Petroleum Co., Ltd.	RMB1,410	5%	100%	Petrochemical products manufacturing and trading	No
Shenzhen SPEC Chemicals Co., Ltd.	RMB19,000	10%	100%	Petrochemical products manufacturing and trading	No
Shenzhen SPEC Import & Export Co., Ltd.	RMB8,000	5%	100%	Imports and exports	No
Shenzhen SPEC Real Estate Co., Ltd.	RMB50,000	5%	100%	Property development	No
Shenzhen SPEC Storage & Transportation Co., Ltd.**	RMB3,000	5%	100%	Petrol station, car rental and transport services	No
Shenzhen SPEC New Technical Development Co.	RMB9,610	10%	100%	Computer technology	No
Shenzhen SPEC Mian Dian Wang Food Chain Co., Ltd.**	RMB6,000	5%	60%	Food serving	No
Shenzhen SPEC Liquid Chemical Co., Ltd.**	RMB5,000	5%	100%	Liquid chemical trading	No
Shenzhen SPEC Information & Advertisement Co., Ltd.**	RMB5,000	5%	100%	Advertising	No
Shenzhen SPEC Property Management Co., Ltd.**	RMB1,000	10%	100%	Company-owned properties management	No
Shenzhen Dahua Chemicals Co., Ltd.**	RMB2,000	10%	100%	Chemical materials trading	No
Shanghai SPEC (Shenzhen) Industrial Co., Ltd.	RMB10,000	----	100%	Imports & exports	No
Shenzhen SPEC (Hongkong)	HKD10	----	100%	General trading	No

Co., Ltd.					
Shenzhen SPEC (Macao) Co., Ltd.	ESC1,030	----	100%	Imports & exports	No
Shenzhen SPEC Development (Singapore) Private Co., Ltd.	S$1,000	----	60%	General trading	No
Shenzhen SPEC Overseas (Holding) Co., Ltd.	S$1,000	----	100%	General trading	No

Shares in these subsidiaries have been transferred to Shenzhen Petrochemical Corporation under the restructuring plan in June.1999. Therefore, they were not included in consolidation from July, 1999. Operating results before June, 1999 have been in included in share of profits from associated companies in the profit and loss account. Details of circumstances of company restructuring are described in Note 27.

5.OPERATING PROFIT (LOSS) BEFORE EXCEPTIONAL ITEMS

	1999	1998
	RMB'000	RMB'000
Operating profit before exceptional items has been arrived at after charging:		
Cost of goods sold	523,991	487,286
Depreciation and amortization of fixed assets	33,940	26,971
Provision for bad and doubtful debts	54,337	8,977
Amortization of deferred expenditure	3,908	2,100
Loss on disposal of fixed assets	259	1,024
Rentals in respect of premises under operating leases	4,068	3,365
Interest on bank loans	67,292	29,328
Exchange loss, net	94	1,079
Auditors' remuneration	600	1,200
Loss on disposal of marketable securities	(934)	(924)
and after crediting:		
Interest income	42,224	66,177
Exchange gains, net	705	1,447
Rental income	11,431	901
Gain on disposal of marketable securities	2,294	782
	=====	====

6. EXCEPTIONAL ITEMS

	1999	1998
	RMB'000	RMB'000
Income tax exemption	---	250
Value added tax exemption	9,922	8,831
Profit on partial disposal of subsidiary Companies (exempted from operating taxes)	___	3,526
Others	90	___
	10,012	12,607
	=====	=====

7. INCOME TAXES

Income taxes in the profit and loss account represent the PRC income tax provided during the year. Profits earned by the Group are charged for income taxes at rates ranging from 15% to 33% except certain subsidiaries and associated companies, which have been granted exemption. In accordance with the relevant income tax laws applicable to Sino-foreign joint venture enterprises in the PRC, certain sino-foreign joint venture enterprises of the Group have been granted full exemption from income taxes for two years starting from the first profitable year of operation and a 50 percent reduction for the following three years. Income tax charge includes RMB 283,108 in respect of the Group's share of tax charge of associated companies.

8. DIVIDENDS

A detailed profit distribution proposal is proposed by the Board of Directors according to the operational results and development requirements of the company and is submitted to the shareholders at the annual general meeting for approval. Under the proposal of the Board of Directors, no bonus shares dividends and cash dividends will be distributed for 1999.

9. EARNINGS PER SHARE

The calculation of earnings per share is based on the loss of RMB 117,447,517.29 to shareholders for the year of 1999 (1998: profits of RMB 2,905,715.47) on 303,354,979 A shares and B shares of RMB 1.00 per share in issue.

10. FIXED ASSETS

	31,December,1999			
Items	Opening Balance	Additions	Disposals	Closing Balance
	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation				
Construction in progress	65,956	133,337	100,859	98,434
Land and buildings	351,682	47,700	22,688	376,694
Machinery and equipment	252,837	79,846	4,683	328,000
Motor vehicles	28,022	5,126	11,616	21,532
Furniture, fixtures and office equipment	24,158	10,653	2,859	31,952
Leaseholds improvements	5,760	2,089	___	7,849
Fixed assets held under Finance lease	24,896	___	___	24,896
Total	753,311	278,751	142,705	889,357
Depreciation				
Construction in progress	___	___	___	___
Land and buildings	42,312	9,542	1,912	49,942
Machinery and equipment	143,747	14,491	2,236	156,002
Motor vehicles	15,167	3,887	8,237	10,817
Furniture, fixtures and office equipment	11,609	3,647	1,214	14,042
Leasehold improvements	2,100	1,076	___	3,176
Fixed assets held under finance lease	3,719	2,374	___	6,093
Total	218,654	35,017	13,599	240,072
Net book value	534,657			649,285

Fixed assets were appraised in 1991 by Zhonghua (Shenzhen) Certified Public Accountants. Valuation surpluses were reflected in the share capital and capital reserve of the Group. The Group's land and buildings are located in the PRC and are held under long-term leases.

11. DEFERRED EXPENDITURES

	Pre-operating Expenses	Technical Know-how	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value at 1 January, 1999	4,427	___	1,395	5,822
Additions	5,289	17,000	21	22,310

Amortization	1,956	___	942	2,898
	_____	_____	____	______
Net book value at 31 December, 1999	7,760	17,000	474	25,234
	=====	=====	====	=====

12. INTERESTS IN ASSOCITED COMPANIES

	1999	1998
	RMB'000	RMB'000
Share of net assets	28,949	70,389
Amount due from associated companies	___	55,250
Amount due to associated companies	___	14,901
	_____	_______
	28,949	110,738
	=====	======

As at 31 December 1998, principal associated companies were:

Name of Company	Percentage of Shares Held		Principal Activities
	1999	1998	
Shenzhen SPEC Kinglion Plastics Co., Ltd.	50%	50%	Plastic products manufacturing and trading
Shenzhen SPEC Electric Appliance trade Industrial Co., Ltd.	30%	100%	Plastic products manufacturing and
Shenzhen SPEC Petrochemical Jinxin Chemical Electronic Instruments Co., Ltd.	30%	30%	Chemical, electronic instruments manufacturing and trading
Shenzhen Best Plastics Color-Printing Co., Ltd.	25%	25%	Printing
Shenzhen Biltrite-SPEC Soling Co., Ltd.	25%	25%	Soling materials manufacturing
Shenzhen SPEC Xianjin Gas Station	50%	100%	Petroleum products trading

13. LONG TERM INVESTMENTS

	1999	1998
	RMB'000	RMB'000
Unlisted shares, at cost	77,328	76,155
Listed shares, at cost	20,689	21,689
Less: provision	49,317	49,257
	______	______
	48,700	48,587
	=====	====

14. NET CURRENT ASSETS (LIABILITIES)

	1999	1998
	RMB'000	RMB'000
CURRENT ASSETS		
Inventories (Note 15)	110,595	91,188
Debtors, deposits and prepayments *	1,449,978	1,157,429
Short term investments (Note 16)	5,669	9,414
Bank balances and cash	113,780	127,170
	________	________
	1,680,022	1,385,201
	________	________
CURRENT LIABILITES		
Creditors and expenses payable	245,787	263,048
Income tax payable	4,536	3,331

Provision for staff welfare and bonuses	2,799	3,364
Proposed dividends	___	___
Loans-due within one year (Note 17)	1,460,377	1,452,942
	1,713,499	1,722,685
	(33,477)	(337,484)
	=======	=======

* Debtors include unpaid share capital and share premium of RMB 26,233,250.00 receivable from corporate shareholders and amount of capital together with accrued interest totaling RMB 4,133,009.00 refunded to the underwriter responsible for the issuance of new shares in 1992. The circumstances giving rise to the receivable and refund are being examined by the Shenzhen Securities Management Office and the Shenzhen State-owned Properties Management Bureau. The directors are of opinion that the above balances totaling RMB 31,750,169 may not be recoverable and are seeking advice from the above authorities for the proper treatment of these balances.

15. INVENTORIES

	1999	1998
	RMB' 000	RMB' 000
Raw materials, less provision	44,512	29,958
Work in progress	9,040	53,021
Finished goods, less provision	57,043	8,209
	110,595	91,188
	======	======

16.SHORT TERM INVESTMENTS

	1999	1998
	RMB' 000	RMB' 000
Listed shares ,at cost*	7,582	12,291
Unlisted shares, at cost	___	___
Provision	(1,949)	(2,883)
	5,633	9,408
Government bonds	36	6
	====	=====
Market value of listed shares	5,669	9,414
	====	=====

*.The market value of these shares is RMB 5,633,000.00 at 31 December, 1999.

17. LOANS

	1999	1998
	RMB' 000	RMB' 000
Bank loans:		
Secured		
-within one year	92,096	144,134
Unsecured		
-within one year	1,368,281	1,308,808
-one to five years	31,243	36,088
	1,491,620	1,489,030
	=======	=======
Payables:		
-within one year	1,460,377	1,452,942

	1999	1998
-one to five years	31,243	36,088
	1,491,620	1,489,030

18. LONG TERM PAYARLES

	1999 RMB'000	1998 RMB'000
Government funds	25,421	6,241

19. SHARE CAPITAL

	1999 RMB'000	1998 RMB'000
Registered, issued and paid-up (303,354,979 shares in total)		
"A" Shares of RMB1.00 per share	270,595	270,595
"B" Shares of RMB 1.00 per share	32,760	32,760
	303,355	303,355

20. RESERVES

	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January, 1999	228,355	135,095	4,698	368,148
Retained profits for the year	—	—	(117,448)	(117,448)
Profit distribution				
-transferred to surplus reserve	—	2,019	(2,019)	—
Adjustments to opening surplus reserves *	—	(26,154)	26,154	—
Reversal of capital reserve	9,358	—	(9,358)	—
Capital reserve transferred	(3,769)			(3,769)
Others	(558)	(19,108)	—	(19,666)
At 31 December, 1999	233,386	91,852	(97,973)	227,265

The 1999 profit distribution proposal submitted by the Board of Directors for the approval by shareholders at the annual meeting 1999 was as follows:

a. 10% of net profit of RMB 10,098,265.00 will be transferred to the statutory surplus reserve and statutory public welfare fund.
b. No cash dividends or bonus shares dividends will be distributed this year.

* The adjustments of opening surplus reserves arising from changes in accounting polices and estimates in preparation of the statutory financial statements of 1999 are made in accordance with instructions given by the Corporation Limited Company Accounting Policy of PRC and the document No.35 (1999) issued by the Ministry of Finance.

Capital reserve

According to relevant PRC regulations, capital reserve can only be utilized to increase share capital.

Surplus reserves

a. Statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of the reserves due to losses incurred, any other usage should not result in the reserves falling below 25% of the registered capital.

b. Statutory public welfare fund

According to relevant PRC regulations, the usage of the statutory public welfare fund is restricted to capital expenditures for employee welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except in liquidation.

21. SEGMENTAL SALES AND PROFIT BEFORE TAXATION

	Sales	Profit before taxation
	RMB'000	RMB'000
Industrial	611,860	(19,183)
Multiple-production	29,172	(78,076)
	641,032	(97,259)

22. PRINCIPAL TRANSACTIONS WITH ASSOCIATED COMPANIES

I. Principal transactions

(1) Interest income from associated companies:

Name of Associated Company	1999	1998
	RMB'000	RMB'000
Shenzhen Petrochemical Corporation	41,029	63,828
Shenzhen Petrochemical Trading Group Co., Ltd.	48	—
Shenzhen Jinliyu Petroleum Co., Ltd.	—	261
Total	41,077	64,089

(2) Share of general administration expenses

The share of general administration expenses to the major shareholder, Shenzhen Petrochemical Corporation before restructuring

Name of Associated Company	1999	1998
	RMB'000	RMB'000
Shenzhen Petrochemical Corporation	4,462	9,329

(3) The receivables and payables to the major shareholder, Shenzhen Petrochemical Corp. for transferring partial subsidiaries and investments under the restructuring plan:

Name of Associated Company	Transferring price	Purchasing Price	Net
	RMB'000	RMB'000	RMB'000
Shenzhen Petrochemical Corp.	461,116	53,500	407,616

(4) Accrued rental income

The rental income from the associated companies is as follows:

Name of Associated Company	1999	1998
	RMB'000	RMB'000

Shenzhen SPEC Property Management Co., Ltd (a subsidiary of Shenzhen SPEC Real Estate Co., Ltd.)	9,067	____

II. Account balances of associated companies

Item	1999 RMB'000	1998 RMB'000
(1)Accounts receivable		
Shenzhen Petrochemical Trading Group Co., Ltd. and its subsidiaries	1,086	5,173
(2)Other Receivables		
Shenzhen Petrochemical Corp.	1,189,413	481,447
Shenzhen Petrochemical Trading Group Co., Ltd. and its subsidiaries	15,106	12,424
Shenzhen SPEC Real Estate Co.,Ltd and its subsidiaries	16,857	3,346
Shenzhen Kehongda Industrial Co., Ltd.	590	____
Shenzhen Jinliyu Petroleum Co., Ltd.	900	1,299
(3) Accounts payable		
Shenzhen Petrochemical Trading Group Co., Ltd. and its subsidiaries	1,242	4,710
(4) Other receivables		
Shenzhen Petrochemical Trading Group Co., Ltd. and its subsidiaries	22,235	13,022
Shenzhen SPEC Real Estate Co.,Ltd and its subsidiaries	4,802	2,749

23. CONTINGENT LIABILITIES

At 31 December, 1999, the Group had provided irrevocable guarantees for short-term loans granted to other companies totaling RMB 1,933,198,000.00 . .

1) The Company provide guarantees for bank loans for the following external companies

Name of Enterprise	Guaranteed Loans ('000)				Loan Period
	RMB	HKD	USD	RMB(in total)	
Shenzhen Jinliyu Petroleum Co., Ltd.	18,000		2,000	34,600	11 Dec.1998-10 June,2000
Shenzhen Zhonghao Group Co., Ltd.	73,000	10,000		83,700	4 Feb. 1993-30 April,1996
Shenzhen Tellus Holdings Co., Ltd.	6,000	6,000	6,000	62,220	26 Dec,1995-26 Dec,2000
Shenzhen Sunlight Industrial Co., Ltd.	34,200	1,800		36,126	7 June,1996-1st Sept, 1999
Shenzhen Aike Chemicals Co., Ltd.	3,000			3,000	31 Dec, 1997-31 Dec,2000
Shenzhen Hongling Investment & Development Co., Ltd.	2,000			2,000	31 Dec, 1997-31 Dec,2000
Shenzhen Xinanfang Investment & Development co., Ltd.	3,400			3,400	23 Jan,1997-23 Aug, 1997
China Aidi Group Corporation	41,000			41,000	29Sept, 1999-24 Aug,2000
Gintian Industry (Group) Co., Ltd.	97,400		4,000	130,600	4 April, 1998-25 Oct, 2000
Shenzhen Shun Kong Industrial & Trading Co.	22,500	1,500		24,105	28June,1999-31 July,2000
Shenzhen Neptune Tonghai Pharmaceutical Co., Ltd.	30,000			30,000	19May,1998-19 May, 1999
Shenzhen Lionda Holdings Co., Ltd.	176,200	24,000	15,960	334,348	12Aug,1997-1stMar,2000
China Baoan Group Co., Ltd.	137,000	21,500	1,000	168,305	16 Nov,1998-30 July,2000
Shenzhen Neptune Group Co., Ltd.	252,000			252,000	18 Jan, 1999-29 June,2000
China Kejin Co., Ltd.	25,000			25,000	31 Aug,1999-31 Aug,2000
Total	920,700	64,800	28,960	1,230,404	

2) The company provided guarantees for bank loans totaling RMB 518,219,000.00 for the following associated companies

Name of Company	Guaranteed Loans ('000)				Loan Period
	RMB	HKD	USD	RMB(in total)	
Shenzhen Dahua Chemicals Co., Ltd.	6,000			6,000	27 April, 1994 ---9 May, 2000
Shenzhen SPEC Jinxin Chemical Electronics Co., Ltd	110,930	11,500	15,000	247,735	4 July, 1997 ---29 June, 2000
Shenzhen SPEC Chemicals Co., Ltd.	12,000		6,300	64,290	27 Sept, 1996 13 Aug,1999
Shenzhen SPEC Liquid Chemicals Co., Ltd.	8,000		5,000	49,500	14 Feb,1999 ---30 June, 2000
Shenzhen SPEC Petroleum Co., Ltd.	5,000		1,741	19,450	27 Oct, 1997 ---20 Jan, 1999
Shenzhen Lanbo Industrial Co., Ltd.	8,000			8,000	20 March,1999 ---20 Sept, 1999
Shenzhen SPEC Real Estate Co., Ltd.	51,300			51,300	18 Dec,1997 ---13 May, 2001
Shenzhen SPEC Art Decoration Engineering Co., Ltd.	1,300			1,300	23 June,1999 ---23 April, 2000
Huizhou Daya Bay Shenpeng Petrochemical Co., Ltd.	20,000			20,000	1st April, 1999 --31 March,2000
Shenzhen Best Color-Printing Co., Ltd.	12,500			12,500	3 Nov,1998 ---3 Nov, 1999
Shenzhen SPEC Electric Appliance Industrial Co., Ltd.	15,500			15,500	5 Aug,1998 ---5 May,2001
Shenzhen SPEC Import & Export Co., Ltd.	2,000			2,000	26 March,1998 --26 March,2000
Shenzhen SPEC Mian Dian Wang Food Chain Co., Ltd.	1,500			1,500	16 Sept,1999 ---17 sept,2000
Shenzhen SPEC Petroleum Storage Co., Ltd.			8,645	71,754	4 Jan,1998 ---17 Feb, 2000
Shenzhen Haipeng Import & Export Co., Ltd.	10,390			10,390	29 July,1999 ---30 April,2000
Total	264,420 ======	11,500 ======	36,686 ======	581,219 ======	

3) The Company provided guarantees for bank loans totaling RMB 121,575,000.00 for the following subsidiaries. These loans have been included in the consolidated balance sheet.

Name of Subsidiaries	Guaranteed Loans ('000)			Loan Period
	RMB	USD	RMB(in total)	
Shenzhen SPEC Keyi Fine Chemicals Co., Ltd.	1,000		1,000	1st Sept,1998 ---1st May, 1999
Shenzhen SPEC Silicon Material Co., Ltd.	8,000	387	11,212	26 March, 1998 ---1st Aug, 2000
Shenzhen Petrochemical Sanfan Additives Co., Ltd	2,700		2,700	18 Aug,1997 ---29 June,2000
Shenzhen SPEC Chemical Construction Materials Co., Ltd.	1,000		1,000	12 Dec,1997 ---12 Dec,1999
Shenzhen SPEC Fibers Co., Ltd.		1,000	8,300	4 July,1997 ---4 July,1998
Shenzhen SPEC Fine Chemicals Co., Ltd.	3,900		3,900	8 Oct, 1996 ---18 Nov,2001
Shenzhen SPEC Beauty Fonda Plastics Co., Ltd.	1,500		1,500	2nd Feb,1999 ---2nd Feb,2000
Shenzhen SPEC Plastics Co., Ltd.	37,000	6,622	91,863	27 Jan,1994 ---23 May, 2001
Total	55,100 ======	8,009 ======	121,575 ======	

24. PLEDGE OF ASSETS

At 31 December, 1999, the Group pledged the following assets to secure bank and other loans obtained in the PRC totaling RMB 32,330,000.00 and HKD 50,500,000.00 respectively.

Assets Pledged	Marketable Value	Bank Name	Amount		Loan period
	RMB' 000		RMB' 000	HKD' 000	
Fixed assets					
401#,office building Shangbu Industrial District	82,500	China Merchants Bank	_____	50,000	11 June,1999 -11 June,2000
403#,office building Shangbu Industrial District	53,230	Bank of China, Shenzhen Branch	28,000	_____	24 Nov,1998 -24 Nov,2001
4th and 5th Floor, 402#, dormitory building, Shangbu Industrial District	6,469	China Industrial and Commercial Bank, Shenzhen Branch	3,500	_____	1st June,1999 -1st June,2000
Machinery equipments		China Merchants Bank, Shenzhen Branch	_____	500	28 Dec,1999 -28 Dec,2000
Currency capital					
Fixed deposit in Bank	4,500	Ningbo Rural Credit Cooperative	830	_____	6 Dec,1999 -5 April,2000
Total			32,330	50,500	

25. CAPITAL COMMITMENTS

In August,1998, the Company signed a contract with Good Nation investment Co., Ltd. (the "Good Nation"), a subsidiary currently held by Shenzhen Petrochemical Trading Group Co., Ltd. to jointly establish Shenzhen SPEC Donghong Laminating & Coating Fabrics Co., Ltd. The registered capital is RMB 80,000,000.00 . The Company and the Good Nation held shares of 75% and 15% respectively. At the balance sheet date, investments of RMB 39,700,000.00 have been made. An amount of RMB 20,300,000.00 is required for further investment .

26. LITIGATION

(1) In November ,1997, as the guarantor of Shenzhen Bijishan for banking facilities, the Company refunded USD3,000,000.00 according to a court order issued by the Shenzhen Futian District People's Court. The payment has been included in debtors. The company is in the process of recovering the payment from the original accommodator through legal channel. Full provision for bad debts of the above amount has beenprovided .

(2) At the balance sheet date, the Company has an amount of RMB 2,237,411.93 frozen by courts for being guarantors for banking facilities granted to the third parties. The law case is currently under appeals to the higher court.

(3) Being guarantors for Shenzhen Hongling Investment and Development Co., Ltd. and Shenzhen Xinanfang Investment and Development Co., Ltd. for bank loans of RMB 2,000,000.00 and RMB 3,400,000.00, the Company has paid litigation fees of RMB 21,662.00 and RMB15,360.00 respectively for the law cases concerning failure to repay the above loans by these two companies .

27. COMPANY RESTRUCTURING EVENTS

In accordance with the proposal for strategic restructuring plan which has been approved by the Shenzhen State-owned Property Management Committee, Shenzhen Investment Management Co., and the shareholders present at 1998 annual meeting, the Company signed the contract for transferring enterprises under the strategic restructuring plan with its major shareholder, Shenzhen Petrochemical Corporation on 28 June, 1999. Under the restructuring plan, the Company transferred shares in non-industrial subsidiaries and associated companies worth RMB

41,600,000.00 to Shenzhen Petrochemical Corporation and at the same time purchased shares of industrial enterprises worth RMB 53,000,000.00 originally held by Shenzhen Petrochemical Corporation. The industrial enterprises transferred in trading section formed a group company named Shenzhen Petrochemical Trading Group Co., Ltd. (the "Trading Group") and enterprises in real estate development section were transferred to Shenzhen SPEC Real Estate Co., Ltd.. (the "Real Estate Group"). After company restructuring, the Company, the Trading Group and the Real Estate Group became subsidiaries of Shenzhen Petrochemical Corporation.

(1) Circumstances of companies transferred (purchased) under the restructuring plan

a. Companies transferred

Name of Company	Shares Held	Transferring Price RMB'000	Purchaser	
Shenzhen SPEC Storage & Transportation Co., Ltd.	95%	7,426	Trading Group	*
Shenzhen SPEC Petroleum Storage Co., Ltd.	51%	42,011	Trading Group	*
Shenzhen Liquid Chemical Co., Ltd.	95%	4,600	Trading Group	*
Shenzhen SPEC Import & Export Co., Ltd.	95%	1,458	Trading Group	*
Shenzhen Dahua Chemicals Co., Ltd.	90%	11,304	Trading Group	*
Shenzhen SPEC Mian Dian Wang Food Chain Co., Ltd.	55%	7,534	Trading Group	
Shenzhen SPEC Chemicals Co., Ltd.	90%	17,871	Trading Group	*
Shenzhen SPEC Petroleum Co., Ltd.	95%	(13,280)	Trading Group	*
Shanghai SPEC (Shenzhen) Industrial Co., Ltd.	100%	9,369	Trading Group	
Shenzhen SPEC New Technical Development Co., Ltd.	90%	2,981	Trading Group	*
Shenzhen SPEC Petroleum Bonded Trading Co., Ltd.	100%	4,000	Trading Group	
Shenzhen SPEC Shennan Petroleum (Group) Co., Ltd.	20.1%	109,562	Trading Group	*
Shenzhen Gongming Gas Station	40%	2,155	Trading Group	
Beijing Shenshun Gas station	50%	13,849	Trading Group	
Beijing Shenshun Plastic Products Co., Ltd.	50%	10,000	Trading Group	
Shenzhen Shanghai Hongguang (Shenzhen SPEC) United Development Co., Ltd.	37.5%	3,750	Trading Group	
Shenzhen Asia-pacific Commerce and Trade Co., Ltd.	14%	2,575	Trading Group	
LDE (SPEC) Private Co., Ltd.	49%	30,341	Trading Group	
Shenzhen SPEC Real Estate Co., Ltd.	95%	140,676	Petrochemical Corp.	*
Shenzhen SPEC Property Management Co., Ltd.	90%	2,664	Real Estate Group	*
Shenzhen SPEC Bantian Gas station	51%	1,020	Trading Group	
Shenzhen SPEC Vehicle Maintenance Co., Ltd.	50%	500	Real Estate Group	*
Shenzhen SPEC Art Decoration Engineering Co., Ltd.	25%	4,093	Real Estate Group	*
Shenzhen SPEC Information & Advertisement Co., Ltd.	95%	(410)	Real Estate Group	*
Shenzhen SPEC Overseas(Holding)Co., Ltd.	100%	2,719	Trading Group	
Shenzhen Products (Singapore) Trade Center	60%	2,870	Trading Group	
Shenzhen SPEC (Hongkong)Co., Ltd.	100%	(424)	Trading Group	
Shenzhen SPEC (Macao)	100%	1,640	Trading Group	
Good Nation Investment Co., Ltd.	100%	42,230	Trading Group	

a. Companies Transferred (continued)

Total	465,084
Less: share of profits from the above companies from January to June 1999.	3,967
Total price for companies transferred	461,117
	=======

b. Company purchased

Name of company	Shares Held	Purchasing Price RMB'000	Transferor	Notes
Shenzhen SPEC Bio-Pharmaceutical Industry Co., Ltd.	100%	53,000	Shenzhen Petrochemical Corporation	In pre-operation

At the balance sheet date, companies with "*" have completed procedures for re-registration for alteration of shareholders. Other companies are in process of re-registration.

(2) Circumstance of transaction settlements during restructuring

Item	Amount RMB'000
Cash received	30,000
Loans in Shenzhen Petrochemical Corporation's internal clearing center eliminated	250,000
External bank loans transferred with procedures Completed	150,000
Total	430,000
	=======

28.FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a. Credit risk

Accounts and bills receivable of the Group are spread among a number of customers in the PRC. The carrying amounts of financial assets best represent their maximum credit risk exposure at the balance sheet date.

b. Fair value

Financial assets of the Group include cash and bank balances, accounts and bills receivable, other receivables and deposits, amounts due from associated companies and investments. Except for long term investments and properties for sale under development, provisions have been made to reduce the carrying value of financial assets to their estimated realized value, which is not materially different from their fair value.

The market value of listed investments in disclosed in note 16. There is no quoted market price for equity investment in unlisted companies (note 13) and accordingly a reasonable estimate of their fair value could not be made without incurring excessive costs. Financial liabilities of the Group include bank loans due to associated companies, accounts payable and other payables. The carrying value of short-term financial liabilities is estimated to approximate their fair value due to the short -term nature of these instruments. The Board of Directors of the Company are therefore of the opinion that there is no material difference in the fair value and carrying value of the Group's financial assets and financial liabilities and adequate provision has been made for the Group's financial assets.

29.IMPACT OF IAS ADJUSTMENTS ON NET PROFIT AND NET ASSETS

	Net profit 1999 RMB'000	Net assets 1999 RMB'000
As reported in the "A" shares consolidated audited statutory financial statements under PRC accounting standards	10,098	530,618
IAS and adjustments:		
Provision for bad and doubtful debts and other liabilities	(77,119)	
Provision for inventories lower of cost and realizable value	(6,509)	____
Provision for loss on investments	(43,918)	____

Amount of adjustments	(127,546)	
As reported after IAS adjustment in the "B" shares financial statements	(117,448)	530,618

30. PRIOR YEAR COMPARATIVE FIGURES

Certain comparative figures have been appropriately reclassified to conform to the presentation of the financial statements for the current year.

31. LANGUAGE

The translated English version of the consolidated financial statements is for reference only. Shouldany disagreement arises, the Chinese version shall prevail.