SHANDONG CHENMING PAPER HOLDINGS LIMITED
Annual Report 1999
On the Basis of International Accountancy Standard

Important Notice: The Board of Directors guarantee that there is not any fault record, misleading presentation or major omit in this report. And the Board of Directors will take the related responsibility for the truthfulness, integrity and accuracy. This is a summary of the Annual Report, for the detailed information please refer to the Annual Report. This report is prepared both in English and Chinese. In case of any conflicting, the Chinese version will be prevail.

I. Company Profile

1) Legal Name of the Company
(In Chinese): **山东晨鸣纸业集团股份有限公司**
(In English)：SHANDONG CHENMING PAPER HOLDINGS LIMITED
Abbreviation of the name ： SCPH
2) Legal Representative：Mr. Chen Yongxing
3) Secretary of the Board: Mr. Hao Yun
Liaison Address: No. 595 Shencheng Rd., Shouguang City, Shandong Prov.
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4) Registered Office Address : No. 595 Shencheng Rd., Shouguang City, Shandong Prov.
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Website: http://www.chen ming paper.com
5) Information Disclosing Medias: China Securities, Security Times and Hong Kong Commercial Daily.
Annual Report available on the Internet: http://www.cninfo.com.cn
Annual Report (Original) available at: The Capital Operation Department of the Company
6) Shares Listed on : Shenzhen Stock Exchange
Abbreviation of the share: Chenming B, Share Code: 2488

II. Financial Information and Business Information (Summary)

1) Major profit index of the fiscal year (RMB'000)

(1) Total of profit	343,692
(2) Net profit	179,638
(3) Profit from major businesses	575,526
(4) Profit from other businesses	66,262
(5) Operation profit	261,112
(6) Profit from investment	950
(7) Net cash flow generated by business operation	-244,208

(8) Net increase of cash and cash equivalence 59,904

For the reference of the investors, The Company has produced the Financial Statement in accordance with both the International Accountancy Standard and China Accountancy Standard. , The Net Profit stated by the overseas accountants is RMB179,638,000 (consolidated). And the Net Profit stated by the domestic accountants is RMB173,348,000 (consolidated) which is RMB6,290,000 larger than the statement of domestic accountants. This is caused by (a) deduct of goodwill and related amortizing generated by internal evaluation, increased the net profit by RMB1,578,000. (b)The adjustment of bad debt and suspected debt reserves generated an increase of profit by RMB4,915,000 (c) other adjustment, decreased the net profit by RMB203,000.

2) Major financial indexes and accountancy data of 3 years period before the end of this period.

Items	1999	1998	1997
Turnovers (RMB'000)	1,720,308	1,070,233	778,956
Net profit (RMB'000)	179,638	131,960	188,076
Total asset(RMB'000)	3,294,918	2,410,993	1,759,520
Shareholders' equity(RMB'000) (Minority shareholders' equity not included)	1,319,347	1,139,294	1,005,299
Profit per share (RMB/share)	0.47	0.344	0.59
Profit per share (weighted, RMB/share)	0.47	0.344	0.59
Net asset per share (RMB/share)	3.44	2.97	3.15
Adjusted net asset per share(RMB/share)	3.36	2.89	3.09
Cash flow per share generated by business operation	-0.64	0.62	0.34
Net profit – asset ratio(%)	13.62	11.58	18.71

Calculation method of major financial index:

- Profit per share = net profit / total normal shares at the end of year
- Net asset per share = shareholders' equity at the end of year / total normal shares at the end of year
- Adjusted net asset per share = (shareholders' equity – net accounts receivable over 3 years – expenses to be amortized – net loss of (current and fixed) assets to be processed – initial expenses – long term expenses to be amortized – minus balance of resident building current found) / total normal shares at the end of year
- Net cash flow per share generated by business operation = net cash flow generated by business operation / total normal shares at the end of year
- Net profit-asset ratio = net profit / shareholders' equity at the end of year x 100%

3) Changes of shareholders' equity and it's reason

Item	Share capital	Capital public reserves	Surplus public reserves	Legal public welfare	Profit to be distributed	Total of shareholders' Equity
At the beginning	383,397,931	470,265,835.76	133,447,016.08	41,119,692.74	185,515,699.80	1,172,626,482.64
Increased	--	373,831.68	34,669,732.10	17,334,866.05	138,678,928.44	173,722,492.22
Decreased	--	5,134,705.00	--	--	--	5,134,705.00
At the end	383,397,931	465,504,962.44	168,116,748.18	58,454,558.79	324,194,628.24	1,341,214,269.86

Reason for the changes:

(1) The decrease of capital public reserves: In 1997, the Company has invested on shareholding of Wuhan Chenming Paper Holdings Co., Ltd. The deference between the investment and owner's equity was booked as "Capital public reserves" in debt account. And this account was booked as "Balance of long-term share equity investment" in accordance with the new version of accountancy standard.

(2) The increase of surplus public reserves was caused by withdrawing of net profit at this period.
(3) The increase of legal public welfare was caused by withdrawing of net profit at this period.
(4) The increase of profit to be distributed was caused by the increase of net profit.
(5) The increase of shareholders' equity was caused by the increase of net profit.

III. The Changes of Shares and Shareholders.

1) Changes in shares

(1) Form of Changes in shares (in shares)

	Before the changing	Decrease/increase	After the changing
I. Shares not in circulation			
1. Promoter's shares	173,204,822		173,204,822
Including:			
State-owned shares	142,371,440		142,371,440
Domestic legal person shares	4,123,791		4,123,791
Overseas legal person shares	26,709,591		26,709,591
Others			
2. Legal person shares raised			
3. Employee's shares	49,193,109		49,193,109
4. Preference shares or others			
Including: shares altered and allocated			
Total of shares not in circulation	222,397,931		222,397,931
II. Shares in circulation			
1. Regular shares in RMB			
2. Foreign shares listed in domestic market	161,000,000		161,000,000
3. Foreign shares listed in overseas market			
4. Others			
Total of shares in circulation	161,000,000		161,000,000
III. Total of shares	383,397,931		383,397,931

(2) Status of share listing and placing

a. The Company has placed 0.115 billion B shares to the overseas investors during May 8, to May 12, 1997. The listed price is HKD4.43, and was listed in Shenzhen Stock Exchange. The amount approved to be placed is 0.115 billion shares. The current B share is 0.161 billion shares on February 12, 1998 after the capital share increasing on the ratio of 10:4 in the interim of 1997

b. There is no changes occurred to the shares and shareholding structure during the period.

c. In March 1993, the Company has raised 18,591,500 employee's shares on the price of RMB1.2 each. After allocating of the past years, it has increased to 49,193,109 shares.

2) Introduction to the shareholders

(1) There are totally 9711 shareholders at the end of period.
(2) The status of major shareholders, (top 10)

The status of major shareholders, (top 10)

Order	Name of shareholder	Shares held at the end of period	Ratio %
1	Shouguang municipal state-owned assets administration bureau	142,371,440	37.13
2	Kwong wah investment (shouguang) limited	26,709,591	6.97
3	BONY A/C CMG CH CHINA INVESTMENTS LIMITED	3,536,710	0.92
4	GUANGDONG DEVELOPMENT FUND LTD	2,813,161	0.73
5	Mr. Zhang Keqiang	2,528,100	0.66
6	LEUNG CHUEN YEE	2,470,620	0.64
7	Mr. Zhou Kanglin	1,937,920	0.51
8	Mr. Deng Wenpin	1,924,850	0.50
9	Chenyu Company Limited	1,733,500	0.45
10	Mr. Lin Shengmou	1,730,120	0.45

a) Shouguang Municipal State-owned Assets Administration Bureau and kwong wah investment (shouguang) are the two shareholders who hold more than 5% of the total shares of the Company. They hold 142,371,440 shares and 26,709,591 shares respectively at the end of period. The share ratio of the above 2 shareholders has not been changed and mortgaged or frozen during this period.

b) Shouguang Municipal State-owned Assets Administration Bureau is the shareholder representing the State. The other 9 shareholders are overseas investors. There is not any associated relationship among the 10 major shareholders.

c) There is only one shareholder – Shouguang Municipal State-owned Asset Administrative Bureau, who take more than 10% of the total shares. It takes the 37.13% of the total shares. The legal representative of the Bureau is Mr. Mao Derong. The business scale are the management and administration of state-owned asset, its accountancy and its asset equity representatives.

d) There is no changes happened to the controlling shareholders.

IV. Introduction to the Shareholders' Meeting

1)The status of informing, holding of the Shareholders' Meeting.

The Board of Directors of the Company has published the information about 1998 Shareholders' Meeting on Hong Kong Commercial Daily, China Securities, Securities Times on the May 27, 1999 issue.

The Shareholder's Meeting of 1998 was held at the meeting room on the 3rd floor of Science & Technical Building of the Company at 9:00 am, June 28, 1999. Mr. Chen Yongxing – the Chairman hosted the meeting. The following resolutions was voted and adopted on the meeting. There are totally 129 shareholders or their proxies presented the meeting, representing 194,703,659 shares, take 50.78% of the total shares of the Company. Including 41,318,194 foreign shares take the total shares of 21.22%, it was regarded as meet with the "National Company Law" and the Article of Association.

(1) Annual Report of the Board of Directors;
(2) Business Report of the General Manager;

(3) Report of the Supervisory Committee;
(4) The Financial Statement and Profit Distribution Proposal of 1998;
(5) The Proposal of Issuing Supplementary B Shares.

The public notice of resolutions of this meeting was published on the June 29, 1999 issue of Hong Kong Commercial Daily, Securities Times and China Securities.

2)No directors or supervisors has been changed.

V. The Report of the Board of Directors

1) The Business Status of the Company

(1) Business area and the status of the Company in the area

The business area of the Company is paper plant industry which is a light industry.

According to the statistics of China Association of Paper Industry, the Company's economical status (profit and total taxation) has been in the 1st position in the area of the whole country for 4 years (from 1995 to 1998).

In 1999, because of the expanding of investment in technical research and optimizing of the product structure, the Company achieved a great grow in business turnovers (including sales income, profit and taxation). The products of high quality low weighted coating paper and successfully passed the inspection of provincial level in November 1999. We are the only manufacturers of these products in the domestic market. Map paper and 880 type double offset printing paper have been determined as the newly developed products by the National Economic and Trading Committee in August 1999. The Company was awarded "Hi & New Tech Enterprise" by Shandong Provincial Science and Technical Committee in December 1999. The Company was awarded the title of "Significant Contribution of Enterprise Management of China" by National Enterprises Union, National Enterprises Association and The Science of Enterprise Management Foundation.

(2) Major business range and the situation

Major business of the Company: producing and selling of machine make paper, paperboard, material of paper producing、paper making machinery, electricity power, heat power.

The output of machine make paper is 413.4 thousand ton in this period, which is 72.69% increase over last period. The turnover is RMB1.72 billion, which is 60.74% increase over last year. The profit produced is RMB343,692,000 , which is 57.35% increase over last year.

The turnover of principal product —light coated paper and double offset paper is RMB799,268,000, which take 46.46% of the total turnover. The profit produced is RMB147,711,000, take 43.78% of the total profit. The turnover of principal product of Wuhan Chenming Paper Holdings Co., Ltd (share holding subsidiary of the Company), writing paper, is RMB210,160,000, take 12.22% of the total turnover of the Company. The profit produced is RMB38,094,000, take 11.29% of the total profit of the Company. The turnover of principal product of Qihe Paperboard Plant (leased by the Company) --- kraft paperboard, was RMB195,398,000, take 11.35% of the total turnover of the Company. The profit produced was RMB23,055,000, take 6.83% of the total profit of the Company.

(3) Business status of major shareholding subsidiaries of the Company.

a. Qihe Kraft Paperboard Plant (leased by the Company) has produced 82000 ton of kraft paperboard and flaping paper during 1999. Turnover produced was RMB227,351,000, net profit produced was RMB26,345,000, which are increased by 20.75%, 10.59% and 14.10% respectively over last year.
b. Wuhan Chenming Paper Holdings Co., Ltd. (the shareholding subsidiary of the Company) has produced 115600 ton of machine make paper during the year. Turnover produced was RMB505,117,000, net profit produced was RMB120,158,000. This company has been listed in the list of major enterprises under the protection of the municipal government.
c. Shandong Chenming Power Plant Co., Ltd. is one of the shareholding subsidiaries of the Company. The major products of it are electricity power and heat power. This Company has produced a turnover of RMB135,506,000, net profit of 40,638,000, which are 21.1% and 178.4% increased over last year respectively.
d. Xiangfan Chenming Coated Paper Co., Ltd. is a shareholding subsidiary of the Company. The major product of this company is coated paper. The output of coated paper of this company was 12,722.49 ton during the period. Turnover produced was RMB76,744,000, net profit produced was RMB5,401,000 during the period.

(4) Difficulties in the operation and the resolutions

a. The competition of paper market was becoming more intensively during 1999. The overseas manufacturers were attacking the local market. In the same time, the demand of the market was keep lowing. The market prices of paper products keep falling. The quickly expanding business scale of the Company brings higher pressure to the sales operation. To change this situation, the Company adjusted the sales strategy. Strong forces have been formed to support the sales department. Wider and flexible sales strategy has been setup to develop and explore the market in depth direction. Under this strategy, the publishing paper market was steady and social utilizing paper market was developed. In the direction of product structure and market structure optimizing, development of new products becomes the important point. The market of the Company’s product gradually expanded to the international market as well as the local market.
b. In the situation of financial difficulty, to improve the financial operation and cost controlling level becomes most important work. Improving the management of purchasing, retrenching the cost of production, strengthen the cost controlling and optimizing the internal cost accounting system are the strategies adopted.

2) Financial status of the Company (in RMB’000)

Items	1999	1998	Increase/decrease(%)
Total assets	3,294,918	2,410,993	36.66
Long-term liabilities	335,792	83,353	302.85
Shareholders’ equity	1,319,347	1,139,294	15.80
Profit of major business	575,526	338,204	70.17
Net profit	179,638	131,960	36.13

(1) Increasing of liabilities and profits caused the increase of total assets.
(2) Increasing of long-term debts (by RMB252,439,000) caused the increasing of long-term liabilities.
(3) Increasing of net profit of this year (by RMB179,638,000) caused the increasing of shareholders' equity.
(4) The expanding of production scale caused the increasing of major business profit. The increasing of sales caused the major turnover increased by RMB650,075,000
(5) The increasing of major turnover caused the increasing of net profit.

3) Investment status

Internal investment during the period was RMB132,491,000， decreased by RMB695,890,000 (or 84.01%) comparing with the last year (RMB828,381,000).

In the period, the Company made an external investment to Hailaer Chenming Paper Holdings Co., Ltd. which is a co-operative body with the city government of Hailaer. The major business of this company is production of bleached reed pulp paper board. The Company has invested RMB12,000,000 (including RMB6,549,887 of cash and RMB5,450,113 as purchasing of liabilities) and takes 75% of the total registered capital of this company. The investment decreased by 27.06% (or RMB16,452,000) comparing with the last year.

(1) No financing activities undertook during the period. No raised fund carried down to this period.
(2) The status of non-financing investment project :

Hailaer Chenming Paper Holdings Co., Ltd. was founded on May 28, 1999. The situation has been disclosed in the Interim Report 1999. Technical reforming was undertook immediately when the company established and was put into operation in July 1999. Till the end of 1999, the company has produced 4879.02 ton of reed pulp paper board, and RMB13,694,000 of turnover, RMB2,317,000 of taxation and profit, including RMB1,229,000 of profit.

4) The influence of operation environment and macro policies

The participating of WTO brings both opportunities and challenges to the Company. The production of "100,000 ton advanced culture paper project" optimized the product structure and expanded the capability of competition in the international market. This will bring the Company with new opportunities. Under the severe competition of market, numbers of manufacturers of low quality, low class, small-scale products will be kicked out. The market will be relocated. This will bring the Company with both opportunities and challenges. From the viewpoint of long-term, this is a good thing to the Company.

5) The business developing schedule of the New Year.

In the year of 2000, the economical efficiency and the optimizing of operation will be the most important point of the Company. Carry the reformation to depth, put major force in developing of the two markets, strengthen the technical progress, expanding the financing sources and improving the management are the strategies to keep the Company a healthy and speedy growth.

The Company is planning for the output of 450,000 ton of machine make paper and turnover of RMB2.3 billion in the next year. The investment of RMB0.8 billion was scheduled for the "153,000 ton high class coated paper project" during 2000.

Strategies of operation:

(1) Stress on sales. a) Enforce the sales team and improving the sales stuffs' consciousness of marketing. b) Establish a professional and efficient sales system. c) Improve the sales artifice, expand the market by exploring the international market. d) Adopt new policies, enforce the clearing of account receivable. Reduce the occupying of fund.
(2) Expand the financing resource to ensure the financial requirement of Company expanding
(3) Speedup the developing of new technologies to improve the products. Enlarge the investment into technical research. Adjust the production structure. Improve the competition capability by high quality, high tech and high extra-value products.

6) Daily work of the Board of Directors

(1) The Board held two meetings during the period.

a. The 5th Meeting of the 2nd Term Board of Directors was held in the 2nd floor meeting room of the Company on April 14, 1999. 6 of the 9 directors attended the meeting. 3 directors were out for business. 5 Supervisors attended the meeting as non-voting delegate. The following resolutions was examined and adopted:

- Examined and adopted the "1998 Annual Report of the Company" and it's summary.
- Examined and adopted the 1998 Financial Statement and Profit Distribution Proposal, they will be submitted to the 1998 Shareholders' Meeting for voting.
- Decided that the schedule, place and agenda of the 1998 Shareholders' Meeting will be informed by another notice.

The public notice of the resolutions was published on the April 17, 1999 issue of Hong Kong Commercial Daily, China Securities and Securities Times.

b. The 6th Meeting of the 2nd Term Board of Directors was held in the 2nd floor meeting room of Chenming Grand Hotel on August 18, 1999. 7 of the 9 directors attended the meeting, 5 supervisors presented the meeting as non-voting delegates. Mr. Chen Yongxing – the Chairman, hosted the meeting. The following resolutions was examined and adopted.

- The 1999 Interim Report of the Company;
- No profit distribution nor capitalizing of capital public reserves will be implemented;
- The proposal of changing directors and vice general manager.
  Mr. Wang Dongxing abdicate from the position of director and vice general manager because of the altering of job.
  Mr. Li Mingren was dominated by the board to take the place of director of the 2nd Term Board of Directors. This is subject to be voted by the next Shareholders' Meeting.

The public notice of the resolutions was published on the August 20, 1999 issue of Hong Kong Commercial Daily, China Securities and Securities Times.

(2) Neither profit distribution nor capitalizing of capital public reserves has been implemented during the period.

7) The status of management team and the stuffs
(1) Directors, Supervisors and Senior Managerial Personnel

Names	Sex	Age	Occupation	Term of duty	Shares held Beginning/ End	Annual Salary (RMB)
Chen Yongxing	male	66	Chairman, Chief Secretary of CCP Committee	1997.11.22-2000.11.22	70,119	186,221.00
Yin Tongyuan	male	42	Vice Chairman, General Manager	1997.11.22-2000.11.22	30,429	99,783.00
Han Wenjian	male	46	Vice Chairman, Vice General Manager	1997.11.22-2000.11.22	30,429	88,696.00
Hu Wenhe	male	54	Director	1997.11.22-2000.11.22	5,292	--
Xu Xianggdong	female	50	Director, Vice General Manager	1997.11.22-2000.11.22	26,460	77,609.00
Wang Zhijun	male	39	Director	1997.11.22-2000.11.22	11,809	79,335.00
Chen Hongguo	male	35	Director	1997.11.22-2000.11.22	26,460	100,540.00
Li Ruohe	male	49	Director	1997.11.22-2000.11.22	0	--
Hou Huancai	male	37	Chairman of Supervisory committee	1997.11.22-2000.11.22	17,199	81,669.67
Li Xueqin	female	37	Vice Chairman of Supervisory committee	1997.11.22-2000.11.22	0	12,609.84
Sun Qiang	male	30	Supervisor	1997.11.22-2000.11.22	15,876	13,007.18
Zhang Jun	male	34	Supervisor	1997.11.22-2000.11.22	6,615	13,121.75
Zhen Liyong	male	34	Supervisor	1997.11.22-2000.11.22	10,584	12,689.58
Li Mingren	male	40	Vice General Manager	1997.12.03-2000.11.22	0	77,609.00
Guo Xiucheng	male	35	Vice General Manager	1997.11.22-2000.11.22	0	77,609.00
Zhang Longquan	male	38	Vice General Manager	1997.11.22-2000.11.22	0	33,261.00
Hao Yun	male	37	Secretary of the Board	1997.11.22-2000.11.22	15,876	55,435.00
Liu Yinghua	male	42	Vice General Accountant	1997.11.22-2000.11.22	13,230	22,130.00

No changes happened to the shares held by the Directors, Supervisors and Senior Managerial Personnel.
In accordance with the situation of the Company, the ranges of Annual Salary of the Directors, Supervisors and Senior Managerial Personnel are: 6 people among 10,000 ~ 50,000; 8 people among 50,000~100,000; 2 people above 100,000. Mr. Hu Wenhe and Li Ruohe (directors) don't take salary from the Company.
Mr. Wang Dongxing abdicate from the position of director and vice general manager because of the altering of job during the period.
No manager or secretary of Board has been removed from their position.

(3) The status of the stuffs of the Company.

There are totally 8673 employees in the Company (including 6985 formal stuffs), among which 6271 are production worker, 301 are sales man, 814 are technicians, 139 are accountants, 172 are executive stuffs, and 976 of others. According to the education level, 328 are University graduated, 956 are collage graduated, 1362 are graduated from intermediate vocational school, 6027 are high school and technician training school

graduated.
198 retired workers in the Company.
The stuffs of the subsidiaries included above.

8) The proposal of profit distribution or capitalizing of capital public reserves
According to the audition result of Shandong Zhengyuan Accountants Co., Ltd., the net profit the Company produced in 1999 is RMB173,348,660.54, withdrawing 10% as Legal Public Reserves (RMB17,334,866.05), withdrawing 10% as Public Welfare (RMB17,334,866.05), the balance is RMB138,678,928.44Plus the undistributed profit carried down from the previous year amount to RMB185,515,699.80, the profit to be distributed for 1999 fiscal year is RMB324,194,628.24.
Considering the financial requirement of "153,000 ton high class coated paper project" and the long-term development of the Company, and for the higher interest of the shareholders, the Board decided that neither profit distribution nor capitalizing of capital public reserves would be implemented during the year 2000. This proposal is subject to the voting of shareholders' meeting.

9) Other events
The information disclosing media were keep unchanged, which are Hong Kong Commercial Daily, China Securities and Securities Times.

VI. The Report of the Supervisory Committee

The 3rd meeting of the 2nd Term Supervisory Committee was held on April, 14, 1999 during the period. The following resolutions was adopted.

- Examined and adopted the 1998 Annual Report and it's Summary;
- Examined and adopted the 1998 Financial Statement and Profit Distribution Proposal;
- Examined and adopted the 1998 Report of the Supervisory Committee.

In the year of 1999, the Committee has implemented its duty strictly in accordance with the "Company Law" and the Article of Association of the Company. We carried out sufficiently inspection over all the duty activities of Directors and Senior Managerial Personnel in the area of business operation and management, presented all the meeting of the Board of Directors.

The Supervisory Committee acknowledges that:

a. The Company has been operated strictly under the regulations of "Company Law" and the Article of Association of the Company. All actions and strategies were legal and scientific. No illegal or any activities, which makes damage to the Company and the regulations, has taken place.
b. The Financial Statement issued by the public accountants presented the financial status and operation results factually and objectively.
c. The purchasing and selling of assets has been on the reasonable price. No underground deal was found. No activity which makes harm to the interests of shareholders or loss of company's asset.

d. The associated transaction generated by the Company has been on the fundamental of justice and rational and make no harm to the interest of the Company.

VII. Important Events

1. No important law suite or arbitration event happened during the period.
2. None of the Company, the Directors or the Senior Managerial Personnel has involved with penalty by the supervisory bodies.
3. No major changing of shareholding structure happened during the period. Neither the General Manager nor the Secretary of Board has been altered.
4. On May 28, 1999, The Company invested RMB12,000,000 to Hailaer Chenming Paper Holdings Co., Ltd., which is a co-operation company with the Municipal Government of Hailaer, and take 75% of the share equity. Technical reforming was undertook immediately when the company established and was put into operation in July 1999. Till the end of 1999, the company has produced 4879.02 ton of reed pulp paper board, and RMB13,694,000 of turnover, RMB2,317,000 of taxation and profit, including RMB1,229,000 of profit. This take 0.36% of the total profit of the Company.
5. All the associated transactions are regular trading. The details are expressed note 27、28 of financial statement

6、The Company and the other shareholders are totally separated in personnel, asset and accountancy. Which is declared as “independent of personnel, integrity of assets and separate of accountancy”.

(1) Independent of personnel
The Chairman is not the Legal Representative of any other shareholding bodies. The senior managerial personnel are not taking the position in any other shareholding bodies. The accountant stuffs are not taking any position in any associated parties. The personnel and wage system are totally independent.

(2) Integrity of assets
The asset of the Company are complete and integrity. All the production system, assistant production system, coordinate system, industrial equity and non-patent technique have all entered the Company. The production system, supply system, and sales system are running independently. The major shareholder is Shouguang Municipal State-owned Assets Administration Bureau, which is not any competition in production and marketing.

(3) Separate of accountancy
As an independent body, the Accountant Department has its own accounting system with standardized and independent accountancy regulations. It also has accountancy management regulations for branch company or subsidiaries. The Company has its own individual bank account and pay taxation independently.

7. The public accountants hasn’t changed during this period

8. Important contracts

The Company has signed guarantee exchange contracts with Weifang Yaxing Group Co., Ltd. and Shandong Shouguang United Chemistry Group Co., Ltd. respectively. The details is as followings:

(1) One party can ask the other one to issue the guarantee document within the guarantee balance (Weifang Yaxing: RMB0.3 billion, Shouguang United: RMB0.15 billion; Foreign currency altered according to the national published rate) and not more than RMB5 million for each deal,

(2) If the balance of guarantee is more than RMB10 million or the guarantee offered is more than RMB5 million for one deal, it will be subject to the negotiation between the legal representatives of both parties.

(3) The contract is expire after two years since it was signed.

Till December 31, 1999, the Company has provided RMB143,400,000 of loan guarantee for Weifang Yaxing, and RMB8,950,000.00 for Shandong Shouguang United Chemistry Group Co., Ltd.

9. The Company's name and its share abbreviation hasn't been changed during the period.

10. On August 27, 1999, the "153000 ton high class coated paper project" was approved by National Economical and Trading Committee and National Development Planning Committee by Docoment No. Guo-jing-mao-tou-zi [1999]824. And was listed as one of the National Major Technical Reform Project with the specialized financing of 1999 Financial Budget. [This event has been disclosed on September 7, 1999 issue of Hong Kong Commercial Daily, Securities Times and China Securities.]

11. On November 6, 1998, Wuhan Chenming Hanyang Paper Holdings Co., Ltd. has increased its share capital according to the law. Hubei Provincial Publishing Paper Co., Hubei Xinhua Printing Factory and Hubei Zhiyin Printing Co., Ltd. became the shareholders of the Company. The registered capital has increased to RMB408,612,900.

Been approved by the government of Hubei Province on November 18, 1999, Wuhan Chenming Hanyang Paper Industry Co., Ltd. was altered to Wuhan Chenming Hanyang Paper Holdings Co., Ltd. The total capital share is 422,734,000.

Been approved by the government of Hubei Province on April 15, 1999, the shares of Wuahn Chenming Hanyang Paper Holdings Co., Ltd. was contracted to all of the shareholders on the same ratio of 2:1 under the legal procedures. The registered capital of this company was reduced from RMB422,234,000 to RMB211,367,000. The total capital share was altered to 211,367,000 shares. The balance generated amount to RMB211,367,000 was altered to capital public reserves. The Company still takes 50.93% of the total capital share after the contracting.

12. On December 30, 1999, the Company was certified "Hi & new Tech Enterprise" by Shandong Provincial Science and Technical Committee. On March 1, 2000, the Company was certified "The major Hi & new Tech Enterprise of the 1st 'Huoju Project 2000'". On January 20, 2000, the Company was certified "National Enterprise Technical Center" by National Economical & Trade Committee, Financial Ministry, National Tax Bureau and National Custom Bureau.

13. Because of the rename of the streets of Shouguang City, the registered address of the Company changed from “403 Shengcheng Road” to “595 Shengcheng Street”.

VIII. Financial Statements

1. Auditor’ s Report

The 1999 Financial Statement has been audited by pricewaterhousecoopers certified accountants, and issued the Auditor’ s Report with no reserved commitment.

2. Financial Statements

3. Notes to Financial Statements

INTERNATIONAL AUDITORS' REPORT
TO THE SHAREHOLDERS OF SHANDONG CHENMING PAPER HOLDINGS LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the accompanying balance sheet of Shandong Chenming Paper Holdings Limited and its subsidiaries (the Group) as of 31st December 1999 and the related income and cash flow statements for the year then ended. These financial statements set out on pages 2 to 22 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31st December 1999 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,

SHANDONG CHENMING PAPER HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 1999

	Note	1999 RMB' 000	1998 RMB' 000
Sales	2	1,720,308	1,070,233
Cost of sales		(1,144,782)	(732,029)
Gross profit		575,526	338,204
Other operating income	2	66,262	39,489
Distribution costs		(118,389)	(71,250)
Administrative expenses		(129,945)	(85,865)
Operating profit	3	393,454	220,578
Finance costs, net	5	(50,712)	(2,288)
Share of result of an associate	11	950	134
Profit before tax		343,692	218,424
Tax	6	(82,580)	(46,900)
Profit from ordinary activities		261,112	171,524
Minority interests	23	(81,474)	(39,564)
Net profit		179,638	131,960
Earnings per share	7	RMB0.47	RMB0.34

SHANDONG CHENMING PAPER HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 1999

	Note	1999	1998
ASSETS		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	9	1,606,870	766,358
Construction in progress	10	83,147	874,481
Investment in an associate	11	19,538	18,588
Other investments	12	1,920	1,920
		1,711,475	1,661,347
Current assets			
Inventories	13	554,987	327,831
Receivables and prepayments	14	852,445	305,708
Bank balances and cash		176,011	116,107
		1,583,443	749,646
Total assets		3,294,918	2,410,993
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	383,397	383,397
Capital reserves	22	454,625	454,210
Statutory surplus reserve fund	26	76,627	58,576
Statutory public welfare fund	26	56,641	38,546
Retained earnings		348,057	204,565
		1,319,347	1,139,294
Minority interests	23	382,233	309,728
Non-current liabilities			
Borrowings	16	335,792	83,353
Current liabilities			
Trade and other payables	15	632,757	488,715
Borrowings	16	578,078	354,468
Current tax liabilities		46,711	15,256
Dividend payable		-	20,179
		1,257,546	878,618
Total liabilities		1,593,338	961,971
Total equity and liabilities		3,294,918	2,410,993

On behalf of the Board

SHANDONG CHENMING PAPER HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 1999

	Note	Share capital RMB' 000	Capital reserves RMB' 000	Statutory surplus reserve fund RMB' 000	Statutory public welfare fund RMB' 000	Retained earnings RMB' 000	Total RMB' 000
Balance at 1st January 1998		273,855	561,717	40,929	22,957	105,841	1,005,299
Contributed surplus	25	-	2,035	-	-	-	2,035
Bonus issue	21	109,542	(109,542)	-	-	-	-
Net profit		-	-	-	-	131,960	131,960
Transfer from retained earnings to other statutory reserve funds	26	-	-	17,647	15,589	(33,236)	-
Balance at 31st December 1998		383,397	454,210	58,576	38,546	204,565	1,139,294
Balance at 1st January 1999		383,397	454,210	58,576	38,546	204,565	1,139,294
Contributed surplus	25	-	415	-	-	-	415
Net profit		-	-	-	-	179,638	179,638
Transfer from retained earnings to other statutory reserve funds	26	-	-	18,051	18,095	(36,146)	-
Balance at 31st December 1999		383,397	454,625	76,627	56,641	348,057	1,319,347

SHANDONG CHENMING PAPER HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 1999

	Note	1999 RMB' 000	1998 RMB' 000
Operating activities			
Cash generated from operations	24	(172,395)	261,360
Interest received		2,709	9,004
Interest paid		(53,862)	(22,505)
Tax paid		(51,124)	(25,037)
Government financial rebates received		30,464	15,045
Net cash from operating activities		(244,208)	237,867
Investing activities			
Purchase of property, plant and equipment		(13,743)	(14,470)
Payment for construction costs, excluding interest capitalised		(124,194)	(789,278)
Proceeds from disposal of property, plant and equipment		157	336
Proceeds from disposal of other investments		-	271
Net cash used in investing activities		(137,780)	(803,141)
Financing activities			
Increase in borrowings		476,049	275,633
Dividends paid to group shareholders		(20,179)	(34,592)
Dividends paid to minority shareholders		(13,978)	(2,645)
Net cash from financing activities		441,892	238,396
Increase/(decrease) in cash and cash equivalents		59,904	(326,878)
Movement in cash and cash equivalents			
At start of year		116,107	442,985
Increase/(decrease)		59,904	(326,878)
At end of year		176,011	116,107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards ("IAS"). This accounting basis differs in certain respects from that used in the preparation of the statutory financial statements in the People's Republic of China (the "PRC") (the "PRC statutory financial statements"). The PRC statutory financial statements of the Company and its subsidiaries comprising the Group have been prepared in accordance with the accounting principles and regulations as applicable in the PRC. Appropriate restatements have been made in these consolidated financial statements to conform with IAS. Differences arising from these restatements are not incorporated in the accounting records of the Company and its subsidiaries.

The consolidated financial statements are prepared under the historical cost convention.

(b) Consolidation

Subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which the effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

Details of the Group's subsidiaries are shown in Note 28.

(c) Investments in associates

Investments in associated companies are accounted for using the equity method of accounting.

They are companies over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Details of the Group's associated company are shown in Note 11.

(d) Foreign currencies

The Group uses Renminbi as the reporting currency. Foreign currency transactions in group companies are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at year-end exchange rates.

1 Accounting policies (Continued)

(e) Financial instruments

Financial instruments carried on the balance sheet include bank balances and cash, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(f) Other investments

Other investments held for long term purposes are shown at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(g) Property, plant and equipment

All property, plant and equipment is stated at historical cost to the Group less accumulated depreciation.

Depreciation of land use rights is calculated on the straight line method to write off the cost over the unexpired periods of the rights.

Depreciation of all other property, plant and equipment is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Buildings	20-40 years
Plant and machinery	5-20 years

During the year, the construction in respect of a new production plant was completed and transferred to commercial productive use. The Directors have made assessment of the estimated useful lives of the plant and machinery installed in the new plant and are of the opinion that the estimated useful lives of the plant and machinery should be 20 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(h) Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease term.

1 Accounting policies (Continued)

(i) Construction in progress

Construction in progress represents factory premises under construction and production plant and machinery and other related fixed assets under installation or testing. Construction in progress is stated at cost which includes all expenditure and other direct costs, prepayments and deposits attributable to the construction. Interest costs on borrowings to finance the construction are capitalised, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. Depreciation is not provided on construction in progress until the related asset is completed and transferred to commercial productive use.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits at banks.

(m) Retirement scheme obligations

The Group participates in certain defined contribution retirement schemes organised by the respective municipal governments where the Group operates. These plans are generally funded by payments from employees and by the relevant group companies at 20% to 25% of the total salary.

The Group's contributions to the defined contribution retirement schemes are charged to the income statement in the year to which they relate.

(n) Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies (Continued)

(o) Revenue recognition

Revenue from the sale of paper products is recognised on the transfer of ownership, which generally coincides with the time when delivery is made.

Revenue from the sale of electricity and gases is recognised based on consumption recorded by meters reading during the year.

Interest income is recognised on an accrual basis, taking into account the principals outstanding and the interest rates applicable.

Revenue from government financial rebates is recognised when there is reasonable certainty that they can be recovered.

2 Sales and other operating income

	1999 RMB'000	1998 RMB'000
Analysis of sales		
Sale of paper products	1,634,567	993,482
Sale of electricity	85,741	76,751
	1,720,308	1,070,233
Other operating income		
Government financial rebates (Note 6)	59,509	30,145
Others	6,753	9,344
	66,262	39,489
	1,786,570	1,109,722

Business segment information is not shown as the sale of paper products accounted for more than 95% (1998: 93%) of the consolidated revenue and results of the Group.

Majority of the sales were made in the PRC. Export sales for the year were RMB32,090,000 (1998: Nil). Since export sales contributed to less than 2% (1998: Nil) of the consolidated revenue and results. No geographic information is shown.

Revenue arising from interest is disclosed in Note 5.

3 Operating profit

The following items have been charged in arriving at operating profit:

	1999 RMB' 000	1998 RMB' 000
Depreciation on property, plant and equipment (Note 9)	99,999	56,196
Loss on disposal of property, plant and equipment	617	881
Repairs and maintenance expenditure	19,884	12,670
Cost of inventories recognised as expense	1,153,325	732,029
Operating lease rentals on property, plant and equipment	12,836	14,221
Provision for bad and doubtful debts	1,616	3,006
Staff costs (Note 4)	95,168	82,846

4 Staff costs

	1999 RMB' 000	1998 RMB' 000
Wages and salaries	79,998	71,685
Retirement scheme - defined contributions	15,170	11,161
	95,168	82,846
Monthly average number of full time employees of the Group during the year	7,500	7,037

5 Finance costs, net

	1999 RMB' 000	1998 RMB' 000
Interest expense on bank borrowings	(53,862)	(22,505)
Less: interest capitalised in construction in progress	3,362	13,192
Net interest expense (Note 24)	(50,500)	(9,313)
Interest income (Note 24)	2,709	9,004
Net foreign exchange transaction losses	(988)	(645)
Other finance charges	(1,933)	(1,334)
	(50,712)	(2,288)

6 Tax

	1999	1998
	RMB'000	RMB'000
Current - PRC income tax	82,580	46,900

(i) PRC income tax of the Group mainly comprise income tax of the Company and certain of its subsidiaries namely, Wuhan Chenming Hangyang Paper Company Limited and Shandong Chenming Electric Power Holdings Company Limited and are calculated at rates applicable to the relevant companies ranging from 24% to 33%.

(ii) The Company and the Group's associate have been exempted from paying PRC income tax for two years starting from the first year with assessable income followed by a 50% reduction in the income tax rate in the following three years. Pursuant to the approval of the Shandong Foreign Economics and Trade Committee, the Company was qualified as a Foreign Investment Advanced Technology Enterprise. In this connection, the Company was granted an extension of the preferential tax treatment for a further three years to the year ending 31st December 2001. Accordingly, the preferential income tax rate applicable to the Company for both the years ended 31st December 1998 and 1999 was 12%. As the Group's associate was in its second profit-making year of operations, no provision for PRC income tax has been made.

(iii) Pursuant to the approval of the Wuhan Economic and Technology Development Zone Management Committee Wuhan, Wuhan Chenming Hanyang Paper Company Limited, a subsidiary company of the Group, is entitled to financial rebates equivalent to 100% of the income tax payable calculated at an income tax rate of 15% for the two years starting from the first year with assessable income followed by a financial rebate equivalent to 50% of the income tax calculated at the same rate in the following three years.

In January 2000, the Group has sought advice from the Finance Bureau of the Wuhan Economic and Technology Development Zone about the preferential tax refund treatment previously granted to the Group, and was advised on 20th January 2000 that the amount of the tax refundable to the Group shall be refunded to the Group based on the relevant income tax payable in respect of the respective assessable periods.

However, on 11th January 2000, the State Council of the PRC government issued a notice stipulating the suspension of "tax refund treatment" policy from 1st January 2000 onward adopted by territorial local governments unless special approval is obtained from the State Council.

Up to the date of approval of these financial statements, the Group has not been notified by the relevant government authorities in Wuhan in respect of any cancellation or changes in the preferential tax refund treatment mentioned above. Accordingly, the Directors consider that the suspension of the tax refund policy would have no impact on the Group's entitlement of 1999 financial rebates.

6 Tax (Continued)

(iv) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate applicable to the Group is as follows:

	1999	1998
	RMB'000	RMB'000
Profit before tax	343,692	218,424
Tax calculated at tax rates of 24% to 33% (1998: 24% to 33%)	108,648	62,478
Effect of tax incentives	(8,881)	(12,803)
Income not subject to tax	(19,869)	(4,254)
Expenses not deductible for tax purposes	2,682	1,479
Tax charge	82,580	46,900

7 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year as follows:

	1999	1998
Net profit	**RMB179,638,000**	RMB131,960,000
Number of ordinary shares in issue	383,397,931	383,397,931
Earnings per share	RMB0.47	RMB0.34

Fully diluted earnings per share is not shown since the Company has no dilutive potential ordinary shares.

8 Dividend per share

The directors do not recommend the payment of a final dividend in respect of the year ended 31st December 1999 (1998: Nil).

9 Property, plant and equipment

	Land use rights	Buildings: Production	Buildings: Non-production	Plant and machinery: Production	Plant and machinery: Non-production	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 31st December 1998						
Cost	72,908	176,936	77,009	530,911	29,845	887,609
Accumulated depreciation	(5,513)	(16,939)	(9,341)	(81,669)	(7,789)	(121,251)
Net book amount	67,395	159,997	67,668	449,242	22,056	766,358
Year ended 31st December 1999						
Opening net book amount	67,395	159,997	67,668	449,242	22,056	766,358
Reclassification from construction in progress (Note 10)	-	124,870	13,103	772,319	8,742	919,034
Additions	15,552	4,869	60	1,770	-	22,251
Disposals	-	(70)	(127)	(357)	(220)	(774)
Depreciation charge (Note 3)	(1,932)	(12,771)	(3,579)	(78,328)	(3,389)	(99,999)
Closing net book amount	81,015	276,895	77,125	1,144,646	27,189	1,606,870
At 31st December 1999						
Cost	88,460	306,570	89,874	1,304,262	37,681	1,826,847
Accumulated depreciation	(7,445)	(29,675)	(12,749)	(159,616)	(10,492)	(219,977)
Net book amount	81,015	276,895	77,125	1,144,646	27,189	1,606,870

Additions include property, plant and equipment of approximately RMB4,000,000 contributed by the minority shareholder of a newly established subsidiary, Hailaer Chenming Paper Company Limited, as its capital contribution.

9 Property, plant and equipment (Continued)

Included in plant and machinery are costs incurred in respect of the upgrade of certain production facilities pursuant to an agreement entered into between the Group and an unrelated third party (the "lessor") dated 20th June 1996 under which the Group has agreed to lease the factory premises and production facilities located in Qihe County of Shandong Province from the lessor for a period of ten years commencing from 1st July 1996. The Group has also committed to, at its own cost, upgrade such production facilities for the lessor. Such production facilities will revert to the lessor at the expiry of the lease. The costs incurred in relation to the upgrading of the production facilities are capitalised and amortised on a straight line basis over the unexpired period of the lease. In addition, the Group is required to pay an annual rental of RMB5,000,000 during the lease period. The relevant lease commitments are included in Note 20.

10 Construction in progress

Construction in progress represents factory premises, plant and machinery under construction, installation or testing and is stated at cost. Borrowing costs of RMB3,362,000 (1998: RMB13,192,000), arising on financing specifically for such construction, were capitalised during the year. The actual borrowing costs are calculated at 7.11% per annum (1998: 6.5% per annum) on the loan used to finance the project.

During the year, completed construction in progress of approximately RMB919,034,000 was transferred to property, plant and equipment.

11 Investment in an associate

	1999 RMB'000	1998 RMB'000
Opening net book amount	18,588	18,454
Share of results	950	134
Closing net book amount	19,538	18,588

The associate, which is unlisted, is:

	Country of incorporation	Principal activities	Interest held
Shouguang Liben Paper Making Company Limited	People's Republic of China	Manufacturing of paper	26.4%

There was no change in the percentage ownership interest in the associate during the two years ended 31st December 1999.

SHANDONG CHENMING PAPER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Other investments

	1999	1998
	RMB'000	RMB'000
Opening net book amount	1,920	2,191
Disposals	-	(271)
Closing net book amount	1,920	1,920

Other investments comprise interests in unlisted companies which are stated at cost and provision is only made where the Directors consider there is a permanent diminution in value.

13 Inventories

	1999	1998
	RMB'000	RMB'000
Raw materials (at cost)	265,902	197,050
Work in progress (at cost)	8,725	6,263
Finished goods (at cost)	280,360	124,518
	554,987	327,831

14 Receivables and prepayments

	1999	1998
	RMB'000	RMB'000
Trade and bills receivables	569,678	255,490
Amount due from an associate	1,011	-
Other receivables	98,982	40,232
Prepayments	182,774	9,986
	852,445	305,708

15 Trade and other payables

	1999	1998
	RMB'000	RMB'000
Trade payables	422,979	202,528
Amount due to an associate	-	6,532
Accrued expenses	23,611	11,606
Value added tax payable	7,433	34,794
Other payables	178,734	233,255
	632,757	488,715

SHANDONG CHENMING PAPER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Borrowings

	1999 RMB' 000	1998 RMB' 000
Borrowings from banks and other financial institutions		
Guaranteed borrowings		
- Current	84,080	239,800
- Non-current	335,000	82,561
	419,080	322,361
Secured borrowings - current	37,258	-
Unsecured borrowings		
- Current	456,740	114,668
- Non-current	792	792
	457,532	115,460
Total borrowings	913,870	437,821
Total borrowings		
- at fixed rates	864,100	437,821
- at floating rates	49,770	-
	913,870	437,821

16 Borrowings (Continued)

The current loan of US$4,500,000 (equivalent to approximately RMB37,258,000) is secured over the Group's properties and other assets with a total net book value of RMB50,000,000 as at 31st December 1999. All other borrowings are guaranteed by unrelated PRC enterprises to whom the Group has provided cross guarantees (Note 19).

Interest on borrowings at floating rates is calculated based on 1.5% to 2% over the London Interbank Borrowing Rates.

All fixed interest rate borrowings are charged at an effective weighted average annual rate of 6.74% (1998: 6.5%).

The carrying amounts of borrowings approximate their fair value. The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate which the Directors expect would be available to the Group at the balance sheet date.

Maturity of non-current borrowings:

	1999	1998
	RMB'000	RMB'000
Between 1 and 2 years	235,792	63,353
Between 2 and 5 years	100,000	20,000
	335,792	83,353

17 Retirement schemes

The Company and its subsidiaries participate in certain defined contribution retirement schemes organised by the respective municipal governments where the Group operates, covering all permanent staff of the Group. The Group has no obligation beyond the contributions which are calculated based on 20% to 25% of the total salary. The Group contributed approximately RMB15,170,000 (1998: RMB11,161,000) in total to the schemes during the year.

18 Financial instruments

Financial instruments carried on the balance sheet include bank balances and cash, investments, receivables, payables and borrowings.

(i) Interest rate risk

The interest rates and terms of repayment of borrowings of the Group are disclosed in Note 16. Other financial instruments do not have material interest rate risk.

18 Financial instruments (Continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. Cash is placed with large financial institutions and trade receivables are spread among a number of customers in the PRC.

At 31st December 1999, the carrying amount of financial instruments best represent their maximum credit risk exposures at the balance sheet date.

(iii) Fair values

The carrying amounts of the following financial instruments approximate to their fair value: bank balances and cash, investments, trade receivables and payables, other receivables and payables, short term borrowings, long term borrowings and dividends payable. Information on the fair values of borrowings is included in Note 17.

19 Contingent liabilities

At 31st December 1999, the Group had contingent liabilities of RMB152,350,000 (1998: Nil) in respect of cross-guarantees to banks for loans granted to two unrelated PRC enterprises.

20 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the consolidated financial statements is as follows:

	1999 RMB' 000	1998 RMB' 000
Purchase of land	6,720	-
Purchase of plant and equipment	-	25,407
	6,720	25,407

Operating lease commitments

At 31st December 1999, the future minimum lease payments under non-cancellable operating leases in respect of warehouses, staff quarters and plant and machinery are as follows:

	1999 RMB' 000	1998 RMB' 000
Not later than one year	12,869	11,673
Later than 1 year and not later than 5 years	45,842	45,568
Later than 5 years	25,315	37,025
	84,026	94,266

21 Share capital

	Number of shares	State-owned shares RMB' 000	PRC legal person shares RMB' 000	Employees shares RMB' 000	Overseas legal person shares RMB' 000	B shares RMB' 000	Total RMB' 000
At 31st December 1997	273,855,665	101,693	2,946	35,139	19,077	115,000	273,855
Bonus issue	109,542,266	40,677	1,178	14,055	7,632	46,000	109,542
At 31st December 1998 and 1999	383,397,931	142,370	4,124	49,194	26,709	161,000	383,397

The total registered number of ordinary shares of the Company is 383,397,931 shares (1998: 383,397,931 shares) with a par value of RMB1. All issued shares are fully paid.

Apart from the B Shares, all the other types of shares are not allowed to be transferred unless approvals are obtained from the relevant authorities.

22 Capital reserves

Capital reserves mainly comprise the following:

(i) surplus between the appraised value of the net assets and the value of shares issued when the Company was converted from a state-owned enterprise to a joint stock limited company; and

(ii) the placing of 115,000,000 B shares at a premium of RMB3.75 per share.

23 Minority interests

	1999 RMB' 000	1998 RMB' 000
At beginning of year	309,728	273,914
Capital contribution	5,009	19,456
Share of net profit of subsidiaries	81,474	39,564
Dividend	(13,978)	(23,206)
At end of year	382,233	309,728

24 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	1999	1998
	RMB' 000	RMB' 000
Profit before tax	343,692	218,424
Government financial rebates	(59,509)	(30,145)
Depreciation (Note 9)	99,999	56,196
Loss on disposal of property, plant and equipment	617	881
Interest income (Note 5)	(2,709)	(9,004)
Interest expense (Note 5)	50,500	9,313
Share of result of an associate (Note 11)	(950)	(134)
Change in working capital:		
- receivables and prepayments	(516,059)	(21,628)
- inventories	(227,156)	(157,412)
- trade and other payables	139,180	194,869
Cash generated from operations	(172,395)	261,360

25 Contributed surplus

Contributed surpluses in the previous year and the current year relate to the Group' s share of the excess amount of the fair value of assets over the amount of capital injected by the minority parties to the respective newly formed subsidiaries during the respective periods.

26 PRC statutory reserve funds

In accordance with relevant PRC regulations applicable to companies limited by shares and the Company's Articles of Association, the Company is required to allocate its profit after tax to the following reserves:

Statutory surplus reserve fund

Each year to transfer 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory surplus reserve fund until the balance reaches 50% of the paid-up share capital. This reserve can be used to make up prior years' losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

Statutory public welfare fund

Each year to transfer between 5% to 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory public welfare fund which is restricted to finance capital expenditure for staff welfare facilities which are owned by the Group. The statutory public welfare fund is not available for distribution to shareholders (except in liquidation). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount will be transferred from the statutory public welfare fund to the discretionary surplus reserve fund.

Discretionary surplus reserve fund

The discretionary surplus reserve fund can be set up by means of appropriation from the retained profits or transfer from the statutory public welfare fund. Subject to the approval of shareholders in general meeting, the reserve can be used to make up any losses, to increase share capital or to pay dividends.

The Group has not made any appropriation for the retained profits or transfer from the statutory public welfare fund to the discretionary surplus reserve fund.

Distributable profits

Pursuant to PRC regulations and the Company's Articles of Association, the profit available for distribution as dividends is determined based on the lower of the total of the net profit after appropriation of statutory reserves and the retained profits brought forward prepared under PRC Accounting Regulations and the amount prepared under IAS. Based on the above, the Group's retained profits available for distribution amounted to approximately RMB324,191,000 as at 31st December 1999 (1998: RMB185,515,000).

27 Related party transactions

(i) The following material transactions were carried out on normal commercial terms and at market prices with an associated company, Shouguang Liben Paper Marking Company Limited ("Liben"):

	1999	1998
	RMB' 000	RMB' 000
Purchase of paper products	824	26,425
Sale of electricity	12,381	8,740

At 31st December 1999, the outstanding net amount receivable to Liben arising from the sale/purchase of goods/services amounted to approximately RMB1,011,000 (1998: net amount payable receivable RMB6,532,000). The balance is unsecured, interest-free, and has no fixed repayment terms.

(ii) Directors' remuneration

In 1999, the total remuneration of the directors amounted to approximately RMB714,000 (1998: RMB600,000).

28 Subsidiary companies

	Country of Incorporation	Principal Activities	Effective interest
Directly held by the Company			
Shandong Chenming Electric Power Generation Holdings Company Limited	People's Republic of China	Supply of Electricity	51%
Wuhan Chenming Hanyang Paper Company Limited	People's Republic of China	Manufacturing Of paper	50.93%
Hailaer Chenming Paper Company Limited	People's Republic of China	Manufacturing Of paper	75%
Indirectly held by the Company			
Shangfan Chenming Copperplate Paper Company Limited	People's Republic of China	Manufacturing of paper	35.81%

The Group holds 51% of the voting rights in Shangfan Chenming Corporate Paper Company Limited.

All holdings are in the paid-up capital of the companies concerned and are unchanged from 1998 except for Hailaer Chenming Paper Company Limited which was established during the year ended 31st December 1999.

28 Subsidiary companies (Continued)

On 21st January 2000, Shandong Chenming Electric Power Generation Holdings Company Limited ("Chenming Power") established an equity joint venture, Shandong Chenming Xinli Cogeneration Company Limited ("Xinli"), with a Hong Kong incorporated company. The registered capital of Xinli is US$11,800,000 and Chenming Power holds a 51% interest therein by the injection of certain of its fixed assets.

29 Approval of financial statements

The financial statements were approved by the board of directors on 17 April 2000.

SHANDONG CHENMING PAPER HOLDINGS LIMITED

SUPPLEMENTARY INFORMATION

The impact of IAS and other adjustments on the PRC statutory financial statements are as follows:

	Consolidated net profit for the year ended 31st December 1999	Consolidated net assets as at 31st December 1999
	RMB' 000	RMB' 000
As per the PRC statutory financial statements	173,348	1,341,214
Impact of IAS and other Adjustments:		
Elimination of internally generated trademark and reversal of corresponding amortisation	1,578	(10,747)
Adjustment for bad and doubtful debts (provision (Note)	4,915	(7,486)
Others	(203)	(3,634)
As restated after IAS and other adjustments	179,638	1,319,347

Note: This relates to the timing difference in respect of the provision for bad and doubtful debts which has already been reflected in the consolidated financial statements prepared in accordance with and comply with IAS in the previous years.