

Stock ID: Chenming Paper, Chenming B, Stock Code: 000488 200488

Bond ID: Chenming Convertible Bond Bond Code: 125488 Announcement No. 2007-021

## SHANDONG CHENMING PAPER HOLDINGS LIMITED

### The 1<sup>st</sup> Quarterly Report 2007

#### § 1 Important Declaration

1.1 The Board of Directors and the directors of the Company guarantee that there are no significant omissions, fictitious or misleading statements carried in the Report and we will accept individual and joint responsibilities for the truthfulness, accuracy and completeness of the Report.

1.2 None of the directors, supervisors, or senior managements is not able to guarantee or disagree with the accuracy, authentic and completeness.

1.3 All of the directors presented the board meeting.

1.4 The financial statements carried in this report are not audited.

1.5 Mr. Chen Hongguo, the Chairman of Board, Mr. Liu Junwu, the Chief Financial Officer, and Mr. Wang Chunfang, the Financial Manager declares the truthfulness and completeness of the financial statements carried in this report.

#### § 2 Company Profile

##### 2.1 Financial highlights

RMB'000

	Ended this report term	Ended previous year	Increase/decrease (%)
Gross Assets	21,776,473	20,578,930	5.82%
Owners' (shareholders') equity	6,575,768	5,770,806	13.95%
Net asset per share	4.57	4.23	8.16%
	Year beginning to the end of the report term		Changed over the previous year (%)
Cash flow generated by business operation, net	311,819		230.12%
Net Cash flow per share generated by business operation	0.22		223.51%
	The report term	Year beginning to the end of the report term	Increase/decrease (%)
Net profit	387,310	387,310	91.49%
Basic gains per share	0.27	0.27	81.42%
Diluted gains per share	0.10	0.10	11.11%
Net earnings / asset	5.88%	5.88%	2.37%

**2.2 Total of shareholders and the top 10 holders of unconditional shares**

Unit: shares

Total of shareholders		83,270
Top 10 holders of unconditional shares		
Name of the shareholder	Unconditional shares	Category of shares
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	33,230,900	Foreign shares placed in domestic exchange
PLATINUM ASIA FUND	16,234,459	Foreign shares placed in domestic exchange
BONY-DREYFUS PIFI-DREYFUS PREMIER GREATER CHINA	15,712,482	Foreign shares placed in domestic exchange
DBS VICKERS (HONG KONG) LTD A/C CLIENTS	14,620,616	Foreign shares placed in domestic exchange
GSI S/A GLODEN CHINA MASTER FUND	13,207,325	Foreign shares placed in domestic exchange
SUN HUNG KAI INVESTMENTS SERVICES LTD-CUSTOMERS A/C	10,065,912	Foreign shares placed in domestic exchange
Galaxy-Communication Bank-Rixing Asset Management Co., Rixing AM RMB A shares parent fund	9,200,265	RMB common shares
China Construction Bank – Xinda Aoyin Advance Growth Stock Investment Fund	8,694,513	RMB common shares
UBS WARBURG CUSTODY PTE LTD. Swiss Bank	8,449,905	Foreign shares placed in domestic exchange
JPMBSA RE FTIF TEMPLETON CHINA FUND GTI 5497	8,276,500	Foreign shares placed in domestic exchange

**§ 3 Significant Events****3.1 Details and causations of major change in major accounting subjects and financial indices**

√ applicable    □ not applicable

1. Account receivable, account payable and inventory: Mainly capitalizing and operation of the new 300K ton Super Press Paper project, which enlarged production and sales scale, thus increased the advances receivable, account payable and inventory adoption.
2. Share capital and capital reserves: Mainly caused by converting of convertible bonds in the report term.
3. Sales expenses: Decreased from the previous term, caused by decreasing of transportation costs, and more buyers pickup their goods by themselves.
4. Financial expenses: Increased over the previous term, mainly caused by capitalizing of construction in process, the loan interests of original projects were not able to be capitalized, and increasing of bank loans.
5. Loss of asset impairment: Mainly because the Company has enforced retrieving of trading funds, thus the asset impairment was decreased.
6. Gains from fair value: increased over the previous term, mainly caused by adopting of new accounting standard, and gains generated from evaluating of convertible bonds on fair value basis.
7. Non-business income: Mainly caused by increase of governmental subsidies.
8. Net profit: change in the report term was caused by increasing of profit by RMB169.9 million caused by evaluating of convertible bonds on fair value basis.

**3.2 Progress of significant events, their influence, countermeasures, and analysis**

√ applicable    □ not applicable

1. On April 1, 2007, the 1<sup>st</sup> Shareholders' Special Meeting 2007 adopted the proposal on placing of H shares. The related information is available on April 3, 2007 issues of China Securities Journal, Hong Kong Commercial Daily and <http://www.cninfo.com.cn>. At present

the preparation works are under processing.

2. On April 6, 2007, the 21<sup>st</sup> meeting of the 4<sup>th</sup> term of Board adopted the "Proposal on repurchasing the convertible bonds that are satisfying the repurchasing conditions and not converted in to shares yet". It was decided that, upon satisfying of the above conditions, according to the procedures set forth in the Placing Prospectus, to repurchase the bonds which are not converted yet before the repurchasing day at 105% of the face value (including current interest). Details about this event are available on April 10, 18, 19, and 20, 2007 issues of China Securities Journal, Hong Kong Commercial Daily and <http://www.cninfo.com.cn>.

### 3.3 Fulfilling of commitment issues made by the Company, shareholder, or substantial controller

applicable     not applicable

The share relocation plan has been accomplished on March 29<sup>th</sup> 2006. Shouguang State-owned Asset Administration Bureau and other holders of non-negotiable shares will pay part of their shares to A-share holders at 2.6 shares upon each 10 shares. In the report term, Shouguang State-owned Asset Administration Bureau was replaced by Shouguang Chenming Share Holding Co., Ltd. as the controlling shareholder of the Company. Shouguang Chenming Share Holding Co., Ltd. has committed to carry forward the commitments made by Shouguang State-owned Asset Administration Bureau, which are:

1. According to the financial statements of 2005-2007 (standard auditing report without qualified opinion), in case the integrated increment of net profit during 2005-2007 is lower than 20% (namely the cube root of the multiplied increasing ratios over the previous year during 2005-2007 is lower than 20%), the equal supplementary share equity registration date shall be confirmed within 5 working days after the Annual Report 2007 is published (The 10<sup>th</sup> day after the Annual Report 2007 is published.) and announcement on the supplementary of share equity. The supplementary share equity shall be implemented on consideration price at the day next to the registration day. Shouguang State-owned Asset Bureau shall transfer the shares at ratio of 5% of the total A shares upon the closing of market at the registration date to the holder of shares without subscription limitation. (In case of the share capital is changed due to distribution of bonus shares or capitalizing of common reserves during the registration date of this plan and the supplementary registration date, the amount of supplementary shares shall be adjusted correspondingly.)

2. Shouguang Chenming Share Holding Co., Ltd. shall not put the shares in market in 48 months from the launching of share relocation plan.

3. Whenever the share equity relocation scheme was approved, Shouguang Chenming Share Holding Co., Ltd. shall propose dividend plan in the Shareholders' General Meetings of 2005, 2006, and 2007. The proposed dividend distribution shall not lower than 30% of the distributable profit realized in the current year (namely the balance of net profit realized in the current year which has deducted the common reserves and statutory public welfares), and promises to vote affirmative on the proposal in the Shareholders' General Meeting.

In the report term, the controlling shareholder was fulfilling the commitment made for the relocation plan. All of the shares held are conditional negotiable shares. The shareholding status is not changed comparing with the negotiable day of the conditional shares.

### 3.4 Estimated accumulative profit from the year beginning to the end of the next report period may be of deficits; or in comparison with the same period of the previous year, give the warning of great change and the notice to the reasons.

Applicable     Non-applicable

Because of the influences due to adopting of new accounting standard on evaluation of the convertible bonds, it could make influence on the net profit of the next report term depending on the results of evaluation on the convertible bonds in the next report term.

### 3.5 Statement on differences between the shareholders' equities at the beginning of 2007 presented in the Balance Sheet of this quarterly report and the "Adjustment Form of Differences in Shareholders' Equity under Old and New Accounting Standards"

applicable     not applicable

**4. Attachment** Financial Statements**Consolidated Balance Sheet at 31 March 2007**

	Notes	2007.3.31 RMB'000	2006.12.31 RMB'000
None - Current Assets		15,009,152	14,605,503
Property, Plant and Equipment		13,896,603	13,627,676
Investment in Associates		80,821	79,891
Available - for - Sale Investments		5,910	5,910
Prepaid Lease Payments - Non - Current Portion		703,741	691,127
Deferred Tax Assets		40,970	31,024
Goodwill		20,284	20,284
Biological Assets		27,034	19,514
call option assets		233,789	130,077
Current Assets		6,767,321	5,973,427
Inventories		2,291,023	1,841,184
Trade and Other Receivables		3,584,789	3,299,012
Prepaid Lease Payments - Current Portion		9,506	6,962
Current Tax Assets			
Restricted bank Deposits		41,077	41,949
Band Balances and Cash		840,926	784,320
Asstets Classified as Held for Sale			
Total Assets		21,776,473	20,578,930
Equity and Liabilities			
Capital and Reserves			
Share Capital		1,451,322	1,365,670
Reserves		2,725,349	2,427,153
Retained Earnings		2,399,097	1,977,983
Equity Attributable to Equity Holders of the Parent		6,575,768	5,770,806
Minority Interests		1,649,602	1,703,564
Total Equity		8,225,370	7,474,370
Non - Current Liabilities		7,478,375	7,238,004
Borrowings - Amount due after one year		5,733,161	5,028,029
Convertible Loan Notes		1,374,408	1,807,605
Put option liabilities		33,427	65,976
Deferred Income		337,379	336,394
Deferred Tax Liabilities		0	
Current Liabilities		6,072,728	5,866,556
Trade and Other Payables		2,608,106	2,217,351
Borrowings - Amount due with in One year		1,339,986	1,547,755
Short Term Debentures		2,044,769	2,026,019
Current Tax Liabilities		61,180	56,744
Provision		17,987	17,987
Taxation Payable		0	
Dividend Payable		700	700
Liabilities Directly associated with Assets Classified as Held for Sale			
Total Liability		13,551,103	13,104,560
Total Equity and Liabilities		21,776,473	20,578,930

**Consolidated Income Statement for the Year Ended 31 March 2007**

	Notes	2007.1-3 RMB'000	2006.1-3 RMB'000
Continuing Operations			
Revenue		3,076,562	2,946,845
Cost of Sale		2,538,330	2,399,180
Gross Profit		538,232	547,665
Other Operating income		132,509	87,275
gain on disposal of a subsidiaries		0	0
changes fair value of options-Put		19,063	26,928
changes fair value of options-call		187,901	10,165
Share of Profit (Loss) of Associates		0	0
effect change price of CB		0	0
Distribution Expense		119,829	146,927
Administrative Expense		132,017	165,592
Finance Costs		141,600	114,905
Profit before Tax		484,259	244,609
Income Tax Expense		56,684	17,463
Profit for the Year from Continuing Operations		427,575	227,146
Discontinued Operation			
(Loss) Profit for the Year From Discontinued Operation			-
gain on disposal of a subsidiary(shanghai chenming)			
Profit for the year		427,575	227,146
Attributable to:			
Equity Holders of the Parent		387,310	202,264
Minority Interest		40,265	24,882
Earnings per Share			
From Continuing and Discontinued Operations:			
Basic			
Diluted			
From Continuing Operations:			
Basic			
Diluted			

**Consolidated Cashflow Statement for the Year Ended 31 March 2007**

	<b>2007-3-31</b>	<b>2006-3-31</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Operating activities		
Profit before taxation	427,575.00	227,146.00
Adjustments for:		
Share of loss (profit) of associates		
Gain on disposal of subsidiaries		
Interest income	-9,637	-6,561
Finance costs	98,078	100,074
Depreciation of property, plant and equipment	229,711	225,350
Lease payment charge	-	-
Release of government grants	-	-
Loss on disposal of property, plant and equipment	-208	-3,468
Impairment on property, plant and equipment	-	-
Allowances for bad and doubtful debts	23,209	55,177
Allowances for inventories	-	-
Impairment of available-for-sale investments	-	-
Investment income from available-for-sale investment	-	-
Loss on change in conversion price of convertible loan notes	-	-
Changes in fair value of embedded derivatives	-206,963	-37,094
Operating cash flows before movements	-	-
in working capital	561,765	560,623
Decrease (increase) in inventories	-449,839	-360,522
Increase in biological assets	7,519	-
Increase in trade and other receivables	-445,080	-914,517
(Decrease) increase in trade and other payables	637,362	473,728
	-	-
Cash generated by operations	311,727	-240,687
Income taxes paid	-9,546	-5,511
Interest received	9,637	6,561
	-	-
Net cash from operating activities	311,819	-239,638
	-	-
Investing activities		
Purchase of property, plant and equipment and lease payment on land use right	-442,184	-302,729
Acquisition of interest in subsidiaries from minority interests	-	-
Investment in associates	-	-
Interest paid	-126,484	-83,967
Proceeds on disposal of property, plant and equipment	108	569
Proceeds on disposal of subsidiaries	-	-
Government grants received	-	-
Investment income received	-	-
	-	-
Net cash used in investing activities	-568,561	-386,128
	-	-
Financing activities		
New borrowings raised	1,494,487	2,934,006
Borrowings repaid	-1,182,392	-2,346,249
Proceeds from issue of short term debentures	-	-
Interest paid	-	-
Expense incurred in connection with the issue of short term debentures	-	-
Dividends paid	-	-
Dividends paid by subsidiaries to minority	-	-

shareholders of subsidiaries	-	-
Increase in restricted bank deposits	-872	-
Capital contribution by minority shareholders of subsidiaries	-	-
	-	-
Net cash from financing activities	311,224	587,757
	-	-
Net decrease in cash and cash equivalents	55,748	-37,572
Cash and cash equivalents at beginning of the year	826,270	1,006,359
Effects of exchange rate changes on the balance of cash held in foreign currencies	-14	-2
	-	-
Cash and cash equivalents at end of the year, representing Bank balances and cash	882,003	968,784