



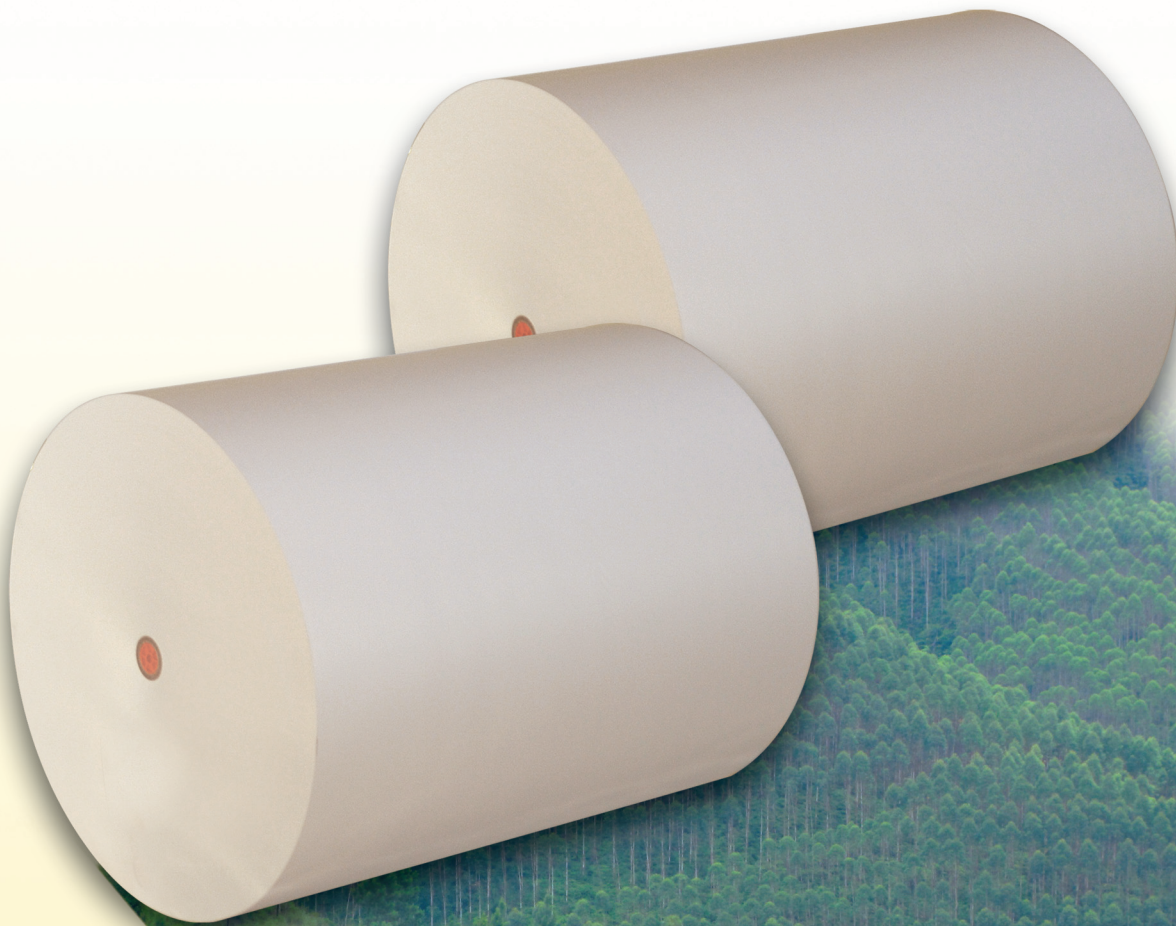
山東晨鳴紙業集團股份有限公司

SHANDONG CHENMING PAPER HOLDINGS LIMITED*

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

Stock code: 1812

ANNUAL REPORT 2010



Important:

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report (the “Report”), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

None of Directors, Supervisors and the Senior Management are unable to guarantee the truthfulness, accuracy and completeness of the annual report or disagree with the content of the annual report.

All Directors other than Ms. Wang Yumei, an independent Director, who was absent due to sick leave, were present at the Board meeting which approved this annual report.

Chen Hongguo, the chairman of the Company, Wang Chunfang, the financial controller of the Company, and Li Dong, the head of the finance department, declare that they guarantee the truthfulness and completeness of the financial statements of the 2010 Annual Report.

Definitions: “Company”, “the Company”, and “Chenming Paper”, “us”, and “we” refer to Shandong Chenming Paper Holdings Limited, and the Company and its subsidiaries are collectively referred to as “the Group” in this report, unless otherwise specified.

Contents

I. Company Information	2-3
II. Summary of Financial and Operating Results	4-8
III. Changes in Share Capital and Shareholders	9-14
IV. Directors, Supervisors and Senior Management and the Staff	15-27
V. Corporate Governance Report	28-41
VI. Particulars about the General Meeting	42
VII. Chairman's Statement	43-45
VIII. Director's Report	46-76
IX. Supervisory Committee's Report	77-78
X. Material Matters	79-94
XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises	95-232
XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards	233-297
XIII. Documents Available for Inspection	298

I Company Information

1. Legal Chinese name of the Company: 山東晨鳴紙業集團股份有限公司
Legal English name of the Company: SHANDONG CHENMING PAPER HOLDINGS LIMITED
Abbreviation of the English name: SCPH
2. Legal Representative of the Company: Chen Hongguo
3. Secretary to the Board of the Company: Hao Yun
Company Secretary: Poon Shiu Cheong
Securities Affairs Representatives: Fan Yingjie
Correspondence Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province
Telephone: (86)-0536-2158011, (86)-0536-2156488
Facsimile: (86)-0536-2158640
Email address: chenmingpaper@163.com
4. Registered Address and Office address of the Company: No. 595 Shengcheng Road, Shouguang City, Shandong Province
Postal Code: 262700
Website of the Company: <http://www.chenmingpaper.com>
5. Designated Newspapers for Information Disclosure: China Securities Journal and Hong Kong Commercial Daily
Designated Domestic Website for the Publication of the Annual Report as approved by China Securities Regulatory Commission: <http://www.cninfo.com.cn>
Designated Overseas Website for the Publication of the Annual Report: <http://www.hkex.com.hk>
Places for Inspection of the Company's Annual Report: Capital operation department of the Company
6. Stock Information
A shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鳴紙業
Stock Code: 000488

B shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鳴 B
Stock Code: 200488

H shares
The Stock Exchange of Hong Kong Limited
Stock Abbreviation: Chenming Paper
Stock Code: 1812

I Company Information

7. Share Registrar
A Share and B Share Registrar: China Securities Depository and Clearing Corporation Limited Shenzhen Branch
18th Floor, CITIC Plaza, 1093 Shennan Zhong Road, Shenzhen
H Share Registrar: Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
8. Other Relevant Information
Date of Change in Registration of the Company: 27 September 2008
Registered Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province
Legal Person Business License Registration Number: 370000400001170
Taxation Registration Number: 370783613588986
Organisation No.: 61358898-6
9. PRC and International Auditors Retained by the Company
PRC Auditors: RSM China Certified Public Accountants
Office Address: 23/F., Block A, No.8 Building, Shuntai Square, 2000, Shunhua Road, Jinan High-tech Industrial Development Zone
International Auditors: RSM Nelson Wheeler
Office Address: 29/F., Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong
10. PRC and Hong Kong Legal Advisers Retained by the Company
PRC Legal Advisers: Beijing Hylands Law Firm
5A1, 5th Floor, East Zone, Hanwei Plaza, No. 7 Guanghua Road, Chaoyang District
Hong Kong Legal Advisers: Li & Partners
22nd Floor, World Wide House, Central, Hong Kong
11. Principal Bankers
Industrial and Commercial Bank of China, Shouguang Branch
No. 118 Guangchang Street, Shouguang City, Shandong Province, PRC

II Summary of Financial and Operating Results

I. Major financial data for the year of the Group

(I) Financial highlights prepared in accordance with Accounting Standards for Business Enterprises

Unit: RMB

No	Key financial indicators	Amounts
1	Operating profit	1,433,750,743.06
2	Total profit	1,562,354,564.20
3	Net profit attributable to equity holders of the Company	1,163,341,066.21
4	Net profit after extraordinary gains or losses attributable to equity holders of the Company	1,034,233,761.46
5	Net cash flows from operating activities	850,328,927.00

Unit: RMB

Extraordinary gains or losses items	Amounts
Gains or losses on held-for-trading financial assets, other than effective hedging activities associated with the ordinary course of business of the Company	1,521,172.98
Reversal of impairment provision on receivables tested for impairment on individual basis	
Net gain or loss on disposal of non-current assets	-5,495,594.30
Government grants received	96,530,256.72
Net gains or losses attributable to debt restructuring	54,841.22
Gains or losses on change in fair value of consumable biological assets	54,752,250.58
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	
Non-operating net gain or loss other than the above	5,913,389.74
Effect of extraordinary gains or losses on income tax	-4,961,885.60
Effect of minority interests	-19,207,126.59
Total	129,107,304.75

II Summary of Financial and Operating Results

(II) Financial highlights prepared in accordance with International Financial Reporting Standards

Unit: RMB million

Results items	2010	2009	2008	2007	2006
Revenue	17,099.7	14,815.3	15,430.9	14,878.9	11,714.0
Cost of sales	-13,616.8	-11,998.4	-12,472.9	-11,845.6	-9,461.7
Gross profit	3,482.9	2,816.9	2,958.0	3,033.3	2,252.3
Other income	234.2	306.6	500.5	462.3	315.2
Gain on disposal of subsidiaries	-	-	-	-	35.9
Gain on change in fair value of financial assets held for trading	1.5	8.4	1.7	6.0	-
Gain on change in fair value less estimated point-of-sale cost of biological assets	54.8	9.9	0.9	24.4	-
Distribution expenses	-873.8	-774.7	-705.6	-783.3	-677.8
Administrative expenses	-915.3	-637.6	-542.7	-653.2	-557.4
Other expenses	-70.5	-139.6	-	-	-
Impairment loss on property, plant and equipment	-22.5	-4.5	-8.5	-	-
Reversal of allowance for (allowance for) inventories	3.0	22.7	-127.7	-0.9	-
Loss on change in conversion price of convertible loan notes	-	-	-	-	-229.4
Finance costs	-282.7	-384.0	-462.6	-555.7	-512.6
Share of results of associates	-13.9	-15.7	-23.2	-9.5	-0.5
Profit before tax	1,597.8	1,208.4	1,590.8	1,523.4	625.7
Income tax expense	-260.7	-219.0	-295.8	-270.8	-100.7
(Loss) profit from discontinued operation for the year	-	-	-	-	36.3
Profit for the year before minority interests	1,337.1	989.4	1,295.0	1,252.6	561.3
Profit attributable to minority interests	146.8	126.4	192.7	258.6	160.7
Profit attributable to owners of the Company	1,190.3	863.0	1,102.3	994.0	400.6
Total assets	35,001.1	28,126.1	26,207.3	21,913.7	20,467.5
Total liabilities	20,034.8	13,718.4	12,550.3	11,733.4	13,011.5
Minority interests	1,723.4	1,735.7	1,744.8	1,809.1	1,703.6
Equity attributable to owners of the Company	13,242.9	12,672.0	11,912.2	8,371.2	5,752.4
Financial indicators	2010	2009	2008	2007	2006
Basic earnings per share	0.58	0.42	0.58	0.62	0.29
Net assets per share	6.42	6.15	5.78	4.91	4.21
Rate of return on net assets	8.99%	6.81%	9.25%	11.87%	6.96%

II Summary of Financial and Operating Results

II. Effect of adjustment in accordance with International Financial Reporting Standards on net profit and net assets

Net profit attributable to owners of the Company in the consolidated Financial Statements 2010 prepared in accordance with Accounting Standards for Business Enterprises by the Company was RMB1,163,341,066.21, and net assets attributable to shareholders' equity of the Company were RMB13,535,785,794.54. The main differences with the net profit and net assets set out in the financial statements prepared in accordance with International Financial Reporting Standards were as follows:

Items	Unit: RMB	
	As at 31 December 2010 Net assets attributable to owners of the Company	For the year ended 31 December 2010 Net profit attributable to owners of the Company
Amounts set out in the financial statements prepared in accordance with International Financial Reporting Standards	13,242,894,916.36	1,190,339,176.67
Special fund for treasury bonds received and special accounts payables	278,967,193.37	-24,031,194.45
Exchange gains or losses from special foreign currency borrowings	13,923,684.81	-2,966,916.01
Amounts set out in the financial statements prepared in accordance with Accounting Standards for Business Enterprises	13,535,785,794.54	1,163,341,066.21

Note: In years prior to 2006, according to the principles of the Accounting Standards for Business Enterprises, the Company accounted for special fund for treasury bond received and special accounts payable related to construction of relevant fixed assets into capital reserve. However, according to the International Financial Reporting Standards, the Group accounted for such special fund for treasury bond received and special accounts payable into deferred income and such deferred income were amortised by instalments over the useful lives of the fixed assets.

II Summary of Financial and Operating Results

III. Major financial data and indicators of the last three years prepared in accordance with Accounting Standards for Business Enterprises

Unite: RMB

Items / Indicators	2010	2009	Increase / decrease (%)	2008
Revenue from operations	17,203,123,029.49	14,884,629,349.50	15.58%	15,529,593,435.77
Total profit	1,562,354,564.20	1,172,922,631.23	33.20%	1,555,339,310.69
Net profit attributable to equity holders of the Company	1,163,341,066.21	835,947,981.16	39.16%	1,075,291,741.53
Net profit after extraordinary gains or losses attributable to equity holders of the Company	1,034,233,761.46	715,103,042.84	44.63%	854,268,917.39
Net cash flows from operating activities	850,328,927.00	1,639,034,259.99	-48.12%	1,934,140,803.04
Basic earnings per share	0.56	0.41	36.59%	0.57
Diluted earnings per share	N/A	N/A	N/A	N/A
Basic earnings per share after extraordinary gains or losses	0.50	0.35	42.86%	0.45
Fully diluted return on net assets	8.59%	6.43%	Increased by 2.16 percentage points	8.77%
Weighted average return on net assets	8.80%	6.63%	Increased by 2.17 percentage points	10.24%
Fully diluted return on net assets after extraordinary gains or losses	7.64%	5.50%	Increased by 2.14 percentage points	6.97%
Weighted average return on net assets after extraordinary gains or losses	7.87%	5.67%	Increased by 2.2 percentage points	8.13%
Net cash flows per share from operating activities	0.41	0.79	-48.10%	0.94
	As at 31 December 2010	As at 31 December 2009	Increase / decrease (%)	As at 31 December 2008
Total assets	35,077,132,129.98	28,213,084,875.02	24.33%	26,299,495,745.01
Owners' equity (or shareholders' equity)	13,535,785,794.54	12,991,904,321.68	4.19%	12,259,078,901.99
Net assets per share attributable to equity holders of the Company	6.56	6.30	4.13%	5.95

II Summary of Financial and Operating Results

IV. Rate of Return on net assets and earnings per share in accordance with Preparation Criteria of Information Disclosure by Companies Offering Securities to the Public No. 9 issued by China Securities Regulatory Commission

	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic earnings per share	Fully diluted earnings per share
Net profit attributable to equity holders of the Company	8.59%	8.80%	0.56	N/A
Net profit after extraordinary gains or losses attributable to equity holders of the Company	7.64%	7.87%	0.50	N/A

III Changes in Share Capital and Shareholders

I. Changes in share capital

Unit: shares

	Opening balance		Increase/decrease (+/-) resulting from changes in the reporting period				Closing balance		
	Number of shares	Percentage	Increase in lock- up shares	Release of restricted shares	Disposal		Sub- total	Number of shares	Percentage
					of state- owned shares	Issue of new shares			
I. Restricted shares	303,298,805	14.71%	444,918	-731,751	—	—	-286,833	303,011,972	14.69%
of which: State-owned legal person shares	293,003,657	14.21%	—	—	—	—	—	293,003,657	14.21%
Shares held by Senior Management	10,295,148	0.5%	444,918	-731,751	—	—	-286,833	10,008,315	0.48%
II. Non-restricted shares	1,758,747,136	85.29%	-444,918	731,751	—	—	286,833	1,759,033,969	85.31%
of which: Renminbi ordinary shares (A shares)	809,979,651	39.28%	-444,918	731,751	—	—	286,833	810,266,484	39.30%
Domestic listed foreign shares (B shares)	557,497,485	27.04%	—	—	—	—	—	557,497,485	27.04%
Overseas listed foreign shares (H shares)	391,270,000	18.97%	—	—	—	—	—	391,270,000	18.97%
III. Total number of shares	2,062,045,941	100.00%	—	—	—	—	—	2,062,045,941	100.00%

Note: During the reporting period, the restricted shares held by the Senior Management changed by 286,833 shares from 10,295,148 shares to 10,008,315 shares. The reasons for such change were as follows:

- (1) According to the Practice Guidance for the Company's shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份管理業務操作指南》), the shares held by the existing Directors, Supervisors and Senior Management would be unlocked up on the basis of the percentage of 25% of the shares held as at the beginning of each year. During the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by former Senior Management of the Company less than six months after leaving office changed to restricted shares, i.e. 182,938 shares, and the nature of the 261,980 shares held by newly appointed Senior Management changed from non-restricted RMB ordinary shares (A shares) to restricted shares held by Senior Management.

III Changes in Share Capital and Shareholders

I. Changes in share capital (Cont'd)

Note (Cont'd)

- (2) During the reporting period, the sales restriction on the shares held by former Directors and Senior Management of the Company more than six months after leaving office expired and was released. Therefore, the nature of the 731,751 shares, used to be held by the Senior Management, was changed from restricted shares held by the senior management to the non-restricted RMB ordinary shares (A shares).

II. Offering of shares and listing of the Company in the last three years

- As approved by the approval document [2008] No. 290 "On Approval of the Issue of Overseas Listed Foreign Shares by Shandong Chenming Paper Holdings Ltd. from China Securities Regulatory Commission (the "CSRC")", and the approval from the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Company issued overseas listed foreign shares (H shares) through public offer. The offer price of this global offering was HK\$9.00 per H share, and the Company offered 355,700,000 H shares for the global offering, of which, 35,570,000 H shares were offered in the Hong Kong public offering and the remaining 320,130,000 H shares were offered in the international offering. 35,570,000 state-owned legal person shares were transferred to NSSF Council due to the reduction of shareholding of state-owned shares by the Company's relevant state-owned corporate shareholders, and were converted into overseas listed foreign shares (H shares). A total of 391,270,000 H shares were listed on the main board of the Hong Kong Stock Exchange on 18 June 2008. The Company's English abbreviation is "Chenming Paper" and its stock code is "1812".
- No staff shares of the Company have been issued.

III. Shareholders' profiles

1. Change in restricted shares

Unit: shares

Names of shareholders	Opening of balance of restricted shares	Restricted shares released during the year	Restricted shares increased during the year	Closing balance of restricted shares	Reasons for restriction	Date of release from restriction
Shouguang Chenming Holdings Company Limited	293,003,657	0	0	293,003,657	Restriction under the Reform of Non-tradable shares	29 March 2010
Shares held by Senior Management of the Company	10,295,148	731,751	444,918	10,008,315	Lock-up of shares held by senior management of the Company	Released under the relevant requirements of Shenzhen Stock Exchange
Total	303,298,805	731,751	444,918	303,011,972	—	—

Note: The restriction period for the 293,003,657 restricted shares of the Company held by Shouguang Chenming Holdings Company Limited, the controlling shareholder of the Company, expired on 29 March 2010. The relevant procedure for the release from sales restriction will be processed upon confirmation from the controlling shareholder regarding such release from sales restriction.

III Changes in Share Capital and Shareholders

III. Shareholders' profiles (Cont'd)

2. Top ten shareholders and the top ten shareholders of non-restricted shares

Unit: shares

Total number of shareholders The total number of shareholders was 168,277, of which, 137,413 were holders of A shares, 30,232 were holders of B shares and 632 were holders of H shares.

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held	Number of restricted shares held	Number of shares pledged or locked-up
HKSCC Nominees Limited	Overseas non-state-owned legal person (foreign shareholder)	18.91%	389,900,000	0	Unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	None
PLATINUM ASIA FUND	Overseas legal person	2.15%	44,366,377	0	Unknown
BBH BOS S/A FIDELITY FD – CHINA FOCUS FD	Overseas legal person	1.38%	28,500,195	0	Unknown
HTHK-MANULIFE CHINA VALUE FUND	Overseas legal person	1.11%	22,892,182	0	Unknown
MANULIFE GLOBAL FUND	Overseas legal person	0.99%	20,324,321	0	Unknown
BILL & MELINDA GATES FOUNDATION TRUST	Overseas legal person	0.75%	15,407,244	0	Unknown
DRAGON BILLION CHINA MASTER FUND	Overseas legal person	0.67%	13,853,877	0	Unknown
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen	Domestic non-state-owned legal person	0.62%	12,819,945	0	Unknown
Bank of China - EFUND SSE100 ETF	Domestic non-state-owned legal person	0.57%	11,723,527	0	Unknown

III Changes in Share Capital and Shareholders

III. Shareholders' profiles (Cont'd)

2. Top ten shareholders and the top ten shareholders of non-restricted shares (Cont'd)

Shareholding of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held	Class of shares
HKSCC Nominees Limited	389,900,000	H share
PLATINUM ASIA FUND	44,366,377	B share
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	28,500,195	B share
HTHK-MANULIFE CHINA VALUE FUND	22,892,182	B share
MANULIFE GLOBAL FUND	20,324,321	B share
BILL & MELINDA GATES FOUNDATION TRUST	15,407,244	A share
DRAGON BILLION CHINA MASTER FUND	13,853,877	B share
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen	12,819,945	A share
Bank of China - EFUND SSE100 ETF	11,723,527	A share
China Everbright Bank Co., Ltd. - 光大保德信量化核心證券投資基金	10,355,145	A share

Connected relationship or concert-party relationship among the above shareholders

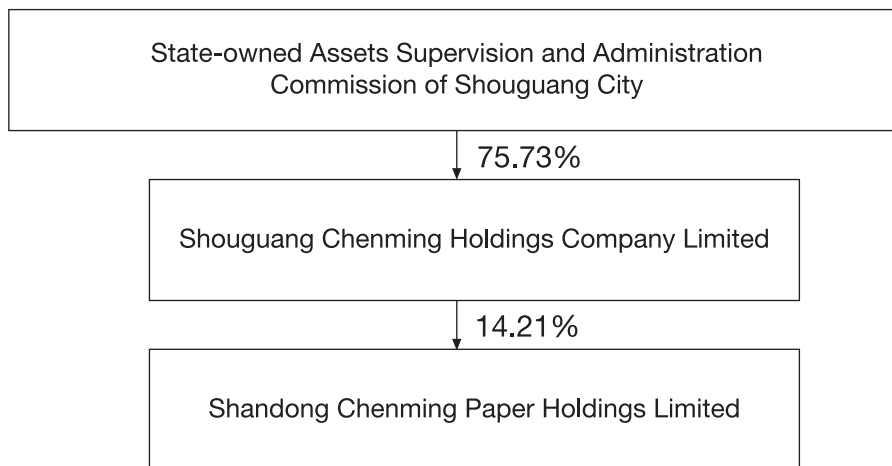
Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the other shareholders. Save for the above, the Company is not aware that any other shareholders of outstanding shares as aforesaid are connected with others.

III Changes in Share Capital and Shareholders

III. Shareholders' profiles (Cont'd)

3. Profile of controlling shareholders and beneficial controllers

- (1) The Company's controlling shareholders and beneficial controllers remained unchanged during the reporting period.
- (2) The controlling shareholder of the Company, Shouguang Chenming Holdings Company Limited (hereinafter referred to as "Chenming Holdings"), was established on 30 December 2005 with registered capital of RMB1.685 billion. Its legal representative is Chen Hongguo and its scope of business is investment in paper-making, electricity, steam and forestry projects. At the end of the reporting period, it held 293,003,657 state-owned legal person shares, representing 14.21% of the total share capital of the Company.
- (3) State-owned Assets Supervision and Administration Commission of Shouguang City is the controlling shareholder of Chenming Holdings, holding 75.73% equity interests in Chenming Holdings. Person in charge of the unit is Zhang Yuhua. Scope of business is administration and supervision of state-owned assets, properties and titles belonging to Shouguang City.
- (4) Chart illustrating the relationship between the Company and the beneficial controllers



III Changes in Share Capital and Shareholders

III. Shareholders' profiles (Cont'd)

4. The Company's substantial shareholders' and other persons' interest in shares or debentures

As at 31 December 2010, the following shareholders (other than the directors, supervisors or chief executives of the Company) had interests or short positions in the Company's shares and underlying shares as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong):

Name	Number of shares held (share)	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
Shouguang Chenming Holdings Company Limited	293,003,657 A shares (L)	14.21	26.32
JPMorgan Chase & Co.	30,914,000 H shares (L)	1.50	7.90
	30,200,500 H shares (P)	1.46	7.72
Cheah Capital Management Limited	43,087,000 H shares (L)	2.09	11.01
Cheah Cheng Hye	43,087,000 H shares (L)	2.09	12.43
Cheah Company Limited	43,087,000 H shares (L)	2.09	12.43
Hang Seng Bank Trustee International Limited	43,087,000 H shares (L)	2.09	12.43
To Hau Yin	43,087,000 H shares (L)	2.09	12.43
Value Partners Group Limited	43,087,000 H shares (L)	2.09	12.43
Value Partners Limited	43,087,000 H shares (L)	2.09	12.43
Schroder Investment Management (Hong Kong) Limited	30,953,500 H shares (L)	1.50	7.91
The National Social Security Fund Council	35,570,000 H shares (L)	1.73	9.09
FIL Limited	31,968,500 H shares (L)	1.55	7.99
Invesco Hong Kong Limited	21,128,000 H shares (L)	1.02	5.40

(L) – Long position

(S) – Short position

(P) – Lending pool

Save as disclosed above, as at 31 December 2010, no other person had interests or short positions in the Company's shares or underlying shares as recorded in the register maintained under section 336 of the SFO.

5. Purchase, sale and redemption of shares

The Group did not purchase, sell or redeem any listed outstanding securities of the Company during the reporting period.

IV Directors, Supervisors and Senior Management

I. Changes in shareholdings and remunerations of the Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Terms in office	Shares held as at the beginning of the year (shares)	Shares held as at the end of the year (shares)	Change in number of shares (shares)	Reasons for change	Total remuneration received from the Company during the reporting period (RMB'0000) (before tax)	Specify whether or not he/she received any remuneration from any shareholder of the Company or any other related parties
I. Executive Directors										
Chen Hongguo	Chairman	M	46	April 2010 - April 2013	6,334,527	6,334,527	0	—	498	No
Yin Tongyuan	Vice-chairman	M	53	April 2010 - April 2013	3,231,520	2,423,640	-807,880	—	298	No
Li Feng	Director, standing deputy general manager and sales controller	M	38	April 2010 - April 2013	471,818	471,818	0	—	142.75	No
Geng Guanglin	Director amd deputy general manager	M	37	April 2010 - April 2013	437,433	437,433	0	—	107.85	No
Tan Daocheng	Director	M	44	April 2010 - April 2013	185,700	185,700	0	—	108.04	No
Hou Huancai	Director	M	49	April 2010 - April 2013	628,915	628,915	0	—	115.53	No
Zhou Shaohua	Director	M	49	April 2010 - April 2013	123,007	123,007	0	—	130.16	No
II. Non-executive Directors										
Cui Youping	Director	M	47	April 2010 - April 2013	0	0	0	—	5	No
Wang Xiaqun	Director	M	55	April 2010 - April 2013	0	0	0	—	5	No
Wang Fengrong	Director	F	42	April 2010 - April 2013	0	0	0	—	5	No
III. Independent non-executive Directors										
Zhang Zhiyuan	Independent Director	M	48	April 2010 - April 2013	0	0	0	—	5	No
Wang Aiguo	Independent Director	M	47	April 2010 - April 2013	0	0	0	—	5	No
Zhang Hong	Independent Director	F	46	April 2010 - April 2013	0	0	0	—	5	No
Wang Yumei	Independent Director	F	48	April 2010 - April 2013	0	0	0	—	5	No
Wang Xiangfei	Independent Director	M	60	April 2010 - April 2013	0	0	0	—	12.50	No
IV. Supervisors										
Gao Junjie	Chairman of Supervisory Committee	M	40	April 2010 - April 2013	39,606	39,606	0	—	39.59	No
Wang Ju	Supervisor	F	45	April 2010 - April 2013	0	0	0	—	14.79	No
Yang Hongqin	Supervisor	F	43	April 2010 - April 2013	0	0	0	—	17.05	No
Yin Qixiang	Supervisor	M	73	April 2010 - April 2013	0	0	0	—	2.5	No
Guo Guangyao	Supervisor	M	68	April 2010 - April 2013	0	0	0	—	2.5	No

IV Directors, Supervisors and Senior Management

I. Changes in shareholdings and remunerations of the Directors, Supervisors and Senior Management (Cont'd)

Name	Position	Sex	Age	Terms in office	Shares held as at the beginning of the year (shares)	Shares held as at the end of the year (shares)	Change in number of shares (shares)	Reasons for change	Total remuneration received from the Company during the reporting period (RMB'0000) (before tax)	Specify whether or not he/she received any remuneration from any shareholder or any other related parties
V. Senior Management										
Wang Baoliang	Deputy general manager	M	37	April 2010 - April 2013	209,200	209,200	0	—	97.90	No
Li Xueqin	Deputy general manager	F	45	April 2010 - April 2013	429,348	429,348	0	—	109.96	No
Hao Yun	Deputy general manager, secretary to the Board of Directors	M	48	April 2010 - April 2013	708,441	708,441	0	—	76.97	No
Wang Zaiguo	Deputy general manager	M	48	April 2010 - April 2013	195,600	146,700	-48,900	—	103.77	No
Wang Shihong	Deputy general manager	M	47	April 2010 - April 2013	0	0	0	—	47.76	No
Zhao Liqun	Deputy general manager	M	39	August 2010 - August 2013	0	0	0	—	91.19	No
Zhang Yanjun	Deputy general manager	M	45	August 2010 - August 2013	102,393	102,393	0	—	87.55	No
Hu Changqing	Deputy general manager	M	45	April 2010 - April 2013	1,238	1,238	0	—	166	No
Zhang Chunlin	Deputy general manager	M	42	April 2010 - April 2013	245,674	245,674	0	—	101.85	No
Wang Chunfang	Financial controller	M	35	April 2010 - April 2013	0	0	0	—	105.58	No
Poon Shiu Cheong	Company secretary	M	41	April 2010 - April 2013	0	0	0	—	12.85	No
Total	—	—	—	—	13,344,420	12,487,640	-856,780	—	2,525.64	—

Note: None of the Directors, Supervisors and Senior Management of the Company had received any remuneration from any shareholder of the Company or any other related parties. The remuneration for Poon Shiu Cheong, the company secretary of the Company, was HK\$151,200.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions

1. Brief Biographies of Directors

(1) Brief biographies of executive Directors

Mr. Chen Hongguo, who joined the Company in 1987, had held different positions including chief officer of manufacturing section, chief officer of branch factory, deputy general manager, Director of the Company and the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., etc. He is currently the Chairman and general manager of the Company and the chairman and general manager of Shouguang Chenming Holdings Company Limited. Mr. Chen Hongguo is the spouse of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Yin Tongyuan, who joined the Company in 1982, had held different positions including the chief officer of manufacturing section, director of technology department, deputy factory chief, standing deputy factory chief and general manager. He is currently the vice-chairman of the Company and a director of Shouguang Chenming Holdings Company Limited.

Mr. Li Feng, who joined the Company in 1992, had held different positions including the chief officer of manufacturing section, assistant to the general manager, deputy general manager of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., deputy general manager, and chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. He is currently the executive Director and the standing deputy general manager and sales controller of the Company and a director of Shouguang Chenming Holdings Company Limited. Mr. Li Feng is the brother of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Geng Guanglin, who joined the Company in 1992, had held different positions including the chief officer of manufacturing section, the deputy general manager of Chibi Chenming Paper Co., Ltd, the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. the chairman of Jilin Chenming Paper Co., Ltd. and the chairman of Jiangxi Chenming Paper Co., Ltd.. He is currently a Director and the deputy general manager of the Company in charge of duties in Jiangxi Chenming, Wuhan Chenming and a director of Shouguang Chenming Holdings Company Limited.

Mr. Tan Daocheng, who joined the Company in 1984, had held different positions including the deputy general manager of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., the chairman and general manager of Hailaer Chenming Paper Co., Ltd., the chief of the offset paper factory and the white paper board factory of the Company, and the chairman of Jiangxi Chenming Paper Co., Ltd.. He is currently a Director of the Company and the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., Chibi Chenming Paper Co., Ltd, currently in charge of duties in Jilin Chenming and a director of Shouguang Chenming Holdings Company Limited.

Mr. Hou Huancai, who joined the Company in 1983, had held different positions including the chief officer of manufacturing section, chief of branch factory, the chairman of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., the chairman of Jilin Chenming Paper Co., Ltd. and Jiangxi Chenming Paper Co., Ltd. and the chairman of the 1st and 2nd Supervisory Committee of the Company. He is currently a Director of the Company and the chairman of the Qihe Chenming.

Mr. Zhou Shaohua, who joined the Company in 1997, had held different positions including the standing deputy general manager, chief engineer, vice-chairman of Wuhan Chenming Hanyang Paper Holdings Co. Ltd. and the chairman of Jiangxi Chenming Paper Co., Ltd. He is currently a Director of the Company and the party committee secretary of Zhanjiang Chenming Paper Pulp Co., Ltd.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)

1. Brief Biographies of Directors (Cont'd)

(2) Brief biographies of non-executive Directors of the Company

Mr. Cui Youping had held positions of deputy chief and chief of the Department of Economics as well as the chief of scientific research in Shandong Economic University, and currently holds positions including associate Dean of the Shandong Economic University, the vice chairman of Institute of Economics of Shandong Province and the Institute of Commerce and Economics of Shandong Province, and has served as a non-executive Director of the Company since April 2010.

Ms. Wang Fengrong was previously a lecturer at the Department of Finance of Shandong Economic University (山東經濟學院財金系) and an associate professor at the Economic Research Center of Shandong University (山東大學經濟研究中心). She currently holds positions including assistant to Dean of school of Economic of Shandong University (山東大學經濟學院), and is also an advisor to doctoral students of Massey University in New Zealand, as well as guest analyst regarding policy implementation of currency and credit matters for the Jinan branch of the People's Bank of China. She has served as an independent non-executive Director of the Company since April 2010.

Mr. Wang Xiaoqun was the chief of the corporate finance unit of the Shouguang City Finance Bureau (壽光市財政局企財科科長) between 1984 and 1988, and was the deputy chief of the State-owned Assets Supervision and Administration Commission of Shouguang City between 1989 and November 2008. He retired in December 2008. He has served as a non-executive Director of the Company since April 2010.

(3) Brief biographies of independent non-executive Directors

Mr. Wang Aiguo, previously held positions including deputy chief of Department of Accounting of Shandong Economic University and deputy chief of the Department of Post-graduate Students of Shandong Economic University. He is currently the Dean of the School of Accounting of Shandong Economic University and executive chairman of the Nationwide Asset Valuation Education Association (全國資產評估教學研究會), director of the Accounting Society of China (中國會計學會), vice-chairman and secretary-general of Shandong Province Accounting Education Committee (山東省會計教育委員會) and member of the Shandong Province Enterprise Credit Rating Experts Commission (山東省企業信用評級專家委員會). He also serves as an independent director of Shandong Laiwu Steel Corporation, China Corn Oil Company Limited and Hisense Kelon Electrical Holdings Co. Ltd. He has served as an independent non-executive Director of the Company since April 2010.

Mr. Zhang Zhiyuan previously served as the deputy chief of Department of Finance of Shandong Economic University, and is currently the Dean of the School of Finance of Shandong Economic University, deputy chief of the Blue Shandong Peninsula Economic Zone Research Center (山東半島藍色經濟研究中心), Dean of Shandong Regional Economic Research School (山東區域經濟研究院), as well as standing director and member of the academic committee of Shandong Province Finance Association (山東省金融學會常務理事、學術委員會委員). He also serves as an independent director of Shandong Tyan Home Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)

1. Brief Biographies of Directors (Cont'd)

(3) Brief biographies of independent non-executive Directors (Cont'd)

Ms. Wang Yumei had held positions including committee member of the 6th and 7th People's Political Consultative Committee of Haidian District, Beijing City and committee member of the Committee for Social and Legal Affairs. She has undertaken teaching, research and managerial duties at the Department of Economics and Management and School of Insurance of the Central University of Finance and Economics (中央財經大學經濟管理系、保險學院). She is currently the associate Dean at the School of Insurance of the Central University of Finance and Economics, a standing director of the Labor Science Education Branch of the China Association for Labor Studies (中國勞動學會勞動科學教育分會) and a committee member of the Beijing City Economic Committee of the China National Democratic Construction Association (北京市經濟企業委員會), etc. She has served as an independent non-executive Director of the Company since April 2007.

Ms. Zhang Hong currently a professor and advisor to doctoral students at Shandong University, head of a multi-national corporation research institute, director of China Association of International Trade (中國國際貿易學會), director of Shandong Province External Trade Association (山東省對外貿易學會), director of Shandong Province Commerce Association (山東省商業學會) and director of Shandong Province Japanese Association (山東省日本學會). She is also an independent director of Zhongtong Bus & Holding Co., Ltd. and Shandong Haihua Company Limited. She has served as an independent non-executive Director of the Company since April 2010.

Mr. Wang Xiangfei was the director and assistant general manager of China Everbright Holdings Co., Ltd. and was the executive director in various companies controlled by China Everbright Holdings Co., Ltd., while he also held positions including chief of office of Asset Disposal Committee of China Everbright Group (光大集團資產處置委員會辦公室) and director of China Everbright Investment Management Corporation. Mr. Wang has extensive experience in the fields of investment, management, finance, accounting and treasury, etc. He currently serves as an independent non-executive director of China CITIC bank Corporation Limited and SEEC Media Group Limited (Hong Kong-listed companies). He has served as an independent non-executive Director of the Company since April 2010.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)

2. Brief biographies of Supervisors of the Company

Mr. Gao Junjie, who joined the Company in 1994, had held the positions of the chief officer of the legal section and chief officer of auditing department, etc. He is currently the chairman of supervisory committee, assistant to general manager, chief officer of capital operations department, supervisor of Shouguang Chenming Holdings Company Limited and supervisor of Shouguang Henglian Enterprise Investment Co. Ltd.

Mr. Yin Qixiang previously held positions including chief of Tizheng Department of Shougang City, Shandong Province (山東省壽光市體政部), chief of Economic and Trade Commission of Shougang City (壽光市經濟貿易委員會) and head of Qinghua Bureau of Shougang City (壽光市輕化局). He retired in 1998. He has served as a supervisor of the Company since April 2010.

Mr. Guo Guangyao worked for the Tai Hang Apparatus Factory of the Department of Aeronautics (航空部太行儀表廠) as chief craftsman and engineer between 1969 and 1981, for Shouguang Chemical Fertiliser Factory (壽光化肥廠) as deputy factory chief and party committee secretary between 1981 and 1987, Shouguang Beer Factory (壽光市啤酒廠) as party committee secretary and chief engineer between 1987 and 1989 and for Shouguang Economic and Trade Committee as deputy chief and secretary of CPC Working Committee and chief of Shouguang Enterprise Management Office in March 1990. He retired in December 2003. He has served as a supervisor of the Company since May 2009.

Ms. Wang Ju, who joined the Company in 1987, had held the positions of deputy chief officer and chief officer of manufacturing section, assistant to the general manager and deputy general manager of Shouguang Chenming and deputy general manager of Shouguang Chenming Pulp Manufacturing Factory (壽光晨鳴製漿工廠). She is currently a Supervisor of the Company.

Ms. Yang Hongqin, who joined the Company in 1987, held the positions of the deputy chief and chief officer of quality control section and the chief of after sale services department of the Company and manager of property management company. She is currently a Supervisor of the Company and assistant to general manager of Shandong Chenming Power Supply Holdings. Co., Ltd.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)

3. Brief biographies of Senior Management of the Company

Mr. Wang Baoliang held the positions of secretary, deputy chief, deputy chief of Bureau of Investigation, deputy chief of the Office and deputy secretary-general of the committee office of Shouguang City, etc. He joined the Company in October 2003, and currently serves as deputy general manager of the Company and a director of Shouguang Chenming Holdings Company Limited.

Mr. Hu Changqing joined the Company in 1988 and had held positions including the chief of the technological reform department, chief officer of branch factory, deputy general manager and Director of the Company, etc. He is currently the deputy general manager of the Company.

Ms. Li Xueqin was successively awarded titles including “Model Worker in Shandong Province” (山東省勞動模範), “Model Worker in the Country” (全國勞動模範) and “Nationwide May 1st Labor Medal” (全國五一勞動獎章). She was a representative of the Tenth and Eleventh National People’s Congress. She joined the Company in 1987 and held the positions of the chief of audit department and deputy general manager, etc. Ms. Li has been a deputy general manager of the Company and a director of Shouguang Chenming Holdings Company Limited since March 2003. Ms. Li Xueqin is the spouse of Mr. Chen Hongguo, chairman of the Company.

Mr. Hao Yun, who joined the Company in 1984, had held the positions of secretary of the communist youth league of the Company, chief of the labor & personnel department, chief of shares and securities office and assistant to the general manager, etc. He is currently a deputy general manager of the Company and secretary to the Board. He was named the “Golden Secretary to the Board” (金牌董秘) by New Fortune magazine (《新財富》) multiple times.

Mr. Wang Zaiguo, who joined the Company in 1987, had held the positions of the deputy chief of office, assistant to the general manager, deputy general manager of Shouguang Chenming, Supervisor of the Company, etc. He is currently a deputy general manager of the Company and the chairman of Zhanjiang Chenming Arboriculture Co., Ltd, Huanggang Chemical Arboriculture Co., Ltd., Xianning Chenming Arboriculture Co., Ltd., in charge of duties in arboriculture management department of the Company and the Chenming International Hotel.

Mr. Wang Shihong had held the positions of deputy secretary of China National Development and Planning Committee, general manager of administration department of Fuxing Pulp Co., Ltd., head of Office of Party Committee and assistant to the general manager of China Gaoxin Investment Group Corp. He became a deputy general manager of the Company in March 2006.

Mr. Zhang Chunlin joined the Company in 1986 and had held different positions including head of the production office, factory chief, the chairman of Jilin Chenming Paper Co., Ltd. and Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., as well as the chairman of Yanbian Chenming Paper Co., Ltd. and Fuyu Chenming Paper Co., Ltd. He is currently serving as the deputy general manager of the Company and the general manager of Jiangxi Chenming Paper Co., Ltd.

IV Directors, Supervisors and Senior Management

II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)

3. Brief biographies of Senior Management of the Company (Cont'd)

Mr. Zhang Yanjun joined the Company in 1985 and had held different positions including head of the production section, factory chief, and the director of Shandong Chenming Paper Group Qihe Paperboard Co. Ltd., a controlling subsidiary, and the general manager of Jilin Chenming Paper Co., Ltd. He is currently serving as the deputy general manager of the Company and in charge of production duties of the Company.

Mr. Zhao Liqun, who joined the Company in 1996, had held the positions of a manager of sales branch company and the chief representative of the sales management section. He is currently a deputy general manager and the deputy sales controller of the Company.

Mr Wang Chunfang, who joined the Company in 1997, had held different positions including a financial executive of a sales branch and a financial controller of sales head office of the Company, a financial controller of Jilin Chenming Paper Co., Ltd., an assistant to the general manager of the Company and chief of the finance department. He is currently the financial controller of the Company.

Mr. Poon Shiu Cheong is a Fellow Certified Public Accountant of Hong Kong Institute of Certified Public Accountants. He obtained a master degree in Accounting from Central Queensland University and a master degree in Business Administration from Southern Cross University. He joined the Company in 2008, and is currently the qualified accountant and company secretary of the Company.

IV Directors, Supervisors and Senior Management

III. Securities interests held by Directors, Supervisors and Senior Management under the SFO of Hong Kong

As at 31 December 2010, interests of the Company or its associated corporations (within the meaning of the Part XV of SFO) held by each of the Directors, Supervisors and Senior Management of the Company under section 352 of the SFO are set out as follows:

The Company

Name	Position	Number of shares (A shares) held at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Chairman and general manager	6,334,527
Yin Tongyuan	Executive Director and vice chairman	2,423,640
Li Feng	Executive Director	471,818
Geng Gauanglin	Executive Director	437,433
Tan Daocheng	Executive Director	185,700
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Cui Youping	Non-Executive Director	—
Wang Xiaoqun	Non-Executive Director	—
Wang Fengrong	Non-Executive Director	—
Zhang Zhiyuan	Independent Non-Executive Director	—
Wang Aiguo	Independent Non-Executive Director	—
Zhang Hong	Independent Non-Executive Director	—
Wang Yumei	Independent Non-Executive Director	—
Wang Xiangfei	Independent Non-Executive Director	—
Supervisors		
Gao Junjie	Supervisor	39,606
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—
Yin Qixiang	Supervisor	—
Guo Guangyao	Supervisor	—

IV Directors, Supervisors and Senior Management

III. Securities interests held by Directors, Supervisors and Senior Management under the SFO of Hong Kong (Cont'd)

Associated corporations

Name	Position	Name of associated corporations	Number of shares held at the beginning of the reporting period (shares)	Change during the period +/-	Number of shares held at the end of the reporting period (shares)
Chen Hongguo (Note 2)	Chairman	Shouguang Chenming Holdings Company Limited	231,000,000	—	231,000,000
		Shouguang Chenming Guangyuan Real Property Company Limited	1,371,000	—	1,371,000
Li Feng	Executive Director	Qihe Chenming Waste Collection Co., Ltd.	10,000	-10,000	0

Note 1: Save for the 6,334,527 A shares held personally, Chen Hongguo is deemed to be interested in the 429,348 A shares held by his spouse, Li Xueqin.

Note 2: Chen Hongguo and his spouse, Li Xueqin, collectively hold 43% equity interests in Shouguang Henglian Enterprise Investment Co. Ltd., (hereinafter referred to as "Shouguang Henglian"), as a result, Shouguang Henglian is deemed to be controlled by Chen Hongguo. As such, the 231,000,000 shares in Chenming Holdings (approximately 13.71% of the total share capital of Chenming Holdings) held by Shouguang Henglian is also deemed to be held by Chen Hongguo. Mr Chen Hongguo is also deemed to be interested in approximately 13.71% equity interests in Shouguang Chenming Guangyuan Real Property Company Limited (hereinafter referred to as "Guangyuan Real Estate") which is a wholly owned subsidiary of Chenming Holdings.

Note 3: According to the "capital contribution agreement", which is entered into in March 2011, Shouguang Hengtai Enterprise Investment Company Limited (hereinafter referred as "Shouguang Hengtai"), a limited company incorporated in the People's Republic of China on 15 September 2010 with a registered capital of RMB20.00 million and its business scope limited to making project investments other than paper making and the related businesses with the own capital of the enterprise and having no permission to be engaged in fund raising, financing and securities business and a total of 60% equity interest in which was held by Mr. Chen Hongguo and his spouse, Ms. Li Xueqin, will be deemed to hold a 60% equity interest in Guangyuan Real Estate, and Chenming Holdings' equity interest in Guangyuan Real Estate will change from 100% to 40% upon completion of the transaction. As a result, Guangyuan Real Estate will no longer be an associated corporation of the Company.

Save as disclosed above, as at 31 December 2010, none of each of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be filed in the register of the Company required to be maintained pursuant to section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (hereinafter referred to as the "Hong Kong Listing Rules").

As at 31 December 2010, none of each of the Directors, Supervisors or chief executives or their respective spouses or children under the age of 18 held or exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

IV. Service contracts with Directors and Supervisors

None of the Directors or Supervisors had entered into service contracts with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

IV Directors, Supervisors and Senior Management

V. Contractual interests of Directors and Supervisors

None of the Directors or Supervisors directly or indirectly held any beneficial interests in the material contracts entered into or performed by the Company during the year ended 31 December 2010.

VI. Purchase of shares or interests in debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

VII. Pre-emptive rights

In accordance with the Articles of Association and the PRC laws, there are no rules requiring the Company to grant existing shareholders pre-emptive rights on newly issued shares of the Company in proportion to their shareholdings.

VIII. Annual Remunerations of Directors, Supervisors and Senior Management

1. The Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB40,000 – RMB100,000 (after tax). The travel expenses for attending board meetings and general meetings of the Company and fees incurred reasonably in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed.
2. The annual remuneration of each of the executive Directors and senior management of the Company fall between the range of RMB200,000-RMB 5,000,000, while actual amount shall be determined based on the main financial indicators and operation target completion of the Company, the scope of work and main responsibilities of the Directors and senior management of the Company, the target completion of Directors and senior management as assessed by the duty and performance appraisal system, as well as business innovation capability and profit generation ability of the Directors and senior management. The actual implementation proposal shall be determined by the internal remuneration committee of the Board as well as considered and decided by the Board.
3. For the remunerations received from the Company by Directors, Supervisors and Senior Management in 2010, please refer to Part I of this section.

IV Directors, Supervisors and Senior Management

IX. Change of Directors, Supervisors and Senior Management

1. On 12 April 2010, the Board of the Company held an election of directors. After the consideration of the first extraordinary general meeting of the Company in 2010, Chen Hongguo, Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai, Zhou Shaohua, Cui Youping, Wang Fengrong and Wang Xiaoqun were appointed as non-independent Directors of the sixth session of the Board of the Company for three years; and Wang Aiguo, Zhang Zhiyuan, Wang Xiangfei, Wang Yumei and Zhang Hong were appointed as independent non-executive Directors of the sixth session of the Board of the Company for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkex.com.hk) on 12 April 2010.

2. On 12 April 2010, the Supervisory Committee of the Company held an election of Supervisors. After the consideration of the first extraordinary general meeting of the Company in 2010, Gao Junjie, Guo Guangyao and Yin Qixiang were appointed as Supervisors representing shareholders of the sixth session of the Supervisory Committee for three years, and Wang Ju and Yang Hongqin were appointed as Supervisors representing the employees of the sixth session of the Supervisory Committee for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 12 April 2010.

3. On 12 April 2010, after the consideration of the first meeting of the sixth session of the Board, Mr. Chen Chunfu was appointed as the general manager of the Company, Mr. Hao Yun as the secretary to the Board of the Company, Mr. Poon Shiu Cheong as the qualified accountant and company secretary (Hong Kong), Mr. Li Feng as the standing deputy general manager and sales controller of the Company, Mr. Hu Changqing, Mr. Wang Baoliang, Mr. Geng Guanglin, Ms. Li Xueqin, Mr. Hao Yun, Mr. Wang Zaiguo, Mr. Zhang Chunlin, Mr. Hong Zhuxiong, and Mr. Wang Shihong as deputy general managers of the Company, and Mr. Wang Chunfang as the financial controller of the Company.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 12 April 2010.

4. On 24 August 2010, after the consideration of the third meeting of the sixth session of the Board, the Board approved that Mr. Chen Chunfu resigned as the general manager of the Company for health reasons and Mr. Hong Zhuxiong resigned as a deputy manager of the Company respectively. The Board approved that Mr. Chen Hongguo, the chairman of the Company, would concurrently hold the position of the general manager of the Company and Mr. Zhang Yanjun and Mr. Zhao Liqun were appointed as deputy managers of the Company.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 25 August 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 24 August 2010.

IV Directors, Supervisors and Senior Management

X. Personnel of the Company

At the end of the reporting period, the Group had 17,679 employees in aggregate, including 11,990 production staff, 690 sales staff, 1,640 technical staff, 277 financial staff, 1,168 administrative staff and 1,914 other staff. By level of education, there were 1,031 employees with bachelor's degree or above, 2,878 employees with college degree, 4,661 employees with technical secondary school education and 9,109 employees with high school, technical school education and levels below technical secondary school education.

The Company had obligations for 0 ex-employees or retired employees, including employees of subsidiaries. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. Subject to the relevant laws and regulations of the PRC, the Company adopts different standards of remuneration for different employees, which are determined based on their performance, experience, position, etc. Details of the remuneration of employees of the Group in 2010 are set out in Note 13 to the financial statements prepared in accordance with International Financial Reporting Standards.

Meanwhile, employees of the Group in the PRC participate in state-managed retirement benefit schemes operated by local governments. The Group is required to contribute a specified percentage of the employees' payroll costs to the retirement benefit scheme to fund the benefits. Details of the employee pension benefits provided by the Group are set out on Note 13 of the financial statements prepared in accordance with International Financial Reporting Standards.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission

(I) Corporate Governance

Under the requirement of Companies Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), Rules Governing Listing of Stocks on Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》), Hong Kong Listing Rules and the related requirements as required by China Securities Regulatory Commission, the Company further improved and optimised its legal person governance structure during the reporting period. The Board considers there is no material deviation of the Company in its corporate governance from the regulatory documentation requirements provided for listed companies in respect of corporate governance.

(II) Performance of the independent non-executive Directors

In the reporting period, each of the independent non-executive Directors continued to suggest constructive opinion on the material matters relating to operations and management and internal control of the Company. They issued their independent opinion on related matter pursuant to related requirements, thus raising the science and objectiveness of Board decisions. Attendance of independent non-executive Directors at Board meetings in 2010 is as follows:

Name of independent non-executive Directors	Number of Board meetings requiring attendance	Number of Attendance in person	Number of Attendance by proxy	Number of Absence
Diao Yuntao	2	2	0	0
Wang Zhihua	2	2	0	0
Zhou Chengjuan	2	2	0	0
Wang Yumei	6	6	0	0
Lau Ying Kit	2	2	0	0
Wang Xiangfei	4	4	0	0
Zhang Zhiyuan	4	4	0	0
Wang Aiguo	4	4	0	0
Zhang Hong	4	3	1	0

Note: An election of directors was held in the first extraordinary general meeting of the Company in 2010. Diao Yuntao, Wang Zhihua, Zhou Chengjuan, Wang Yumei and Lau Ying Kit were independent Directors of the fifth session of the Board of the Company. After the election, the five existing independent Directors are Wang Xiangfei, Zhang Zhiyuan, Wang Aiguo, Zhang Hong and Wang Yumei.

During the reporting period, independent non-executive Directors of the Company issued their independent opinions on the connected transactions pursuant to the related laws and regulations. They raised no objection opinion on the proposals of Board meetings or other issues.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(III) Particulars about the separation of businesses, personnel, assets, organisations, and finance from the controlling shareholder

1. In terms of business: The Company was completely independent from the controlling shareholder, and had its independent and complete business operation capability.
2. In terms of personnel: The labour, personnel and salary management were completely separated from the controlling shareholder.
3. In terms of assets: There was only shareholding relationship between the Company and Shouguang Chenming Holdings Company Limited. The assets of the Company were completely separated from those of the controlling shareholder.
4. In terms of organisation: The Company had a mature and independent organisation structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from that of the controlling shareholder.
5. In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts. The controlling shareholder never interfered in the financial activities of the Company.

(IV) Internal Control of the Company

1. Internal control overview

The Company established the procedural rules for general meetings, board meetings, and the Supervisory Committee meetings to ensure their decision-making, execution, and supervision duties to be carried out effectively. Meanwhile, the Company also established the Strategic Committee, Nomination Committee, Audit Committee and Remuneration and Assessment Committee of the Board. In accordance with their respective working criteria, they assumed the functions of discussing the material matters and decision making, raising the science and professionalism of Board decisions.

Internal administration departments were established to monitor the set-up, improvement and implementation of internal control systems. Audit Committee reviewed and monitored the material connected transactions.

The Company established a complete internal control system covering production management, financial management, connected transactions, external guarantee, use of proceeds, and material investment of the Company and its subsidiaries.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(IV) Internal Control of the Company (Cont'd)

2. The establishment and optimisation of the internal control of the Company

(1) Administration of and control over controlling subsidiaries

The Company managed its controlling subsidiaries according to the related laws and regulations and relevant listing rules of Shenzhen Stock Exchange and Hong Kong Stock Exchange. According to the requirements of Companies Law, subsidiaries established their respective board of directors and supervisory committee and lawfully conducted management and supervision duties. Sound operation and financial management systems were established according to the practices of the Company's business operations. By exercising its rights as a shareholder, the Company controlled the director and key management nomination process and decision-making process of the subsidiaries. As a result, the Company was assured that its subsidiaries were under firm control and the decisions and systems of the Company were effectively, promptly and consistently implemented within its subsidiaries. So all the tasks within the Company and its subsidiaries were consistently dealt with.

(2) Administration of and control over connected transactions

The Articles of Association of the Company had provided clear rules for the authorities of the Board and General Meeting to examine connected transactions, the auditing procedure, and waiving of voting by related Directors and shareholders. According to Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》), the Company had prepared its Administration on Connected Transactions (《關聯交易管理制度》), which set out the regulations regarding classification, identification, contract execution and disclosure of connected transactions. The Company also set up the Special System to Take Precautions against Controlling Shareholders and Related Parties from Embezzling the Company's Fund (《防範控股股東及關聯方佔用公司資金專項制度》). None of the capital, assets, or other resources of the Company had been appropriated or transferred by the controlling shareholder and its related persons. All connected transactions were conducted under the principles of faithfulness, fairness, willingness, and openness and their information was disclosed according to the disclosure requirements and published in the annual report of the Company. No action was conducted which was harmful to the benefits of the Company and the shareholders. Overall, the connected transactions of the Company were in compliance with "Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》) and the related laws and regulations.

(3) Administration of and control over external guarantee

The authority of external guarantee was stipulated by the Articles of Association and the Company had implemented the requirements relating to aggregate amount of external guarantees according to the Rules Governing Listing of Stocks on Shenzhen Stock Exchange. Meanwhile, the Company had set up The Working Procedures of Financing and Guarantee (《融資、擔保工作程序》). Except for guarantees provided to the subsidiaries, the Company made no external guarantees. Overall, external guarantees of the Company were in compliance with Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》) and the related laws and regulations.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(IV) Internal Control of the Company (Cont'd)

2. The establishment and optimisation of the internal control of the Company (Cont'd)

(4) Administration of and control over using of financing proceeds

The Company had set up Administration Criteria of Financing Proceeds (《募集資金使用管理辦法》) to govern the use, approval, deposit, change of use, report and supervision of financing proceeds and liabilities. Financing proceeds were used according to their intended usage. The Company disclosed the information about the use of financing proceeds in compliance with related requirements.

(5) Administration of and control over capital

The Company had organised the systems such as Capital Administration Criteria (《資金管理規定》), Working Procedures of Financing and Guarantee (《融資、擔保工作程序》), Reporting Rules of Material Financial Issues (《財務重大事項提報管理規定》), and Administrative Rules of Accounts Receivable (《應收賬款管理規定》), which set up strict procedures for authorisation and approval of receipts and payments of monetary capital, separated the incompatible positions in the process of monetary capital operation and established a checking system in the related organisation and staff. The Company set up procedures such as those for approval of receipts and payments of monetary capital and strictly implemented verification and investigation of receipts and payments of monetary capital.

(6) Administration of and control over material investments

Material investments were conducted under the principles of lawfulness, cautiousness, safety and effectiveness to control investment risk and emphasize investment returns. The Articles of Association had clearly set out the authorities of the general meeting and the Board on approval of major investments. The Company had been focusing on its principal operations and made no material investments other than those related to its principal operations so far.

(7) Administration of and control over finance

In accordance with the laws and regulations such as Companies Law, Accounting Law, and Accounting Standards for Business Enterprises and their supplementary requirements, the Company prepared its Financial Management Rules (《財務會計制度》), which set out the procedures and rules for major financial decisions, standardised the procedures for accounting evidence, books and reports, defined the responsibilities of accounting staff and set up the evidence flow. Transactions were implemented with evidence timely prepared and delivered to the accounting department and filing department for record and filing. Meanwhile, the records were compared with the corresponding accounting entries to build up a sound internal control system of accounting in the form of computerisation. The Company introduced an ERP system as the common platform for the management techniques. The platform effectively standardised corporate and foundation information and business operations, increased the management efficiency and timely provided the management of the Company and the Board with related information. The financial system of the Company was sound and complete and in compliance with the requirements of related laws and regulations.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (*Cont'd*)

(IV) Internal Control of the Company (*Cont'd*)

2. The establishment and optimisation of the internal control of the Company (*Cont'd*)

(8) Administration of and control over information disclosure

The Company had prepared Information Disclosure Criteria (《信息披露管理制度》), Internal Reporting of Material Information (《重大信息內部報告制度》), Investor Relationship Management Criteria (《投資者關係管理工作規範》), Investor Reception and Promotion Criteria (《接待和推廣制度》) and Accountability System for Major Errors in Information Disclosure in Annual Reports (《年報信息披露重大差錯責任追究制度》), which set out the extent, reporting, examination, disclosure, and confidentiality of material information. China Securities Journal, Hong Kong Commercial Daily, the website of CHINF (www.cninfo.com.cn) and Hong Kong Stock Exchange's website were the designated information disclosure media of the Company, through which the information of the Company was first disclosed. The Company also timely released its public information through its own website to communicate with the investors. Reception of visitors and online road shows were lawfully conducted to ensure open, just and fair information disclosure.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(IV) Internal Control of the Company (Cont'd)

2. The establishment and optimisation of the internal control of the Company (Cont'd)

(9) Shareholding structure of the subsidiaries of the Company



V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(IV) Internal Control of the Company (Cont'd)

3. Implementation of internal control system

The Company performed inspection and monitoring operation on implementation of internal control system. The operation and planning department was in charge of inspecting and monitoring the internal control system and made amendments from time to time to ensure effective implementation of the internal control system and normal production and operating activities. The Company took a top-down approach in the annual inspection of its subsidiaries to assess the compliance of the financial system and financial audit of the subsidiaries. The audit department of the Company performed random audit on the financial position the Company and its subsidiaries.

4. Overall assessment on the internal control system

The Board was of opinion that the internal control system of the Company and its measures were comprehensive and reasonable and practically effective. The internal control system was consistent with the actual situation of the Company and was implemented seriously and effectively. It proved to be effective as illustrated by its practices from many years without significant fault.

After the special corporate governance activities in recent years, the internal control system became more comprehensive. Directors, Supervisors and the Senior Management of the Company became more aware of the importance of corporate governance and standard operation, thus laying a foundation for continuous improvement on corporate governance.

5. Supervisors and independent non-executive Directors of the Company made the following self assessment comments on the internal controls of the Company:

The internal control measures of the Company are in compliance with the requirements of the relevant regulations and the securities regulatory authorities, while are also appropriate taking into account of the prevailing practical needs of the Company. The internal control measures of the Company provided better results in controlling of all the processes and integral parts of company management. The “Self-assessment Report on Internal Controls” adopted by the Company objectively reflected the actual circumstances of internal control within the Company and formed a comprehensive overview on the internal controls of the Company.

6. The Board's representation about the responsibilities for internal control

The Board of the Company believed that: Under the guidance of the laws and regulations such as Companies Law, Code of Corporate Governance for Listed Companies, Rules Governing Listing of Stocks on Shenzhen Stock Exchange and Application Guidelines for Enterprise Internal Control (《企業內部控制應用指引》), the Company set up various internal control systems covering the operating activities of the Company under the circumstances. They were effectively implemented to reasonably assure that the operation and management of the enterprise were in compliance with the laws and regulations, its assets were in place, the financial report and the related data were truthful and complete, its risks were effectively controlled and the operating activities were ensured to be properly conducted. There was no material deviation of the Company in its corporate governance from the regulatory documentation requirements provided for listed companies in respect of corporate governance. The Company will be also continued to improve, enrich and optimise the internal control system according to the development needs and of the Company and against the deficiencies identified during the course of implementation, thus laying a solid foundation for the healthy and steady development of the Company.

The details of the Self-assessment Report on Internal Control for 2010 of the Board of the Company and the auditors' audit opinion on the internal control report of the Company are set out in the website of Shenzhen Stock Exchange.

V Corporate Governance Report

I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

(V) Assessment and incentive mechanism for the Senior Management in the reporting period

The Senior Management of the Company is assessed monthly and annually. Monthly assessments were conducted in line with the direction of the annual major tasks, and were focused on appraisals of two fixed indicators, namely the completion status of in each month and the evaluation on important performance indicators. It was carried out monthly by way of cross assessment and supervision among the related departments. The annual assessments were carried out by the Remuneration and Assessment Committee with reference to the results of monthly assessments and overall performances over the year, including the integrated quality of senior management and internal training of talents.

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited

(I) Compliance with the Code on Corporate Governance Practices

The Company maintained high standards of corporate governance through various internal controls. The Board reviewed the corporate governance practices of the Company from time to time to enhance the corporate governance standards of the Company.

Save for the details set out in IV “Chairman and general manager” of this section, the Company had fully complied with all the principles and code provisions of the Code on “Corporate Governance Practices” set out as Appendix 14 to the Hong Kong Listing Rules during the reporting period.

(II) Securities transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules. Having made adequate enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements as stipulated in this code during the reporting period.

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (*Cont'd*)

(III) Board of directors

The board of directors of the Company are elected at the general meeting and held accountable to the general meeting, and shall exercise the following functions and powers: (1) to be responsible for convening shareholders' general meeting and to report on its work to the general meeting; (2) to carry out the resolutions of general meetings; (3) to decide on the business plans and investment proposals of the Company; (4) to formulate the proposed annual financial budget and final accounts of the Company; (5) to formulate the plan for profit distribution and the plan making up losses of the Company; (6) to formulate plans for the increase or reduction in the registered capital of the Company and for the issue and listing of Company's debentures or other securities; (7) to draft plans for material acquisition and repurchase of the Company's own shares; (8) to draft plans for the merger, division or dissolution or the change of formation of the Company; (9) to decide on external investment, acquisition and disposal of assets, pledge of assets, matter in relation to external guarantee, entrusted wealth management, connected transactions, etc. within the scope of mandate of the general meeting; (10) to decide on the establishment of the Company's internal management organisation; (11) to employ or dismiss the manager or secretary to the board of directors of the Company; to employ or dismiss the Senior Management, such as the deputy general manager(s) and personnel in charge of financial affairs, as proposed by the general manager; and to decide on their remuneration and rewards and punishments; (12) to formulate the basic management system of the Company; (13) to formulate proposals for amending the Articles of Association; (14) to administrate matter related to information disclosure of the Company; (15) to propose to the general meeting for the engagement or replacement of accounting firm performing audit for the Company; (16) to review work reports from managers of the Company and to inspect on their work; and (17) to exercise the functions and powers as conferred upon by the Articles of Association or the general meeting.

The Board comprised seven executive Directors: Chen Hongguo (Chairman), Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai, Zhou Shaohua; three non-executive Directors: Cui Youping, Wang Xiaoqun, Wang Fengrong; and five independent non-executive Directors: Zhang Zhiyuan, Wang Aiguo, Zhang Hong, Wang Yumei, Wang Xiangfei. Please refer to section IV of the Report for their brief biographies.

The Board is responsible for leading and monitoring the Company, and is on a whole responsible for the administration and supervision of company businesses to facilitate its success. Directors of the Company shall act objectively and make decisions in the interests of the Company. The operating management of the Company held regular meetings with the board of directors to discuss the ordinary business operations and performance of the Company, and carried out the relevant decisions of the board of directors.

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (Cont'd)

(III) Board of directors (Cont'd)

During the reporting period, the Board held 6 meetings, 4 of which were regular meetings and 2 were extraordinary meeting. All 15 Directors attended 6 Board meetings.

Name	Position	Board meetings	Attendance of the relevant meetings (attention required/attended)		Remuneration and assessment committee meetings
			Audit committee meetings	Nomination committee meetings	
I. Executive Directors					
Chen Hongguo	Chairman, general manager	6/6	N/A	2/2	2/2
Yin Tongyuan	Vice chairman	6/6	N/A	2/2	2/2
Li Feng	Director, standing deputy general manager and sales controller	6/6	N/A	N/A	N/A
Geng Guanglin	Director, deputy general manager	6/6	N/A	N/A	N/A
Tan Daocheng	Director	6/6	N/A	N/A	N/A
Hou Huancai	Director	6/6	N/A	N/A	N/A
Zhou Shaohua	Director	6/6	N/A	N/A	N/A
II. Non-executive Directors					
Cui Youping	Director	4/4	2/2	N/A	N/A
Wang Xiaoqun	Director	4/4	N/A	N/A	N/A
Wang Fengrong	Director	4/4	2/2	N/A	N/A
III. Independent non-executive Directors					
Zhang Zhiyuan	Independent Director	4/4	2/2	1/1	Applicable
Wang Aiguo	Independent Director	4/4	2/2	N/A	Applicable
Zhang Hong	Independent Director	4/4	2/2	N/A	N/A
Wang Yumei	Independent Director	6/6	N/A	2/2	N/A
Wang Xiangfei	Independent Director	4/4	N/A	1/1	N/A

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (*Cont'd*)

(III) Board of directors (*Cont'd*)

Save for those disclosed in the brief profile of Directors of the Company in the Report, none of the members of the Board had any financial, business, family relations or material connections with each other.

The Board held four regular meetings during the year, each by giving a 14-day notice in advance to ensure that all Directors could participate in discussions of matters in the agenda. Reasonable prior notification was given for the other meetings of the Board to ensure all Directors could take time to attend.

All Directors had access to opinions and services of the secretary to the Board to ensure the procedures governing the Board and all applicable regulations and rules were complied with.

(IV) Chairman and general manager

The chairman and general manager of the Company is Mr. Chen Hongguo. Please refer to section IV of the Report for his brief biographies.

According to the Articles of Association of the Company, the chairman shall exercise the following powers: (1) presiding over general meetings, and convening and presiding over Board meetings; (2) supervising and inspecting the implementation of the resolutions of the Board; (3) signing the shares, the securities and bonds issued by the Company; (4) signing important documents of the Board and other documents which are required to be signed by legal representative of the Company; (5) performing the powers of a legal representative; (6) nominating candidates for general manager for the Board; (7) exercising the special right to operate the Company in accordance with the laws and acting for the benefits of the Company in the event of emergency situation as a result of act of God or natural disaster, and reporting to the Board meetings and general meeting afterwards; and (8) exercising other powers authorised by the Board.

The general manager shall exercise the following powers: (1) in charge of the operation and management of the Company, and organising the implementation of the resolutions of the Board; (2) organising the implementation of the Company's annual business plans and investment plans; (3) drafting plans for the establishment of the internal organisational structure of the Company; (4) drafting the basic management system of the Company; (5) formulating specific rules and regulations for the Company; (6) proposing the appointment or dismissal of the deputy general manager and chief financial officer; (7) appointing or dismissing management personnel other than those required to be appointed or dismissed by the Board; (8) proposing the wages, welfare, rewards, and penalties of staff and to decide the appointment or dismissal of staff of the Company; (9) proposing the convening of extraordinary meeting of the Board; and (10) exercising other powers conferred by the Articles of Association of the Company and the Board.

Mr. Chen Hongguo performs the roles of the chairman and the general Manager for the overall management of the Company. This constitutes a deviation from the principles and code provisions under Appendix 14 to Hong Kong Listing Rules. However, the Directors of the Company believe that Mr. Chen Hongguo as the chairman and the general manager will enable the Company to more effectively plan and implement the business strategies so that the Group can effectively and rapidly seize business opportunities. As all major decisions will be made after consultation with other members of the Board, the Company believes that the supervision of the Board and independent non-executive directors will strike a sufficient balance of power and authority.

(V) Independent non-executive Directors

There are five independent non-executive Directors in the Board, which is in compliance with the minimum requirement of the number of independent non-executive directors set out in the Hong Kong Listing Rules. Wang Aiguo and Wang Xiangfei, the independent non-executive Directors of the Company, have appropriate accounting or related financial management expertise, which is compliance with the requirement of Rule 3.10 of the Hong Kong Listing Rules. Please refer to section IV of the Report for their brief biographies. The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Hong Kong Listing Rules and considered all of the independent non-executive Directors to be independent during the year.

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (*Cont'd*)

(VI) Terms of Directors

According to the Articles of Association of the Company, all Directors, including non-executive Directors, are elected at general meetings with a term of three years from April 2010 to April 2013. They may be re-elected for another term.

(VII) Directors' responsibility for the financial statements

The Directors acknowledged their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. The Directors believed that the Company had adopted and applied consistently appropriate accounting policies in preparing the financial statements in compliance with all related accounting standards.

(VIII) Audit committee

The audit committee of the Company comprises of three independent non-executive Directors and two non-executive Directors. Its primary duties are serving as a communication media between internal and external audit and the related review and supervision. The chief member of the audit committee is Zhang Hong, an independent non-executive Director, and other members are Cui Youping, Wang Fengrong, Wang Aiguo and Zhang Zhiyuan. Wang Aiguo has appropriate professional qualifications or appropriate accounting or related financial management expertise, which is in compliance with the requirement of the Hong Kong Listing Rules.

The primary duties of the audit committee of the Company are: (1) proposing the appointment or dismissal of the external auditors; (2) supervising the internal control system of the Company and its implementation; (3) serving as a communication media between internal and external audit; (4) auditing the financial information of the Company and its disclosures; (5) reviewing the internal control system of the Company and audit the significant connected transactions; and (6) dealing with other matters as delegated by the Board.

The audit committee discussed with the management of the Company the accounting standards and practices adopted by the Group and discussed and reviewed this report, including the review of the financial statements of the Group for the year ended 31 December 2010 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

The works performed by the audit committee in the reporting period are detailed in the Directors' Report of the Report.

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (*Cont'd*)

(IX) Remuneration and assessment committee

The Company set up a remuneration and assessment committee which comprised five Directors, including Wang Aiguo, the chief committee member, and other members, namely Chen Hongguo, Yin Tongyuan, Zhang Zhiyuan and Wang Yumei. Three members, including the chief member, are independent non-executive Directors, which is in compliance with Code of Corporate Governance Practice. The remuneration and assessment committee is primarily responsible for formulating the criteria of appraisal of the Directors and managers and conducting the appraisal, and studying and formulating the remuneration policy and package of the Directors and the Senior Management of the Company. The remuneration and assessment committee is accountable to the Board.

The primary duties of the remuneration and assessment committee of the Company are: (1) formulating the remuneration plan or package based on the major scope of work, duties and importance of the Directors and the management and the remuneration level of other counterparts; (2) formulating the remuneration plan or package which mainly includes but not limited to standards, procedures and a system for performance appraisals as well as major plans and a system for rewards and sanctions; (3) examining the performance of the Directors, excluding the independent non-executive Directors, and the Senior Management and conduct annual performance appraisals for them; (4) supervising the implementation of the remuneration policy of the Company; and (5) dealing with other matters as delegated by the Board.

The works performed by the remuneration and assessment committee in the reporting period are detailed in the Directors' Report of this Report.

(X) Nomination committee

The Company set up a nomination committee which comprised five Directors, including Zhang Zhiyuan, the chief committee member, and other members, namely Chen Hongguo, Yin Tongyuan, Wang Xiangfei and Wang Yumei. Three members, including the chief member, are independent non-executive Directors, which is in compliance with Code of Corporate Governance Practice. The nomination committee is primarily responsible for selecting the candidates for directors and the management of the Company, determining the selection criteria and procedure and making recommendations.

The primary duties of the nomination committee are (1) advising the Board on the size and composition of the Board in light of the company's operating activities, asset scale and shareholding structure; (2) studying the selection criteria and procedure for Directors and the management and advising the Board on the same; (3) extensively identifying qualified candidates for Directors and the management; (4) examining candidates for Director and the management and advising on the same; (5) examining other Senior Management staff pending referral to the Board for decision on their employment and advising on the same; (6) dealing with other matters as delegated by the Board.

During the reporting period, the nomination committee studied the needs of the Company for new Directors and managerial personnel and identified suitable candidates for Director and managerial positions through various channels (including from the Group internally and from the human resources market). Upon acceptance of nomination by the nominated person, the nomination committee performed qualification review on preliminary candidates by holding meetings, review criteria include the academic qualifications, relevant experience and specialised skills of the preliminary candidates. One month prior to election of new Directors, nomination committee submitted recommendations and relevant materials of the directorial candidates to the Board; prior to engaging new Senior Management, the nomination committee submitted recommendations and relevant materials of the new Senior Management personnel to the Board.

The works performed by the nomination committee in the reporting period are detailed in the Directors' Report of this Report.

V Corporate Governance Report

II. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited (*Cont'd*)

(XI) Strategic committee

The Company set up a strategic committee which comprised seven Directors, including Chen Hongguo, the chief committee member, and other members, namely, Yin Tongyuan, Li Feng, Zhou Shaohua, Wang Xiangfei, Zhang Zhiyuan and Zhang Hong. The strategic committee is primarily responsible for studying the long term strategic development and major investments of the Company and making recommendations.

The primary duties of the strategic committee are (1) conducting research and submitting proposals regarding the long term development strategic plan; (2) conducting research and submitting proposals regarding the financing plans for major investments which require approval from the Board as stipulated in the Articles of Association of the Company; (3) conducting research and submitting proposals regarding major capital operations and assets operation projects which require approval from the Board as stipulated in the Articles of Association of the Company; (4) conducting research and submitting proposals regarding other material matters that may affect the development of the Company; (5) carrying out examination on the implementation of the above matters; (6) dealing with other matters as delegated by the Board.

(XII) Remuneration for the auditors

The financial statements for 2010 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards by the Group were audited by RSM China Certified Public Accountants and RSM Nelson Wheeler. In 2010, the Company paid a total of RMB2,000,000 of financial statements auditing and review fee to the auditors.

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Deloitte Touche Tohmatsu (collectively referred to as "Deloitte") to be responsible for the auditing of the Company under Accounting Standards for Business Enterprises and International Financial Reporting Standards for 2009. In according with the agreed terms of engagement, their engagement came to an end after the publication of the auditors' report for 2009. After a communication between the Company and Deloitte, Deloitte confirmed that there was no matter relating to termination of engagement that needed to be brought to the attention of the Shareholders. The Board confirmed that there was no matter relating to termination of engagement that needed to be brought to the attention of the Shareholders. There was no disagreement or outstanding issues relating to termination of engagement between the Company and Deloitte.

The Company passed a resolution to engage RSM China Certified Public Accountants and RSM Nelson Wheeler as the auditors of the Company in the 2010 Second Extraordinary General Meeting which was held on 16 December 2010,.

RSM China Certified Public Accountants and RSM Nelson Wheeler have stated their reporting responsibilities in the PRC auditors' report and independent auditor's report respectively on the financial statements of the Group on page 89 and page 233 of this annual report.

(XIII) Shareholders and general meetings are detailed in the section summarising general meetings in this Report.

(XIV) Supervisors and the Supervisory committee

The Supervisory Committee is accountable to the shareholders. It monitors the financial position of the Company and the performance of the Directors, managers and Senior Management of the Company as to whether they are in accordance with relevant requirements of the laws and regulations to protect the lawful rights of the Company and the shareholders. The Supervisory Committee comprises three shareholder representatives and two staff representatives. The shareholder representatives shall be elected and removed at a general meeting and the staff representatives shall be elected and removed democratically by the staff of the Company.

The works performed by the Supervisory Committee in the reporting period are detailed in the Supervisory Committee' Report of this Annual Report.

VI Particulars about the General Meeting

I ANNUAL GENERAL MEETING

The 2009 annual general meeting of the Company was held on 31 May 2010. Five resolutions below were considered and passed at the meeting: the Directors' report of the Company for 2009, the Supervisory Committee's report of the Company for 2009, the report of the independent Directors of the Company for 2009, the financial statements of the Company for 2009 and the profit distribution plan of the Company for 2009. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 1 June 2010, and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 31 May 2010.

II EXTRAORDINARY GENERAL MEETING

The 2010 first extraordinary general meeting of the Company was held on 12 April 2010. Five resolutions below were considered and passed at the meeting: the appointment and re-appointment of Directors of the Company, the appointment and re-appointment of Supervisors of the Company, the remuneration of the Directors and senior management of the Company, the application for the integrated banking credit line in 2010 and the guarantees provided by the Company for the banking facilities being applied by its controlling subsidiaries. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 12 April 2010.

The 2010 second extraordinary general meeting of the Company was held on 16 December 2010. Five resolutions below were considered and passed at the meeting: the issuance of the Medium-Term Notes by the Company, the guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company, the guarantee for the banking facilities granted to Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary, by the Company, the provision of guarantee for the issuance of RMB500 million notes issued by Chenming (HK) Limited, a wholly-owned subsidiary, by the Company and the appointment of PRC and international auditors for the year of 2010. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 17 December 2010, and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 16 December 2010.

VII Chairman's Statement

Dear shareholders,

On behalf of the Board, I present to you the annual results for 2010. In 2010, there was a significant turnaround for the Company in the first half of the year. However, the market began to cool down since the second quarter. The profit of the Company began to gain strength again after the third quarter. Chenming Paper commenced its various tasks in an orderly manner in accordance with the operating plan scheduled at the beginning of the year. It made good use of its advantage of cost control. The management also adjusted the sales strategies in response to the market changes in a timely manner in view of the market volatility to take the lead in seizing the market opportunities, thus achieving continuous improvement in various operating indicators.

Operating results

During the reporting period, the Company completed machine-made paper production of 3.35 million tonnes, representing a growth of 310,000 tonnes or 10.2% as compared to 2009. Revenue from principal operations amounted to RMB17,203.123 million, up RMB2,318.4937 million or 15.58% from 2009. Costs of principal operations were RMB13,683.0015 million, up RMB1,625.5856 million or 13.48% from 2009. Operating profit and net profit attributable to equity holders of the Company were RMB1,433.7507 million and RMB1163.3411 million respectively, up 45.92% and 39.16%.

Corporate Governance

Requested by Companies Law, Securities Law, Code of Corporate Governance for Listed Companies, Rules Governing Listing of Stocks on Shenzhen Stock Exchange, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the related requirements of China Securities Regulatory Commission, the Company kept on improving and optimising its legal person governance structure in 2010. The Board considered the state of the Company's corporate governance was substantially in compliance with the requirements and requests of the regulatory documentation such as Code of Corporate Governance for Listed Companies.

DIVIDEND DISTRIBUTION

Consistent with our long-term goal of pursuing the maximisation of corporate values, the Group had always placed much emphasis on shareholders' benefits and returns. In view of the operating results realised in 2010 and after considering the financial position and cash flow conditions of the Group as a whole, the Board recommended a profit distribution budget for 2010 as follows: based on the total share capital of 2,062,045,941 shares as at the end of 2010, a cash bonus of RMB3.00 (before tax) per 10 shares was to be distributed to all shareholders, aggregating to RMB618,613,782.30 (before tax) of cash bonuses in this distribution, which accounted for 60.43% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2010 after deducting appropriation to statutory reserves. After such profit distribution, undistributed profit would be rolled over for distribution in subsequent years. As always, the Group will continue to stay focused on its long-term development and maximise returns for shareholders by delivering even better results.

VII Chairman's Statement

Future Development

In terms of the international and domestic economic development conditions, a multipolar world and economic globalisation are developing in depth. The industrial structure is experiencing a new round of adjustment. Various countries pay attention to real economic growth in general and the scientific technology is going to reap major breakthroughs. The State will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will keep steadily and rapidly developing. The development conditions for the paper making industry are gradually improving. For the paper making industry, the production and sales volume of paper products will continue to rise as it is in an upturn cycle. As part of its strategic objectives, the Company will focus on the following areas in 2011:

(1) Upgrade corporate management to enhance operation quality

Firstly, the Company will launch the “Year of Management Benefits” campaign, which takes 2011 as the year of management of the Company and formulates specific projects for implementation, thus strengthening the inner self, identifying the potentials and solidifying the management foundation of the Company. Secondly, the Company will implement the management philosophy of “Managing the staff by regulations and performing the duties in accordance with the standards”, which optimises various regulations and procedures and enhances the execution of regulations. Thirdly, the Company will upgrade the level of equipment automation and management informationisation to achieve setting up of posts and the number of people to fill the posts in accordance with the standard of the international leading enterprises. Fourthly, the Company will intensify the reform of the remuneration system and optimise the performance assessment mechanism by setting up various paths of promotion and ranks. Fifthly, the Company will strengthen the management’s management awareness to raise their capabilities to identify and solve problems.

(2) Speed up the pace of project construction to sharpen competitive advantage

The year 2011 saw most projects under construction in the Company’s history, including the major projects such as the Zhanjiang pulp project (with annual production capacity of 700,000 tonnes pulp and ancillary raw materials), the high-end culture paper project (with annual production capacity of 450,000 tonnes) and the high-end low weight coated paper project (with annual production capacity of 800,000 tonnes). The Company will strictly enhance its project construction accountability and co-ordination capacity to accelerate the project construction to achieve enhanced production and efficiency as soon as possible.

(3) Accelerate domestic and overseas market exploration to facilitate future development

Firstly, the Company will implement proactive and reasonable marketing strategies, which will further expand its market share in the domestic and overseas markets through timely adjustment in the product mix based on the market changes, and innovative marketing efforts and services. Secondly, the Company will strengthen the management of marketing, which will implement a new management model in the sales system first, and adjust the management structure of the products manufacturing companies, strengthen the market segmentation management and increase the training efforts and build up a quality sales team which can weather the difficult challenges based on the advice of the management consulting institutions. Thirdly, the Company will optimise its international marketing network by strengthening the overseas sales efforts, consolidating and increasing the sales in the traditional markets such as the Middle East, Europe and Southeast Asia and concentrating on exploring the emerging markets such as North America and Latin America, to increase the proportion of exports. Fourthly, the Company will launch its electronic commerce initiative by accelerating the establishment of the virtual terminal market, operating the electronic commerce businesses towards the clients and expanding its sales channels by online marketing.

VII Chairman's Statement

(4) Strengthen its self-innovation capability

Firstly, the Company will standardise the operation of its technological innovation system to further develop into a national technology centre and a post-doctoral technological research station to upgrade its innovation capability. Secondly, the Company will optimise its innovation incentive mechanism by formulating and implementing policy measures which encourage self-innovation by heavily rewarding the staff who have made contributions, thus building up a strong culture which respects technology and innovation. Thirdly, the Company will speed up the research and development of the key technologies and actively promote the application of new techniques and new technologies, strengthen optimisation of techniques and technologies and facilitate the product upgrade and optimisation. Fourthly, the Company will firmly establish its quality and brands for the high end market and higher product quality, thus achieving products with characteristics and of higher class.

(5) Strengthen the building of a team of talents

Firstly, the Company will optimise its talent recruitment by opening more channels and more modes for recruiting talents. Secondly, the Company will strengthen its talent trainings by organising topical training sessions and overseas training programmes, thus increasing its training efforts. Thirdly, the Company will openly select the talents based on both of integrity and ability of the candidates and openly engage the talents based on their abilities and competence. Fourthly, the Company will optimise the working environment to retain the talents and establish a series of incentive mechanisms to appoint, recruit, remunerate and reward the talents, thus retaining the talents with career, sense of belongings and remuneration and establishing a good working environment in favour of harmonious corporate establishment.

In the coming year, the Company and the Board will endeavour to establish a more complete corporate governance structure with better operation efficiency and transparency by following the future development strategy of the Group. Benefiting from the state's policies that encourage development of large scale papermaking enterprises, we will remain steadfast in expanding and strengthening the corporation so as to deliver more solid results to pay back our shareholders and the society.

Chen Hongguo
Chairman

30 March 2011

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises

(I) Overall operations during the reporting period

In 2010, the Company thoroughly and consistently put its scientific outlook on development into practice through strict management, structure adjustment and effective implementation to achieve the coordination and progress of various tasks. Meanwhile, the Company seized the favourable opportunity starting in 2011 concerning The Basic Standard for Enterprise Internal Control and Implementation Guidelines for Enterprise Internal Control (内部控制配套指引) to be first implemented in the companies which had been listed domestically and overseas to further optimise its corporate governance, compliant operation and scientific decision, thereby comprehensively enhancing its operation and management.

For management, firstly, the Company strengthened the system setup by establishing the management philosophy of “Managing the staff by regulations and performing the duties in accordance with the standards” to standardise the systems and make the procedures smooth. Secondly, the Company strengthened the control within the Group to make good use of functions of different departments and improve the guidance, supervision and service which were required by subsidiaries, thereby coordinating the pace from the top to bottom of the Company. For production management, the Company strengthened the supervision and guidance as to the production system by organising the professionals to provide technical support to subsidiaries, thereby improving production operation with new breakthroughs in the operation of most pieces of machinery in terms of speed. For purchase management, the Group implemented a model combining centralised purchasing and local and regional purchasing, thereby lowering the purchase cost by the centralised purchasing of raw materials in bulk and the supplies qualified to be purchased overseas and in bulk by the Group. For financial management, the Company expanded its finance channels through issue of medium-term notes and short-term debentures, thereby lowering the finance expenses.

For marketing, firstly, the Company firmly grasped efficiency management by implementing a proactive and flexible pricing policy which adjusted the product prices on a timely basis based on the market rates and its production cost to increase sales in the market. Secondly, the Company strengthened brand building by classifying existing product brands into different classes with repositioning, elaborately promoting the high end products under the brands such as 紫檀 and 雪鯊 and building up the image of high end brands with improvement in quality and service. Thirdly, the Company strengthened team building by adjusting the assessment methods of wages and salaries on a timely basis in the light of the sales focus, thereby stimulating incentives with policies. The significant improvement in the marketing efforts of the Company brought about significant achievements in marketing expansion.

For projects, the Company strengthened the progress of projects and undertook structural adjustment with technological innovation in accordance with the overall requirement of “change in mode and adjustment in structure”. Firstly, the Company strengthened the project construction despite the global financial crisis, thus turning challenges into opportunities, and made more investments with a view to long term development. Secondly, the Company enhanced its self-innovation level by regarding self innovation capability upgrade as the important measures to increase its core competitiveness. The Company successfully developed the high end products such as high bulk copperplate paper and finesse copperplate paper and the environmentally-friendly products under the brands such as 天劍 and 雲獅, thereby facilitating the adjustment in product mix and making room for more benefits. Thirdly, the Company developed the raw materials bases to speed up the development of “forestry-pulp-paper integration”, thereby optimising the raw materials structure, securing the leapfrogging development of the Company. The Company made scientific investments to speed up the pace of adjustment.

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(I) Overall operations during the reporting period (Cont'd)

During the reporting period, under the guidance of the Board, the Company commenced its tasks in an orderly manner in accordance with the operating plan scheduled at the beginning of the year. The Company made good use of its advantage of cost control to guarantee revenue maximisation. The management also adjusted the sales strategies in response to the market changes in a timely manner in view of the market volatility to take the lead in seizing the market opportunities, thus achieving continuous improvement in various operating indicators.

1. Overview of production and operation

During the reporting period, the Company completed machine-made paper production of 3.35 million tonnes, representing a growth of 310,000 tonnes or 10.2% as compared to 2009. Revenue realised from principal operations amounted to RMB17,203.123 million, up RMB2,318.4937 million or 15.58% from 2009. Costs of principal operations were RMB13,683.0015 million, up RMB1,625.5856 million or 13.48% from 2009. Realised operating profit and net profit attributable to owners of the Company were RMB1,433.7507 million and RMB1,163.3411 million respectively, up 45.92% and 39.16%.

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(I) Overall operations during the reporting period (Cont'd)

2. Progress of the Zhanjiang Chenming Pulp Project

- (1) As undertaken in the offering prospectus, 91% of the proceeds from H share offering were used in the Zhanjiang Chenming pulp project. As at 31 December 2010, approximately RMB2,483 million was injected into the project. All proceeds have been utilised according to the use of proceeds.
- (2) As at the end of 2010, the Group had acquired 2.40 million mu of woodlands for raw materials and obtained legal forestry rights certificates for 2.10 million mu of woodlands, among which, the construction area of the woodlands for paper making materials in Zhanjiang and its peripheral regions reached 810,000 mu already.
- (3) The land acquisition work of the site for the pulp project had completed, and the land-use fees paid for the site for the pulp project totalled RMB361 million.
- (4) The scope of civil engineering work of the pulp project covered civil works for timber storage plant, pulping plant, chemical plant, pulp sheet manufacturing plant, plant for recovery of black liquor, self-owned power plant and ancillary plants, and currently about 80% of total quantity of work was completed.
- (5) For procurement of main equipment, in July 2009, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equipment purchase contract with the suppliers of the an equipments to procure the Zhanjiang Chenming Pulp Project. Details of the transaction were covered in the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 7 July 2009, and the website of the Hong Kong Stock Exchange (www.hkex.com) on 6 July 2009. At present, advance payment and progress payment for domestic and overseas equipment totalled RMB2,126 million.

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(II) Principal operations of the Company and analysis on their operations

1 Principal operations by industry and by product

Unit: RMB'0000

By industry or by product	Revenue from operations	Cost of sales	Principal operations by industry			
			Gross profit margin (%)	Year-on-year increase / decrease in revenue from operations (%)	Year-on-year increase / decrease in cost of sales (%)	Year-on-year increase / decrease in gross profit margin (%)
Sales of machine-made paper	1,616,390.91	1,288,689.66	20.27%	14.77%	11.62%	2.25%
Sales of electricity and steam	44,497.30	39,223.54	11.85%	86.26%	172.11%	-27.81%
Sales of construction materials	38,895.78	30,673.02	21.14%	14.37%	14.67%	-0.21%
Sales of chemical products	7,426.92	5,085.91	31.52%	136.60%	238.45%	-20.61%
Hotel business	4,719.77	1,235.24	73.83%	15.32%	5.82%	2.35%
Others	8,381.62	3,392.78	59.52%	-43.91%	-53.86%	8.73%
Total	1,720,312.30	1,368,300.15	20.46%	15.58%	13.48%	1.47%

Principal operations by product						
Light weight coated paper	135,010.86	114,971.18	14.84%	-15.60%	-15.52%	-0.08%
Duplex press paper	196,041.68	162,666.50	17.02%	-6.70%	-5.83%	-0.77%
Writing paper	54,453.01	46,327.82	14.92%	34.59%	33.85%	0.47%
Copperplate paper	421,893.50	323,838.52	23.24%	36.67%	31.79%	2.84%
News press paper	158,476.95	134,498.68	15.13%	-11.07%	-7.22%	-3.52%
Paperboard	74,314.06	65,305.26	12.12%	25.00%	26.60%	-1.11%
White paper board	234,039.58	171,259.01	26.82%	24.52%	12.00%	8.18%

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(II) Principal operations of the Company and analysis on their operations (Cont'd)

2 Breakdown of revenue from paper products of principal operations by geographical segment

Unit: RMB'0000

Geographical segment	Revenue from operations	As a percentage of revenue from paper products (%)	Year-on-year increase / decrease in revenue from operations (%)
PRC	1,416,623.32	87.64	15.20
United States	16,776.23	1.04	6.77
Hong Kong	16,088.41	0.99	-57.04
Japan	18,753.77	1.16	-39.17
South Africa	6,750.16	0.42	-47.31
Other overseas areas	141,399.02	8.75	72.71
Total	1,616,390.91	100	14.77

(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period

Unit: RMB

Items	2010		2009		Difference in the percentage of total assets
	Closing balance	As a percentage of total assets in 2010	Closing balance	As a percentage of total assets in 2009	
Bills receivable	2,762,389,909.89	7.88%	2,704,799,074.02	9.59%	-1.71%
Inventories	3,047,078,215.01	8.69%	2,226,579,492.59	7.89%	0.80%
Fixed assets	12,882,358,381.56	36.73%	13,529,590,915.63	47.96%	-11.23%
Construction in progress	7,871,512,563.84	22.44%	1,997,961,262.18	7.08%	15.36%
Consumable biological assets	726,742,568.44	2.07%	496,724,974.94	1.76%	0.31%

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period (Cont'd)

1. Major changes for the following items are detailed as follows:

- (1) Bills receivable: Bills receivable of the Company as a percentage of total assets decreased as compared to the prior year mainly due to an increase in bills receivable as a results of a significant rise in sales revenue during the reporting period as compared to the prior year and an rise in total assets as a result of increased investment in construction in progress.
- (2) Inventory: The closing balance of the raw materials and the inventories increased as compared with those as at the end of the prior year due to the increased production volume of the Company.
- (3) Fixed assets: The net fixed assets decreased mainly due to the depreciation of fixed assets.
- (4) Construction in progress: Construction in progress mainly due to the investments in the Zhanjiang pulp project, the 800,000-tonne copperplate paper project, the 60,000-tonne household paper project and other expansion and improvement projects.
- (5) Consumable biological assets: Productive biological assets increased mainly due to the purchase and growing of timber assets by the Company and the change in their fair value.

2. Nature of measurement adopted for the major assets of the Company:

Historical cost method is normally used for measurement in preparing the financial statements of the Company, except the following asset items measured at fair value:

- (1) Financial assets measured at fair value with any change in fair value recorded into profit or loss for the period
- (2) Consumable biological assets (please refer to Note 14 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises)

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period (Cont'd)

2. Nature of measurement adopted for the major assets of the Company: (Cont'd)

(3) Changes on and effects of changes in major assets measured at fair value:

Unit: RMB

Statement items	Item	Method of obtaining fair value	Balance as at 31 December 2010	Balance as at 31 December 2009	Effect on profit or loss for the year
Held-for-trading financial assets	Derivative financial instruments	Quotes from financial institutions	0	14,900,000.00	779,282.98
Held-for-trading financial liabilities	Derivative financial instruments	Quotes from financial institutions	0	6,450,000.00	741,890.00
Consumable biological assets	Consumable timber assets	Note (2)	726,742,568.44	496,724,974.94	54,752,250.58

The Group adopted the following major methodologies and assumptions when estimating the fair value of held-for-trading financial assets and consumable biological assets measured at fair value at the balance sheet date:

- (1) Derivative financial instruments: the fair values of forward foreign exchange contracts were determined by the difference between the present value of the price of contractual forward foreign exchange and the spot foreign exchange price at the balance sheet date. The opening balance of the Group was based on the forward contract settlement exchange rate for same day settlement published by banks on 31 December 2009 and used the contractual settlement exchange rate for determination of the difference. All the forward foreign exchange contracts expired as at the end of December 2010.
- (2) Consumable biological assets: an independent valuer assessed the price of timber harvest according to the active market quotes in Zhanjiang City and Fujian Province where the Company's biological assets were located. In estimating future cash flow, the independent valuers considered the following factors: 1) the expected nominal market price of the timber harvest; 2) expected timber gains were dependent on the opinion and judgment of biological assets by considering the expected timber reserve level and timber production rate formulated by experts for a limited scope; 3) the expected costs for maintaining and nurturing existing biological assets; 4) the expected costs of sales (including our estimated harvest costs and transportation costs).

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(IV) Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period

Unit: RMB

Item	Accrued during the year	Accrued during the prior year	Increase (+) Decrease (-)
Operating revenue	17,203,123,029.49	14,884,629,349.50	15.58%
Operating costs	13,683,001,460.32	12,057,415,861.42	13.48%
Business taxes and surcharges	30,117,480.19	16,268,806.81	85.12%
Selling and distribution expenses	873,779,193.05	774,685,975.04	12.79%
General and administrative expenses	871,138,204.71	726,351,661.67	19.93%
Finance expenses	233,455,658.10	312,687,004.02	-25.34%
Loss on impairment of assets	110,419,785.04	17,276,975.88	539.12%
Gain on change in fair value	46,302,250.58	18,311,845.48	152.85%
Non-operating expenses	50,814,216.46	11,381,604.06	346.46%

Major changes for the items are detailed as follows:

- (1) Operating revenue increased by 15.58% as compared to the prior year mainly due to a rise in the selling price resulting from the change in market conditions;
- (2) Operating costs increased by 13.48% as compared to the prior year mainly due to a rise in raw material price and labour cost during the year;
- (3) Business taxes and surcharges increased by 85.12% as compared to the prior year mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises beginning from 1 December 2010;
- (4) Selling and distribution expenses increased by 12.79% as compared to the prior year mainly due to a rise in the transportation cost and cargo handling charges, as well as a rise in wages and salaries;
- (5) General and administrative expenses increased by 19.93% as compared to the prior year mainly due to a rise in the technology development cost as well as a rise in wages and salaries;
- (6) Finance expenses decreased by 25.34% as compared to the prior year mainly due to a rise in foreign exchange gain resulting from the appreciation of RMB and a fall in interest payable resulting from the issuance of lower interest bearing short-term debentures;
- (7) Loss on impairment of assets increased by 539.12% as compared to the prior year mainly due to an increase of accounts receivable resulting from the increase of sales revenue and the corresponding increase of bad debt provision in accordance with the accounting policy for bad debt provision of the Group, as well as the much more impairment provision for the machinery and equipment related to the suspended production of subsidiaries, Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd.
- (8) Gain on change in fair value increased by 152.85% as compared to the prior year mainly due to change in fair value of timber assets;
- (9) Non-operating expenses increased by 346.46% as compared to the prior year mainly due to the loss on disposal of fixed assets during the year.

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(V) Cash flow generated from operating activities of the Company during the reporting period

Unit: RMB

Items	Amounts for the year	Amounts for the prior year	Increase (+) Decrease (-)
Net cash flow generated from operating activities	850,328,927.00	1,639,034,259.99	-48.12%
Net cash generated from investment activities	-6,384,678,439.51	-2,134,446,266.63	-199.13%
Net cash flow generated from financing activities	5,031,845,309.63	177,630,846.52	2,732.75%

Note: In the cash flow statements prepared by the Company, receipt of outstanding bank acceptance bills was not reflected as cash inflow in "cash received from sales of goods, rendering of services"; similarly, payments made using outstanding bank acceptance bills were not reflected as cash outflow in "cash paid for goods and services" nor "cash paid to acquire fixed assets, intangible assets and other long-term assets" with respect to bills paid in the course of investment activities.

Explanation on the main reasons leading to the changes:

- (1) Net cash flow generated from operating activities decreased by 48.12% compared to the prior year mainly due to an increase in the tax payment for the year of RMB466 million as compared to the prior year and the significant increase in purchase payment resulting from the rise in raw material price for the period.
- (2) Net cash flow generated from investment activities decreased by 199.13% compared to the corresponding period of the previous year, mainly due to the increased investments in the copperplate paper project of production capacity of 800,000 tonnes, the household paper project of capacity of 60,000 tonnes and the high-end white coated linerboard project of production capacity of 600,000 tonnes of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, the Zhanjiang pulp project and the high-end culture paper project during the reporting period.
- (3) Net cash flow generated from financing activities increased by 2,732.75% as compared to the prior year mainly due to project investments, and issue of short-term debentures of RMB3.3 billion and medium-term notes of RMB1.1 billion during the year.

VIII Directors' Report

I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

(VI) Operation and results of major controlling subsidiaries of the Company

Unit: RMB'0000

Name of controlling subsidiary	Nature of activities	Shareholding percentage	Principal products manufactured	Registered capital	Asset size	Net profit
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Papermaking	50.93%	Writing paper, news press paper	21,136.70	247,424.34	3,397.43
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Papermaking	100.00%	Paperboard, corrugated paper	37,620.00	147,666.19	3,149.78
Shandong Chenming Power Supply Holdings Co., Ltd.	Electricity and steam	86.71%	Generation and sales of electricity and steam	9,955.31	57,886.54	4,053.03
Jilin Chenming Paper Co., Ltd.	Papermaking	100.00%	News press paper, light weight	150,000.00	282,679.48	-6,645.68
Chibi Chenming Paper Co., Ltd.	Papermaking	35.79%	Duplex press paper	17,741.94	49,828.37	2,847.98
Jiangxi Chenming Paper Co., Ltd.	Papermaking	51.00%	Coated paper	USD172,000,000	335,090.62	14,147.47
Yanbian Chenming Paper Co., Ltd.	Pulp	76.73%	Pulp and chemical product	8,163.30	29,072.63	8,211.93

(VII) Explanation on single subsidiaries with net profit (or investment income) accounting for over 10% of the net profit of the Company

Unit: RMB'0000

Name of company	Revenue from principal operations	Profit from principal operations	Net profit	Net profit attributable to the Company according to shareholding percentage	As a percentage of net profit of the Company %
Jiangxi Chenming Paper Co., Ltd.	160,241.30	26,853.53	14,147.47	7,215.21	6.2

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards

The following financial data is extracted from the audited financial statements of the Company prepared in accordance with International Financial Reporting Standards. The following discussion and analysis should be read in conjunction with the financial statements of the Company set out in this report and the notes thereto.

(I) Revenue from operations

Unit: RMB'000

By industry or by product	2010		2009	
	Revenue from principal operations	As a percentage of revenue from operations (%)	Revenue from principal operations	As a percentage of revenue from operations (%)
Machine-made paper	16,142,812.00	94.41	14,155,084.00	95.54
Electricity and steam	444,754.00	2.60	237,925.00	1.61
Construction materials	386,555.00	2.26	337,518.00	2.28
Chemicals products	74,269.00	0.43	31,390.00	0.21
Others	51,313.00	0.30	53,336.00	0.36
Total	17,099,703.00	100.00	14,815,253.00	100.00

Unit: RMB'000

Geographical segment	2010		2009	
	Revenue from operations	As a percentage of revenue from operations (%)	Revenue from operations	As a percentage of revenue from operations (%)
PRC	15,102,027.00	88.32	13,028,552.00	87.94
United States	167,762.00	0.98	157,118.00	1.06
Hong Kong	160,884.00	0.94	374,478.00	2.53
Japan	187,538.00	1.10	308,298.00	2.08
South Africa	67,502.00	0.39	128,115.00	0.86
Other overseas areas	1,413,990.00	8.27	818,692.00	5.53
Total	17,099,703.00	100.00	14,815,253.00	100.00

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(I) Revenue from operations (Cont'd)

Explanation on the main reasons leading to the changes:

Operating revenue for 2010 amounted to approximately RMB17,100 million, representing an increase of approximately RMB2,284 million or 15.42% as compared with 2009;

Operating revenue of machine-made paper amounted to approximately RMB16,143 million, representing an increase of approximately 14.04% over 2009, mainly due to: higher sales prices of the current period over the corresponding period of last year under the impact of the financial crisis.

Operating revenue of electricity and steam amounted to approximately RMB445 million, representing an increase of approximately 86.93% over 2009, mainly due to: higher external sales of electricity and steam, the addition of garbage power generation since the second half of 2009 and a rise in electricity prices.

Operating revenue of building materials amounted to approximately RMB387 million, representing an increase of approximately 14.53% over 2009, mainly due to: 山東晨鳴板材有限責任公司 (Shandong Chenming Panels Co., Ltd.), a subsidiary of the Company, acquired 67% equity interest in 山東林盾木業股份有限公司 (Shandong Lin Dun Wood Industry Co., Ltd.) in July 2009, which was accounted for on a consolidated basis.

Operating revenue of chemical products amounted to approximately RMB74 million, representing an increase of approximately 136.60% over 2009, mainly due to: the significant increase in sales of chemical products by the Company during the current period 2010 over the corresponding period of last year under the impact of the financial crisis in the first half of 2009.

(II) Cost of sales and gross profit

Unit: RMB'000

By industry or by product	Cost of sales as a percentage of revenue from operations			
	2010		2009	
	Cost of sales	As a percentage of product segment revenue (%)	Cost of sales	As a percentage of product segment revenue (%)
Machine-made paper	12,852,087.00	79.61%	11,554,422.00	81.63%
Electricity and steam	392,235.00	88.19%	144,144.00	60.58%
Construction materials	306,730.00	79.35%	267,500.00	79.26%
Chemicals products	50,859.00	68.48%	15,027.00	47.87%
Others	14,866.00	28.97%	17,299.00	32.43%
Total	13,616,777.00	79.63%	11,998,392.00	80.99%

By industry or by product	Gross profit and gross profit margin			
	2010		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Machine-made paper	3,290,725.00	20.39%	2,600,662.00	18.37%
Electricity and steam	52,519.00	11.81%	93,781.00	39.42%
Construction materials	79,825.00	20.65%	70,018.00	20.74%
Chemicals products	23,410.00	31.52%	16,363.00	52.13%
Others	36,447.00	71.03%	36,037.00	67.57%
Total	3,482,926.00	20.37%	2,816,861.00	19.01%

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(II) Cost of sales and gross profit (Cont'd)

Explanation on the main reasons leading to the changes:

Cost of sales of the Company in 2010 was approximately RMB13,617 million, representing an increase of approximately 13.49% over 2009. Gross profit was approximately RMB3,483 million, representing an increase approximately of approximately 23.65% over 2009 mainly due to: the impact of financial crisis on the product sales price in the first half of 2009 resulted in significantly higher sales price in the same period of 2010, and the rise in product sales price being higher than the price rise in raw material..

Cost of sales of machine-made paper was approximately RMB12,852 million, representing an increase of approximately 11.23% over 2009 mainly due to: the raw materials cost being higher than that of the corresponding period of last year.

Cost of sales of electricity and steam was approximately RMB392 million, representing an increase of approximately 172.11% over 2009 mainly due to: the volume of external sales of electricity and steam increased in the current period, and the raw materials cost being higher than that of the corresponding period of last year.

Cost of sales of construction materials was approximately RMB307 million, representing an increase of approximately 14.67% over 2009 mainly due to: 山東晨鳴板材有限責任公司 (Shandong Chenming Panels Co., Ltd.), a subsidiary of the Company, acquired 67% equity interest in 山東林盾木業股份有限公司 (Shandong Lin Dun Wood Industry Co., Ltd.) in July 2009, which was accounted for on a consolidated basis.

Cost of sales of chemical products was approximately RMB51 million, representing an increase of approximately 238.45% over 2009 mainly due to: the sales volume of chemicals products in the current period 2009 being higher than that of the corresponding period of last year under the impact of the financial crisis and the raw materials cost being higher than that of the corresponding period of last year.

Other income

Other income for 2010 amounted to approximately RMB234 million, representing a decrease of approximately 23.64% over 2010 mainly due to (1) the government grants recognised in profit or loss and received in the current period being lower than that of the corresponding period of last year, and (2) the interest income being lower than that of the corresponding period of last year.

Distribution expenses

Distribution expenses for 2010 were approximately approximately RMB874 million, representing an increase of approximately approximately 12.79% from 2009 mainly due to the increase of the transportation costs and cargo handling charges, and wages and salaries.

Administrative expenses

Administrative expenses of the Company for 2010 were approximately RMB915 million, representing an increase of approximately 43.56% from 2009 mainly due to the asset impairment losses in the current period being higher than that of the corresponding period of last year resulting from the change in accounts receivable balance and aging, and higher investments on research and development by the Company and increased salaries.

Other expenses

Other expenses of the Company were approximately RMB70 million for 2010, representing a decrease of 49.53% over 2009 mainly due to: suspended production in certain pulp and panel production lines to limit losses under the repercussion of the financial crisis in the first half of 2009.

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(II) Cost of sales and gross profit (Cont'd)

Gain on change in fair value of derivative financial instruments

Gain on derivative financial instruments was approximately RMB1.521 million in 2010, decreased by approximately RMB6.922 million over 2009 mainly due to: the change in the fair value of the future pooling foreign exchange contracts entered into between the Company and China Construction Bank.

Gain on change in fair value less estimated point-of-sale cost of biological assets

Gain on change in fair value less estimated point-of-sale cost of biological assets of the Company for 2010 was approximately RMB54.752 million, representing an increase of approximately RMB44.883 million over 2009 mainly due to the change in fair value of timber assets of the Company.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment of the Company for 2010 was approximately RMB22.48 million, representing an increase of RMB17.974 million compared with RMB4.506 million in 2009, mainly because: (1) in 2010, the Company made allowance for impairment of RMB22.48 million on the difference between recoverable amount and carrying amount of the machinery and equipment of subsidiaries Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd., which had suspended production; (2) in 2009, the Company made allowance for impairment of RMB4.51 million on the difference between carrying amount and cost value of fixed assets of subsidiaries Heze Chenming Panels Co., Ltd. and Qihe Chenming Panels Co., Ltd.

Reversal of allowance for (allowance for) inventories

Allowance for inventories for 2010 decreased by approximately RMB19.65 million from 2009 mainly due to: reversal of the allowance for inventories of 2008 in view of the rally in product prices in 2009 and the decrease in raw materials price.

Finance costs

Finance costs of the Company for 2010 were approximately RMB283 million, representing a decrease of approximately 26.4% from 2009 mainly due to: the finance costs in the current period being lower than that of the corresponding period of last year resulting from the change in lending rate and the long term and short term borrowings and capitalisation of interest; (2) the adoption of financing methods by the Company such as issuance of short-term debentures, medium-term notes.

Share of results of associates

The Group's share of results of associates for 2010 was -RMB13.863 million, representing an increase of 11.64% compared with 2009, mainly due to the decrease in the losses of associates in 2010 when compared to 2009.

Income tax expense

Income tax expense of the Group for 2010 was approximately RMB261 million, representing an increase of approximately 19.03% from 2009 mainly due to: the lower income tax expense resulting from the profit realised in the current period being higher than that of the corresponding period of last year because of the decrease in the gross profit margin of the products and the change in costs and expenses.

Profit attributable to minority interests

Profit attributable to minority interests for 2010 was approximately RMB147 million, representing an increase of approximately 16.1% from 2009 mainly due to the higher profit attributable to minority interests resulting from the net profit realised in the current period being higher than that of the corresponding period of last year.

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(II) Cost of sales and gross profit (Cont'd)

Net profit and net profit margin

Net profit of the Group for 2010 was approximately RMB1,190 million (excluding profit attributable to minority interests), representing an increase of approximately 37.94% from 2009. The net profit margin was approximately 6.96%, increased by approximately 1.14 percentage points as compared with 5.82% in the corresponding period of 2009 mainly due to the gross profit margin of pulp being higher than that of the corresponding period of 2009 resulting from the financial crisis.

(III) Liquidity

In 2010, the cash flows from operating activities, the cash flows from investment activities and the cash flows from financing activities of the Company were approximately RMB850 million, -RMB5,956 million and RMB4,603 million respectively, decreased or increased by approximately -48.12%, -138.78%, 756.54% over 2009 respectively. The main reasons were respectively as follows:

1. The decrease in the net cash flows from operating activities was mainly due to tax paid in the current period increased by RMB466 million over last year; good payments paid for purchase of goods increased significantly in the current period due to a rise in raw material prices.
2. The decrease in the net cash flows from investment activities as compared to the corresponding period of last year was mainly due to the increased investments in the 800,000-tonne copperplate paper project, the 60,000-tonne household paper project and the 600,000-tonnes high-end white coated linerboard project of Shouguang Meilun Paper Co., Ltd., a subsidiary of the Company, and the Zhanjiang pulp project and high-end culture paper project during the reporting period.
3. The increase in the net cash flows from financing activities was mainly due to the issuance of RMB3,300 million short-term debentures and RMB1,100 million middle-term notes as a result of investments in projects.
4. Whether there is significant seasonal effect on the capital requirements of the Company

In 2010, there was no significant seasonal effect on the capital requirements of the Company.

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(III) Liquidity (Cont'd)

5. Principal sources of funding

In 2010, the principal sources of funding of the Company derived from the revenue from production operations, bank loans, issues of long term and medium notes and short-term debentures.

6. Bank borrowings and interest rate of borrowings of the Company during the reporting period

As at 31 December 2010, the Group's bank borrowings increased by approximately RMB6,322 million, repayment of loans amounted to approximately RMB5,105 million. Such borrowings bore interest rates ranging from 1.05% to 5.94%.

7. Gearing ratio of the Company

As at 31 December 2010, the gearing ratio (including minority interests) of the Group was 44.12%, increased by 9.54 percentage points as compared with 34.58% in 2009 mainly due to the larger investments in projects and the increase in borrowings of the Company in the current period.

The Group calculates its gearing ratio using the following formula: total borrowings / total assets (total borrowings refer to borrowings due within one year, borrowings due after one year and short-term debentures and long term and medium notes).

8. Secured assets of the Company at the end of the reporting period

As at 31 December 2010, the secured assets of the Group included: International Finance Corporation ("IFC"), Deutsche Bank AG ("DEG") and China Construction Bank Nanchang Changbei Branch entered into a loan agreement with Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. As at 31 December 2010, repayment in the amount of USD36,372,549.59 was paid for the above borrowing. As at 31 December 2010, the net value of the collateral with regard to fixed assets was RMB1,022,544,077.50 and that with regard to the land use rights (intangible assets) was RMB71,448,435.14.

9. Contingent liabilities of the Company

As at 31 December 2010, there were no contingent liabilities of the Group.

The financial risk management is the responsibility of the Group's treasury function at our head office. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuations in interest rates and foreign currency exchange rates.

VIII Directors' Report

II. Management discussion and analysis under International Financial Reporting Standards (Cont'd)

(III) Liquidity (Cont'd)

10. Risk of fluctuations in foreign exchange rate and any relevant hedging

As at 31 December 2010, the exchange gains of the Company was RMB41.852 million mainly due to:

The business operations of the Group were conducted mainly in the PRC with revenues and expenses denominated in RMB. Some of the Group's cash and bank deposits, including proceeds from global offering, were denominated in Hong Kong dollars, US dollars, Euro or RMB. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact to the Group.

During the year ended 31 December 2010 under review, the Group had not used any financial assets held for trading denominated in US dollars for hedging purposes.

11. Property, plant and equipment

The change in property, plant and equipment for the year ended 31 December 2010 is set out in the Note 16 to the financial statements prepared in accordance with International Financial Reporting Standards in this annual report.

12. Contracts of significance

In the reporting period, the Company and any of its subsidiaries did not enter into any contracts of significance with its controlling shareholder or its subsidiaries.

13. Reserve

According to the relevant requirements imposed by the State Ministry of Finance and Articles of Association, the distributable profit shall be based on the lower of the net profit attributable to the equity holders of the Company as calculated in accordance with Accounting Standards for Business Enterprises and that calculated in accordance with International Financial Reporting Standards. The net profit attributable to equity holders of the Company for 2010 according to the Accounting Standards for Business Enterprises was RMB1,163,341,066.21, and net profit attributable to equity holders of the Company for 2010 according the International Financial Reporting Standards was RMB1,190,339,176.67; accordingly, the Company will distribute profit based on the after-tax profit realised according to the Accounting Standards for Business Enterprises for 2010.

The reserve of the year and the distributable reserves as at 31 December 2010 are set out in the Statement of Changes in Equity of and the Note 14 to the financial statements prepared in accordance with International Financial Reporting Standards in this annual report.

14. Sufficient public float

The Company had maintained sufficient public float for the year ended 31 December 2010.

VIII Directors' Report

III. Prospect of the future developments of the Company

1. The development trend of the industry to which the Company belongs and the strategic plans for the Company's future development

The industry to which the Company belongs is the paper making industry, which is a light industry. The paper making industry is an important basic raw materials industry which is closely related to the national economy and social matter development. The paper making industry features capital and skills intensive characteristics with prominent economy of scale. Its growth rate is strongly and positively correlated to that of GDP. In terms of the international and domestic economic development conditions, a multipolar world and economic globalisation are developing in depth. The industrial structure is experiencing a new round of adjustment. Various countries pay attention to real economic growth in general and the scientific technology is going to reap major breakthroughs. The State will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will keep steadily and rapidly developing. The development conditions for the paper making industry are gradually improving. It is expected that production and sales volume of paper products will continue to rise as the industry is at the upturn of cycle. Meanwhile, as a number of projects under construction are near completion, new production capacity released by different production lines will exert pressure on the industry. Also, the implementation of new environmental protection standards is likely to trigger certain small and medium-sized paper making enterprises to withdraw from the market, leading to a concentration of production capacity in large paper making enterprises. With the increased production volume and new production capacity, it is expected that the price of raw materials for paper making will maintain its upward trend.

Based the above viewpoints about the paper making industry, the Company will adhere to its established development strategies to operate in an orderly way, mainly including the following aspects:

- (1) Consolidating existing market share while dedicated to the development and production of advanced paper products

The Company will continue to increase its investment in projects and expand the production capacity of advanced paper products; focus on the 800,000-tonne high-end low weight coated paper project, high-end culture paper project of annual production capacity of 450,000 tonnes and 600,000-tonne high-end white coated linerboard project; further improve the Company's production scale and product specifications, thus striving to becoming a frontrunner in the international paper making industry in the future.

- (2) Solving the bottleneck of the raw materials which restricts the Company's development and improving its control over product cost

The Company has established the Zhanjiang pulp project and ancillary raw materials bases as its major development targets. The Company also accelerates the construction of the Hubei forestry project base, establishing the production chain of "forestry-pulp-paper integration" in order to eliminate restrictions imposed by upstream resources on the Company and strengthen the sustainable development capabilities of the Company.

- (3) Paying close attention to environmental protection construction, and committed to the goal of "energy saving, reduced emission and harmonious development"

As the national environmental protection standards have been raised and increased efforts have been put on the State's environmental protection administration, the Company will strive to develop the recycling economy and encourage waste exchange, reuse and recycle so as to maximise the resources utilisation ratio, and will speed up the construction of environmental protection projects at the same time to ensure compliance with the relevant standards regulating waste emission.

- (4) Reinforcing technological innovation and talent cultivation

Compared to the international paper making enterprises, there is room for enhancement in the Company's technology and talent pool. The Company will continue its emphasis on internal training and external recruitment to enhance overall staff quality, while pursuing to accelerate the Company's development by strengthening its own innovation capacity.

VIII Directors' Report

III. Prospect of the future developments of the Company (Cont'd)

2. In line with its strategic plans, the work of the Company will focus on the following areas in 2011:

(1) Upgrade corporate management to enhance operation quality

Firstly, the Company will launch the “Year of Management Benefits” campaign, which takes 2011 as the year of management of the Company and formulates specific projects for implementation, thus strengthening the inner self, identifying the potentials and solidifying the management foundation of the Company. Secondly, the Company will implement the management philosophy of “Managing the staff by regulations and performing the duties in accordance with the standards”, which optimises various regulations and procedures and enhances the execution of regulations. Thirdly, the Company will upgrade the level of equipment automation and management informationisation to achieve setting up of posts and the number of people to fill the posts in accordance with the standard of the international leading enterprises. Fourthly, the Company will intensify the reform of the remuneration system and optimise the performance assessment mechanism by setting up various paths of promotion and ranks. Fifthly, the Company will strengthen the management’s management awareness to raise their capabilities to identify and solve problems.

(2) Speeding up the pace of project construction to sharpen competitive advantage

The year 2011 saw the largest amount of projects under construction in the Company’s history, including large scale projects such as the Zhanjiang pulp project (with annual production capacity of 700,000 tonnes pulp and ancillary raw materials), the high-end culture paper project (with annual production capacity of 450,000 tonnes) and the high-end low weight coated paper project (with annual production capacity of 800,000 tonnes). The Company will strictly enhance its project construction accountability and co-ordination capacity to accelerate the project construction to achieve enhanced production and efficiency as soon as possible.

(3) Accelerating domestic and overseas market exploration to facilitate future development

Firstly, the Company will implement proactive and reasonable marketing strategies, which will further expand its market share in the domestic and overseas markets through timely adjustment in the product mix based on the market changes, and innovative marketing efforts and services. Secondly, the Company will strengthen the management of marketing, which will implement a new management model in the sales system first, and adjust the management structure of the products manufacturing companies, strengthen the market segmentation management and increase the training efforts and build up a quality sales team which can weather the difficult challenges based on the advice of the management consulting institutions. Thirdly, the Company will optimise its international marketing network by strengthening the overseas sales efforts, consolidating and increasing the sales in the traditional markets such as the Middle East, Europe and Southeast Asia and concentrating on exploring the emerging markets such as North America and Latin America, to increase the proportion of exports. Fourthly, the Company will launch its electronic commerce initiative by accelerating the establishment of the virtual terminal market, operating the electronic commerce businesses towards the clients and expanding its sales channels by online marketing.

VIII Directors' Report

III. Prospect of the future developments of the Company (Cont'd)

2. In line with its strategic plans, the work of the Company will focus on the following areas in 2011: (Cont'd)

(4) **Strengthen its self-innovation capability**

Firstly, the Company will standardise the operation of its technological innovation system to further develop into a national technology centre and a post-doctoral technological research station to upgrade its innovation capability. Secondly, the Company will optimise its innovation incentive mechanism by formulating and implementing policy measures which encourage self-innovation by heavily rewarding the staff who have made contributions, thus building up a strong culture which respects technology and innovation. Thirdly, the Company will speed up the research and development of the key technologies and actively promote the application of new techniques and new technologies, strengthen optimisation of techniques and technologies and facilitate the product upgrade and optimisation. Fourthly, the Company will firmly establish its quality and brands for the high end market and higher product quality, thus achieving products with characteristics and of higher class.

(5) **Strengthen the building of a team of talents**

Firstly, the Company will optimise its talent recruitment by opening more channels and more modes for recruiting talents. Secondly, the Company will strengthen its talent trainings by organising topical training sessions and overseas training programmes, thus increasing its training efforts. Thirdly, the Company will openly select the talents based on both of integrity and ability of the candidates and openly engage the talents based on their abilities and competence. Fourthly, the Company will optimise the working environment to retain the talents and establish a series of incentive mechanisms to appoint, recruit, remunerate and reward the talents, thus retaining the talents with career, sense of belongings and remuneration and establishing a good working environment in favour of harmonious corporate establishment.

3. **The risk factors in the course of realisation of the future development strategies and operating targets of the Company**

In view of the numerous new projects undertaken by the Company and their substantial scale, the task of ensuring effective human resources allocation and resource utilisation, as well as smooth implementation of these projects thus poses great challenges to the Company. As such, the Company has adopted the following measures: i.e. provide clarity on job responsibility and confirm project construction responsibility; upgrade resource allocation by adoption of a project-oriented approach in terms of human resources, funding and resources to create a favourable environment for project construction; and raise service standards by creating a sense of urgency in and enhancing accountability of all business units of the Company, so as to promote service awareness company-wide and create a feeling of working together towards a common goal. All these ultimately aim to ensure the projects progress on schedule.

VIII Directors' Report

III. Prospect of the future developments of the Company (Cont'd)

4. Future capital requirement, sources of funds and their planned use

The demand for capital of the Company is ever increasing as the Company continuously grows with its even bigger operating scale. As the largest paper making company in China and a company listed with three classes of shares, namely A shares, B shares and H shares, the Company has a good reputation in the financial market and extensive financing sources. The Company will adopt the following effective sources of funds based on its growth and future development strategies:

- (1) Reinforcement for market sales - the Company will increase its sales revenue and put greater efforts in the recovery of receivables to speed up capital turnover, utilise capital potential and take full advantage of its own funds.
- (2) Taking advantage of the credibility and reputation of the Company - the Company will secure bank loans and syndicated loans and strengthen its internal financial control and enhance its capital utilisation.
- (3) Optimisation of financial structure to reduce finance expenses of the Company - the Company respectively issued RMB3.3 billion short-term debentures and RMB1.1 billion medium-term notes in 2010.

IV. Investments during the reporting period

1. Use of proceeds during the reporting period

The Company issued 355.7 million H shares in June 2008 with the issue price of HK\$9. The total proceeds from the issue were translated into RMB2,831 million. The net proceeds less the expenses of RMB 103 million were RMB2,728 million. As of 31 December 2010, RMB2,728 million of the proceeds from the issue was used, of which, approximately RMB245 million was used to fund the working capital and approximately RMB2,483 million was used in the Zhanjiang project primarily for land and plants areas construction. As at the end of the reporting period, the use of proceeds was as follows:

	Unit: RMB'0000
Total proceeds	272,825
Total amount of proceeds used during the reporting period	129,381.63
Total amount of proceeds involved in change of use during the year	0
Cumulative total amount of proceeds involved in change of use	0
Cumulative total amount of proceeds used	272,825
Proportion of cumulative total amount of proceeds involved in change of use	0

VIII Directors' Report

IV. Investments during the reporting period (Cont'd)

1. Use of proceeds during the reporting period (Cont'd)

Investment projects undertaken and the use of the excess proceeds	Project change (including partially changed projects) ?	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the year	Cumulative invested amount as of end of the period (2)	Progress of investment as of end of the period (%) ³ =(2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the year	Achieving its estimated results?	Any material change in feasibility of project?
Investment project undertaken										
Zhanjiang pulp project with annual production of 700,000 tonnes	No	248,271	248,271	129,381.63	248,271	100	April 2011	—	—	No
Subtotal of the investment projects undertaken	No	248,271	248,271	129,381.63	248,271	100	April 2011	—	—	No
Use of the excess proceeds	Nil									
Banking loan repayment (if any)	—	—	—	—	—	—	—	—	—	—
Supplementary working capital (if any)	No	24,554	24,554	0	24,554	100	—	—	—	No
Subtotal of the use of the excess proceeds	—	—	—	—	—	—	—	—	—	—
Total	—	272,825	272,825	129,381.63	272,825	100	—	—	—	—

VIII Directors' Report

IV. Investments during the reporting period (Cont'd)

1. Use of proceeds during the reporting period (Cont'd)

	Project change (including partially undertaken and the use of the excess proceeds projects) ?	Total amount of proceeds undertaken for investment	Total investment amount after adjustment (1)	Invested amount during the year	Cumulative invested amount as of end of the period (2)	Progress of investment as of end of the period (%) ³ =(2)/(1)	Date of project reaching the working condition for its intended use	Results realised during the year	Achieving its estimated results?	Any material change in feasibility of project?
Investment projects undertaken and the use of the excess proceeds										
Particulars of and reasons for not meeting schedule or estimated income (by specific projects)	Nil									
Particulars of material change in feasibility of project	Nil									
Amount and uses of the excess proceeds and the progress of uses	Nil									
Particulars of change in place of application of proceeds	Nil									
Particulars of adjustment to way of application of proceeds	Nil									
Particulars of application of proceeds in early stage and replacement of proceeds	Nil									
Particulars of application of idle proceeds for temporary replenishment of working capital	Nil									
Amount of positive balance of proceeds upon commencement of project and its reason	Nil									
Uses and whereabouts of unused proceeds	Nil									
Issues and other particulars of use of proceeds and its disclosure	Nil									

VIII Directors' Report

IV. Investments during the reporting period (Cont'd)

2. Establishment of controlling subsidiaries during the reporting period

山東晨鳴紙業銷售有限公司 (Shandong Chenming Paper Sales Company Limited)

Shandong Chenming Paper Sales Company Limited was established by the Company on 17 March 2010 by way of capital contribution with a registered capital of RMB100.00 million. It is 100% owned by the Company.

3. Other investments not financed by the proceeds during the reporting period

At the end of the reporting period, the Company and its controlling subsidiaries injected a total of RMB6,336 million mainly for the following six projects:

(1) The high-end low weight coated paper project of annual production capacity of 800,000 tonnes

The high-end low weight coated paper project of annual production capacity of 800,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB5.2 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 800,000 tonnes high-end low weight coated paper and annual profit of approximately RMB850 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the civil works of the project were completed and equipment installation of the project was 70% completed. Accumulated investment of RMB2,385 million was made at the end of the reporting period. It is expected that the project will commence operation by April 2011.

(2) The high-end culture paper project of annual production capacity of 450,000 tonnes

The high-end culture paper project of annual production capacity of 450,000 tonnes in Zhanjiang, Guangdong was considered and approved by the 2008 Annual General Meeting of the Company. The planned total investment amount for this project was approximately RMB1.668 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 450,000 tonnes high-end culture paper and annual profit of approximately RMB189 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the main structure of the paper making plant of the project was completed and its masonry structure was 90% completed. For the progress of project installation, the installation of the major equipment in the paper machine workshop was 25% completed. RMB1,101 million was invested at the end of the reporting period. It was expected that the project may commence operation by April 2011.

VIII Directors' Report

IV. Investments during the reporting period (Cont'd)

3. Other investments during the reporting period (Cont'd)

(3) The high-end white coated linerboard project of annual production capacity of 600,000 tonnes

The high-end white coated linerboard project of an annual production capacity of 600,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB2.6 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 600,000 tonnes high-end white coated linerboard paper and annual profit of approximately RMB430 million. Upon operation, the project will increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the major equipment of the project had been ordered and the pile testing works was 70% completed. RMB258 million was invested at the end of the reporting period. It was expected that the project will commence operation by May 2012.

(4) The high-end household paper project of annual production capacity of 60,000 tonnes

The high-end household paper project of annual production capacity of 60,000 tonnes was considered and approved by the twelfth meeting of the fifth session of the Board. The planned total investment amount for this project was approximately RMB539 million. The construction of the project was to last for one year. Upon completion, the project will realise annual profit of approximately RMB78 million. Upon completion and operation, the project will diversify the paper product mix of the Company by expanding into a brand new category of paper product.

Currently, the civil works and equipment installation of the project was 100% completed. The project successfully commenced production on 16 December 2010 and came into operation. RMB491 million was invested at the end of the reporting period.

(5) Research and development centre project

The construction project of a research and development centre was approved by the Thirteenth Meeting of the Fifth Session of the Board of Directors. The project's planned investment amounted to approximately RMB120 million and it was to be completed in 17 months. Upon completion, the centre will be mainly used for development of new projects and includes technical research institutes, technical laboratories, product testing rooms, workstations for post-doctoral technicians, offices, etc.

The main structure of the centre was topped out and the secondary structure was under construction while interior decoration, external greenery decoration and electrical and instrument works had also commenced. RMB97 million was invested during the reporting period. It is expected that the project will be completed and commence operation by end of April 2011.

(6) The bleached sulfate pulp project of annual production capacity of 700,000 tonnes

The construction of the bleached sulfate pulp project of annual production capacity of 700,000 tonnes was considered and approved by the Board of the Company. The planned total investment amount for this project was approximately RMB9.4 billion. The construction of the project was to last for three year. During the reporting period, the civil works of the project were about 80% completed and equipment installation of the project was about 70% completed. Accumulated investment of RMB2.004 billion was made as at the end of the reporting period. It is expected that the project will commence operation by April 2011.

VIII Directors' Report

V. RSM China Certified Public Accountants and RSM Nelson Wheeler, auditors of the Company, issued standard auditors' reports for the year without qualified opinion on the Company.

VI. Day-to-day operation of the Board

1. Board meetings and their resolutions

During the reporting period, the Board held six meetings.

- (1) On 24 February 2010, the fifth Session of the Board of the Company held its seventeenth meeting, at which, 6 resolutions were considered and approved, including the resolutions in relation to appointment and re-appointment of Directors of the Company, the remuneration of the Directors and senior management of the Company, the application of the Company for the integrated banking credit line in 2010, the guarantee provided by the Company for the banking facilities being applied by its controlling subsidiaries, the implementation of "Internal Management Policy for Forward Exchange Contracts" and the convening of the 2010 First Extraordinary General Meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 February 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 24 February 2010.
- (2) On 12 April 2010, the fifth session of the Board of the Company held its eighteenth meeting, at which, 15 resolutions were considered and approved, including the resolutions in relation to the report of the Board for the year of 2009, the report of the General Manager for the year of 2009, the full text and summary of the 2009 Annual Report and the financial statements of the Company for the year of 2009. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 12 April 2010.
- (3) On 12 April 2010, the sixth session of the Board of the Company held its first meeting, at which, 4 resolutions were considered and approved, including the resolutions on the election of the chairman and vice chairman of the Company, the nomination of general manager and secretary to the Board by the Chairman, the nomination of senior management (including deputy general managers) by the General Manager and the change in membership of the specialised committees under the Board. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 12 April 2010.
- (4) On 22 April 2010, the sixth session of the Board of the Company held its second meeting, at which, the full text and main body of First Quarterly Report 2010 was considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 23 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 22 April 2010.
- (5) On 24 August 2010, the sixth session of the Board of the Company held its third meeting, at which, the full text and summary of the 2010 Interim Report, the resolutions in relation to provision of guarantee for the loans of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, by the Company, the establishment of Shandong Chenming Paper Sales Company Limited (山東晨鳴紙業銷售有限公司), a wholly-owned subsidiary, by the Company, as well as appointment and removal of the senior management of the Company were considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 August 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 24 August 2010.

VIII Directors' Report

VI. Day-to-day operation of the Board (Cont'd)

1. Board meetings and their resolutions (Cont'd)

- (6) On 28 October 2010, the sixth session of the Board of the Company held its fourth meeting, at which, 9 resolutions were considered and approved, including the full text of the 2010 third quarterly report and its original text, the resolutions in relation to the issuance of medium term notes, provision of guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company, the provision of guarantee for the banking facilities granted to Meilun Paper, a wholly-owned subsidiary, by the Company and the provision of an entrusted loan to Qihe Chenming, a wholly-owned subsidiary, by the Company. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 29 October 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 October 2010.

2. Implementation of resolutions of general meetings by the Board

The Board discharged its duties diligently as authorised by general meetings and the Articles of Association. It completed the principal tasks under the authorisation of general meetings as follows:

(1) Implementation of the profit appropriation plan for 2009

The 2009 annual general meeting resolved the 2009 profit appropriation plan of the Company: based on the total share capital of 2,062,045,941 shares as at the end of 2009, a cash bonus of RMB3.00 (before tax) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB618,613,782.30 (before tax), which represented 84.39% of the net profit attributable to shareholders of the Company after deducting statutory reserves as set out in the 2009 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises. The remaining amount after profit appropriation was retained for distribution in future years.

The 2009 dividend payment announcement was published by the Company on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 1 June 2010 while the 2009 H shares dividend payment announcement was published by the Company on the website of Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 8 June 2010. The 2009 profit appropriation plan was implemented with 18 June 2010 as the book closure date of A shares and B shares.

VIII Directors' Report

VI. Day-to-day operation of the Board (Cont'd)

3. Discharge of duties by the audit committee of the Board

The audit committee of the Board discharged of its duties with diligence in accordance with the related requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange and the work instructions of the audit committee of the Board as follows:

(1) The following major tasks were completed during 2010:

- (1) it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2009 financial report auditing on pre-auditing work, reviewed the 2009 auditing report and financial report and submitted such reports to the Board of the Company;
- (2) it reviewed the 2010 interim financial statements for the six months ended 30 June 2010, which were passed to the Board for approval.

(2) Auditing work conducted on the 2010 financial report of the Company was as follows:

- (1) it reviewed the 2010 auditing plan and the related information of the Company with the auditing certified public accountants and the finance department of the Company prior to the on site audit and negotiated and determined the schedule of an audit of the 2010 financial statements of the Company with RSM China Certified Public Accountants;
- (2) it reviewed the draft of financial statements of the Company prior to an annual on site audit performed by the auditing certified public accountants and issued its approval to audit;
- (3) it kept in close contact with the auditors upon the annual on site audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
- (4) it reviewed the financial statements of the Company again upon the issue of draft opinion on the annual audit by the auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;
- (5) at the first meeting of the audit committee in 2011, the auditors' report on the annual audit issued by the certified public accountants was approved and then was submitted to the Board;
- (6) it reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2010.

4. Discharge of duties by the nomination committee of the Board

During the reporting period, the nomination committee held two meetings in total.

The business of the first meeting in 2010 mainly included the discussion of nominating Chen Hongguo, Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai and Zhou Shaohua as candidates for executive Directors of the sixth session of the Board of the Company; the discussion of nominating Wang Aiguo, Zhang Zhiyuan, Wang Yumei, Zhang Hong and Wang Xiangfei as candidates for independent non-executive Directors of the sixth session of the Board of the Company; and the discussion of nominating Cui Youping, Wang Fengrong and Wang Xiaoqun as candidates for non-executive Directors of the sixth session of the Board of the Company. The nominations were submitted to the seventeenth meeting of the fifth session of the Board of the Company for consideration and approval.

The business of the second meeting in 2010 mainly included the discussion of the respective resignation of Mr. Chen Chunfu and Mr. Hong Zhuxiong as the general manager and a deputy general manager, the discussion of Mr. Chen Hongguo, Chairman of the Company acting as the general manager of the Company, the discussion of appointing Mr. Zhang Yanjun and Mr. Zhao Liqun as deputy general managers of the Company. The resolutions were submitted to the third meeting of the sixth session of the Board of the Company for consideration and approval.

VIII Directors' Report

VI. Day-to-day operation of the Board (Cont'd)

5. Discharge of duties by the remuneration committee of the Board

The remuneration and assessment committee of the Company were primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. In the reporting period, the remuneration and assessment committee formulated the 2009 remuneration package of the Directors and the Senior Management of the Company, which then was passed to the Board for approval, based on the production and operation conditions of 2009 and assessment of the Directors and the Senior Management of the Company.

6. Implementation of the management policy on personnel with insider information

During the reporting period, the Company set up Insider Registration System (《内幕信息知情人登記制度》) and Management System on External Users of Insider Information (《外部信息使用人管理制度》) under the circumstances in accordance with the related requirements of Companies Law of the People's Republic of China (《中華人民共和國公司法》), Law of the People's Republic of China on Securities (《中華人民共和國證券法》), Administrative Measures on Information Disclosure by Listed Companies (《上市公司信息披露事務管理辦法》), Rules Governing Listing of Stocks on Shenzhen Stock Exchange (2008 revision) and the Articles of Association of the Company to standardise the management of insider information, strengthen the confidentiality of its insider information and maintain information disclosure in a fair manner. The systems defined the scope of insider information, the persons with knowledge of insider information and their scope, the management of registration and filing, confidentiality and the related liabilities. As the management body of insider information, the Board designated the secretary of the Board to be responsible for the management of the insider information. The Company strengthened the registration and management systems of and the supervision and examination works of insiders to standardise the internal circulation procedure of significant information, thus ensuring the information disclosure in a fair manner and specifically preventing leakages of insider information and insider trading. The Company strictly implemented Insider Registration System and the related systems to prohibit insiders from trading the shares of the Company prior to significant and sensitive information disclosure which had an effect on the share price of the Company.

The Company identified no trading of the shares of the Company by the insiders of the Company during the price sensitive period through self examination.

VII. The proposed profit distribution plan of 2010

Based on the total share capital of 2,062,045,941 shares as at the end of 2010, a cash bonus of RMB3.00 (before tax) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB618,613,782.30 (before tax), which accounted for 60.43% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2010 after deducting appropriation to statutory reserves. The undistributed profit would be rolled over for distribution in subsequent years.

VIII. The cash bonus of the Company in the last three years

Cash bonus year	Amount for profit for cash bonus	Cash bonus	Net profit attributable to equity holders of the Company for the cash bonus year	Ratio of cash bonus to net profit attributable to equity holders of the Company	Unit: RMB	
					Distributable profit for the year	
2007	273,015,350.56	RMB1.6 per 10 shares	967,636,172.39	28.21%	886,584,820.49	
2008	103,102,297.05	RMB0.5 per 10 shares	1,075,291,741.53	9.59%	973,557,811.58	
2009	618,613,782.30	RMB3.0 per 10 shares	835,947,981.16	74.00%	754,495,784.2	
The accumulated amounts for cash bonus in the last three years as a percentage of distributable profit (%)						114.13%

VIII Directors' Report

IX. Major suppliers and customers

The purchase from the largest supplier of the Group for 2010 was RMB426 million, which accounted for 2.3% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was RMB1,503 million, which accounted for 8.13% of the total purchases of the Group for the year. None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest suppliers of the Group.

The sales to the largest customer of the Group for 2010 was RMB328 million, which accounted for 1.9% of the total sales of the Group for the year and the total sales from the five largest customers was RMB995 million, which accounted for 5.78% of the total sales of the Group for the year. None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest customers of the Group.

X. Independent non-executive Directors' opinion on the regulatory compliance of properties with defective title of the Group

During the course of H shares issue in 2008, an valuation of the properties of the Group was carried out, the result of which showed that the Group still held certain parcels of land (including woodlands) and real estate ("Properties with Title Defects") which had not yet obtained the related title certificates. Apart from some properties that have obtained the related title certificates or the letters certifying the application for title certificates being processed from the local land administration authorities, despite the Group's continuous efforts, the title certificates of certain properties are still being processed until the latest practicable time prior to this report due to local land administration policies and administrative procedures taking much more time than expected.

1. With regard to the above circumstances, the Group primarily implemented the following remedies:
 - (1) The management for day-to-day operation of the Group attached great importance to the regulatory compliance of the related Properties with Title Defects by specifically setting up a corresponding focus working group, which was headed by the general manager of the Company. The heads of the related functional departments (including capital operation department and the finance department) of the Group and the related management of the controlling subsidiaries of the Group actively reported to and communicated with the local government functional authorities to strive for the government's coordination in resolving the issue.
 - (2) The compliance matters of the land of the related Properties with Title Defects have obtained the letters certifying the application for title certificates being processed from the local land administration authorities: The self-owned land of the Group for production use is currently completing land supply procedures in compliance with the related laws. The titles of the land are well defined without disputes which can lead to application for land use right certificates after the land use rights are legally granted. Other land for non-production use is currently completing related ownership transfer procedures and/or the title certificates application procedures which are free from legal obstacles. The Group will legally apply for title certificates of the related lands and properties in a timely manner in accordance with the related requirements of the title certificate application procedures.
2. Through the above-mentioned work, the related government departments gained an understanding of the Group's (including the controlling subsidiaries, same below) Properties with Title Defects while providing active assistance and guidance in the light of the historical reasons which led to title defects. Meanwhile, after the examination of the focus working group of the Company, we confirmed that the Properties with Title Defects did not provoke material ownership disputes and the related government departments had not imposed any administrative penalties on the Group with regard to the related Properties with Title Defects issue. Furthermore, in our opinion, despite the Properties with Title Defects, the Group was unlikely liable to related administrative penalties.
3. In order to further rectify non-compliance relating to the Properties with Title Defects of the Group and practically protect the legal interests of the shareholders of the Group, Shouguang Chenming Holdings Co., Ltd. (hereinafter referred to as "Chenming Holdings"), the controlling shareholder of the Company, issued the related supplementary indemnity letter again as requested by the Company.
 - (1) With regard to the Properties with Title Defects owned by the Group, should the Group decide to transfer the ownership of or dispose of the property but no other buyers are available, Chenming Holdings will legally purchase the transferred Properties with Title Defects with reference to the related asset valuation results.

VIII Directors' Report

X. Independent non-executive Directors' opinion on the regulatory compliance of properties with defective title of the Group (Cont'd)

3. In order to further rectify non-compliance relating to the Properties with Title Defects of the Group and practically protect the legal interests of the shareholders of the Group, Shouguang Chenming Holdings Co., Ltd. (hereinafter referred to as "Chenming Holdings"), the controlling shareholder of the Company, issued the related supplementary indemnity letter again as requested by the Company.
 - (2) Before the Company legally dispose of or transfer the ownership of that property, should any economic losses (including but not limited to compensations, fines and removal costs, etc.) be incurred to the Group arising from the Properties with Title Defects, such economic losses will be borne by Chenming Holdings accordingly. After examination, in our opinion, the related indemnity letter issued by Chenming Holdings is legally effective and can effectively prevent the Group from bearing any legal risks and economic losses arising from the Properties with Title Defects, thus protecting the interests of the Company and its shareholders. To summarise the above, as the independent non-executive Directors of the Company, we are of the view that:
 1. The Company's management has actively strived to obtain the title certificates for the Properties with Title Defects and have made great achievements. Also, the Company will continue to work hard in rectifying non-compliance of the properties that remain title defective in accordance with the related laws and regulations.
 2. The Properties with Title Defects do not provoke material ownership disputes and do not pose tangible impacts on the production and operation of the Company and the Company as going concern. The related government departments have so far not imposed any administrative penalties on the Company with regard to the related Properties with Title Defects. Furthermore, in our opinion, despite the Properties with Title Defects, the Group was unlikely liable to related administrative penalties.
 3. The related indemnity letter issued by Chenming Holdings is legally effective and can effectively prevent the Group from bearing any legal risks and economic losses arising from the Properties with Title Defects, thus protecting the interests of the Company and its shareholders.

IX Supervisory Committee's Report

I. Performance of duties

During the reporting period, all the Supervisors, who were accountable to the shareholders, performed their duties in accordance with Companies Law, the Articles of Association, and Procedural Rules for Supervisory Committee's Meetings, and under the principle of diligence. They monitored whether the business activities were lawfully operated, and supervised the financial management and connected transactions of the Company. During the reporting period, they examined and supervised the subsidiaries and branch companies in terms of accounting, raw materials purchase, sales of goods, and connected transactions to provide strong protection for the lawful operation and healthy development of the Company.

II. Meetings of the Supervisory Committee

1. The thirteenth meeting of the fifth session of the Supervisory Committee was held on 24 February 2010. The resolution in relation to appointment and re-appointment of the Supervisory Committee of the Company was considered approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 February 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 24 February 2010.
2. The fourteenth meeting of the fifth session of the Supervisory Committee was held on 12 April 2010. Resolutions, inter alia, 4 resolutions regarding the report of the Supervisory Committee of the Company for the year of 2009, the full text and summary of the 2009 Annual Report, the financial statements of the Company for the year of 2009 and the Self Assessment Report on Internal Control of the Company were considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 12 April 2010.
3. The first meeting of the sixth session of the Supervisory Committee was held on 12 April 2010. The resolution on the election of the chairman of the Supervisory Committee of the Company was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 12 April 2010.
4. The second meeting of the sixth session of the Supervisory Committee was held on 22 April 2010. The full text and main body of First Quarterly Report 2010 was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 23 April 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 22 April 2010.
5. The third meeting of the sixth session of the Supervisory Committee was held on 24 August 2010. The full text and summary of the 2010 interim report of the Company and the resolution in relation to provision of guarantee for the loans of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, by the Company were considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 August 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 24 August 2010.
6. The fourth meeting of the sixth session of the Supervisory Committee was held on 28 October 2010. The full text of the 2010 third quarterly report and its original text was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 29 October 2010 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 October 2010.

IX Supervisory Committee's Report

III. Independent opinion of the Supervisory Committee

1. Operation According to the law

- (1) During the reporting period, the Company conducted its businesses according to Companies Law, Securities Law, Articles of Association of the Company and the related national laws and regulations under the direction of “lawfulness, supervision, self-discipline and regulation” applied in a consistent manner. Information disclosures were conducted under the principles of truthfulness, completeness, accuracy, and timeliness. No false or misleading information was released.
- (2) The Board undertook all of the rights and responsibilities set out by Companies Law, Securities Law, and Articles of Association of the Company, and fully implemented the resolutions passed by the general meetings and Board meetings. The decision making processes were lawful with timely consideration and approval of the production targets, sustainable development measures, operation according to the law and standardisation operation. A more comprehensive internal control system was established to ensure healthy and continued development of the Company. The management of the Company were able to perform their duties as stipulated in the Articles of Association of the Company and executed the resolutions of the Board. No contravention of laws or regulations or the Articles of Association nor acts detrimental to the interests of the Company were identified.

2. Financial position inspection

The financial statements of the Company were audited by RSM China Certified Public Accountants and RSM Nelson Wheeler, who issued standard auditors' reports with unqualified opinion on them upon auditing. In the opinion of the Supervisory Committee, the auditors' report gave a true and fair view of the financial position and operating results of the Company.

3. Use of proceeds

The actual use of the proceeds from the latest fund raising activity was consistent with their intended use without any changes.

4. Material purchase or sales of assets

The consideration for the material purchase of assets by the Company was fair and reasonable and no insider trades and connected transactions, which were detrimental to the interests of any shareholders or resulted in loss of assets of the Company, were found.

5. Connected transactions

The connected transactions of the Company were entered into at arm's length and were not detrimental to the interests of the Company and the shareholders.

X Material Matters

- I. There was no material litigation or arbitration of the Company during the reporting period
- II. There was no significant purchase or sales of assets and merger and acquisition during the reporting period
- III. Major connected transactions

1. In accordance with the relevant requirements in the listing rules of Shenzhen Stock Exchange, the Group had no major connected transactions during the reporting period.
2. Continuing connected transactions as defined under the listing rules of the Hong Kong Stock Exchange

For the year ended 31 December 2010, the following non-exempt continuing connected transactions were subject to reporting requirements under the Hong Kong Listing Rules of the Stock Exchange. Such transactions were conducted in the ordinary course of business of the Group and on commercial terms fair and reasonable to shareholders.

Sale of paper products by Jiangxi Chenming to Sappi and/or its associates

On 3 December 2004, Jiangxi Chenming Paper Co., Ltd. (“Jiangxi Chenming”), the Company, Moorim Paper Co., Ltd. (“Moorim Paper”) and Sappi China Holdings BV (“Sappi China”) entered into a Sales and Distribution Agreement.

Jiangxi Chenming is owned as to 51% by us, 34% by Sappi whose beneficial owners are all Independent Third Parties to the Company, 7.5% by Moorim Paper and 7.5% by IFC. The principal businesses of Sappi and Moorim Paper are making and sales of various paper products. According to Rule 14A.11 of the Hong Kong Listing Rules, Sappi is a connected person of us. Based on information currently available, Sappi China Holdings BV (“Sappi China”) is an associate of Sappi and therefore the sales of products by Jiangxi Chenming to either Sappi or Sappi China (the “Sappi Sales”) in its ordinary and usual course of business will constitute continuing connected transactions under the Hong Kong Listing Rules. Pursuant to the Sales and Distribution Agreement entered into by the parties, Jiangxi Chenming engaged three sole distributors in China, South Korea and overseas markets respectively to reduce distribution costs. Such arrangements will shorten the distribution cycle and assist Jiangxi Chenming in more efficient and effective distribution work in its expansion into overseas markets, and therefore strengthen its market position within the paper making industry. During the reporting period, Sappi recorded total sales of RMB68 million, accounting for 0.39% of the total sales of the Group for the year.

The independent non-executive Directors of the Company reviewed the connected transactions of the Group and confirmed that:

- the transactions were conducted in the ordinary course of business of the Group;
- the transactions were carried out on normal commercial terms;
- the transactions were carried out on the terms of the related agreements and the terms were fair and reasonable and in the interests of the shareholders as a whole.

X Material Matters

III. Major connected transactions (Cont'd)

2. Continuing connected transactions as defined under the listing rules of the Hong Kong Stock Exchange (Cont'd)

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 79 of the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

IV. Significant contracts and their performance

1. External guarantees

- (1) During the reporting period, the Company did not provide any guarantee to external parties (excluding the guarantees provided to its subsidiaries) and did not provide any guarantees against the rules and regulations.

During the reporting period, the Company provided guarantee for its controlling subsidiaries with respect to application of bank loans, the guarantee amount incurred was RMB2,671.36 million; as at 31 December, 2010, the balance of guarantee the Company provided to its subsidiaries amounted to RMB3,903.72 million representing 28.84% of the net assets attributable equity holders of the Company.

Unit: RMB'0000

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)								
Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not?	Guarantee to related parties or not
Total amount of external guarantee approved during the reporting period (A1)			0.00	Total amount of external guarantee provided during the reporting period (A2)				0.00
Total amount of external guarantee approved as at the end of the reporting period (A3)			0.00	Total balance of external guarantee provided as at the end of the reporting period (A4)				0.00

X Material Matters

IV. Significant contracts and their performance (Cont'd)

1. External guarantees (Cont'd)

(1) (Cont'd)

Guarantees provided by the Company for subsidiaries

Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term (year)	Fulfilled or not?	Guarantee to related parties or not
Zhanjiang Chenming Paper Pulp Co., Ltd.	2006-07-27(2006-042)	564,020.00	25 March 2008	258,641.00	Credit	15	No	No
Jiangxi Chenming Paper Co., Ltd.	2009-12-16(2009-034)	45,000.00	10 December 2009	45,000.00	Credit	3	No	No
Jiangxi Chenming Paper Co., Ltd.	2003-03-17(2003-002)	103,600.00	11 December 2003	5,000.00	Credit	3	No	No
Huanggang Chenming Arboriculture Co., Ltd.	2010-02-25(2010-003)	16,000.00	20 April 2010	2,000.00	Credit	3	No	No
Huanggang Chenming Arboriculture Co., Ltd.	2010-02-25(2010-003)	16,000.00	8 July 2010	3,000.00	Credit	3	No	No
Huanggang Chenming Arboriculture Co., Ltd.	2009-05-27(2009-012)	10,000.00	2 June 2009	5,000.00	Credit	3	No	No
Shouguang Meilun Paper Co., Ltd.	2009-06-09(2009-015)	8,000.00	1 January 2010	0.00	Credit	6	Yes	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2009-05-27(2009-012)	28,000.00	21 September 2009	0.00	Credit	1	Yes	No

X Material Matters

IV. Significant contracts and their performance (Cont'd)

1. External guarantees (Cont'd)

(1) (Cont'd)

Guarantees provided by the Company for subsidiaries								
Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term (year)	Fulfilled or not?	Guarantee to related parties or not
Shouguang Chenming Art Paper Co., Ltd.	2009-05-27(2009-012)	10,000.00	6 May 2009	0.00	Credit	1	Yes	No
Jilin Chenming Paper Co., Ltd.	2009-05-27(2009-012)	70,000.00	19 May 2009	0.00	Credit	1	Yes	No
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	2010-02-25(2010-003)	30,000.00	8 March 2010	4,000.00	Credit	1	No	No
Shouguang Meilun Paper Co., Ltd.	2010-08-24(2010-027)	79,473.00	10 September 2010	52,982.00	Credit	5	No	No
Shouguang Meilun Paper Co., Ltd.	2010-10-29(2010-034)	600,000.00	1 November 2010	14,749.00	Credit	0.5	No	No
Shouguang Chenming Art Paper Co., Ltd.	2010-02-25(2010-003)	10,000.00	5 May 2010	0.00	Credit	1	No	No
Jilin Chenming Paper Co., Ltd.	2010-02-25(2010-003)	30,000.00	18 May 2010	0.00	Credit	1	No	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2010-02-25(2010-003)	20,000.00	16 September 2010	0	Credit	1	No	No

X Material Matters

IV. Significant contracts and their performance (Cont'd)

1. External guarantees (Cont'd)

(1) (Cont'd)

Guarantees provided by the Company for subsidiaries								
Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term (year)	Fulfilled or not?	Guarantee to related parties or not
Chenming (HK) Limited	2010-02-25(2010-003)	102,423.00	—	0	Credit	1	No	No
Xianning Chenming Arboriculture Co., Ltd.	2010-02-25(2010-003)	10,000.00	—	—	Credit	1	Contract has not been signed	No
Shandong Chenming Paper Sales Company Limited	2010-10-29(2010-034)	200,000.00	—	0	Credit	—	Contract has not been signed	No
Chenming (HK) Limited	2010-10-29(2010-034)	50,000.00	—	0	Credit	5	Contract has not been signed	No
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)			1,147,896.00	Total amount of guarantee provided for subsidiaries during the reporting period (B2)			267,136.00	
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)			1,959,516.00	Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)			390,372.00	
Total amount of guarantee provided by the Company (the sum of the above two main categories)								
Total amount of guarantee approved during the reporting period (A1+B1)			1,147,896.00	Total amount of guarantee provided during the reporting period (A2+B2)			267,136.00	
Total amount of guarantee approved as at the end of the reporting period (A3+B3)			1,959,516.00	Total balance of guarantee provided as at the end of the reporting period (A4+B4)			390,372.00	
Total amount of guarantee provided (A4+B4) as a percentage of the net assets of the Company						28.84%		
Of which:								
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)						0.00		
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)						268,641.00		
Total amount of guarantee provided in excess of 50% of net assets (E)						0.00		
Sum of the above three amount of guarantee (C+D+E)						268,641.00		
Explanation on possible joint obligation on outstanding guarantees provided						Nil		

X Material Matters

IV. Significant contracts and their performance (Cont'd)

- (2) The 2010 first extraordinary general meeting approved a resolution regarding to provision of guarantee for banking facilities granted to its subsidiaries. The Company provides guarantee for banking facilities granted to its subsidiaries in 2009, which will expire successively. In order to ensure the normal production and management of each of its subsidiaries, the Company continues to provide guarantee for RMB comprehensive banking facilities granted to the related subsidiaries in 2010, with the total value of RMB 2.184 billion under guarantee and with effect of one year therefrom. The related announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange (www.hkex.com) on 12 April 2010.

2. Entrusted loans

During the reporting period, in order to save financial expenses, increase incomes, and regulate funds exchanged between the Company and its subsidiaries, the Company granted entrusted loans from banks of RMB2.0 billion to controlling subsidiaries of the Company, including Jiangxi Chenming, Wuhan Chenming, Heze Chenming, Qihe Chenming etc., for their use; as at 31 December 2010, the balance of entrusted loans the Company provided to its controlling subsidiaries amounted to RMB2.3billion. For details of the entrusted loans, please refer to “Note IX to the Financial Statements” in the financial report prepared in accordance with Accounting Standards for Business Enterprises.

During the reporting period, except for the above entrusted loans to the controlling subsidiaries, the Company had no other entrusted financial management matters or those incurred in prior periods extending into the reporting period.

3. Other significant contracts

- (1) On 17 May 2010, Shouguang Meilun Paper Co. Ltd, a wholly owned subsidiary of the Company, entered into the Equipment Purchase Contract with Voith Paper GmbH, Voith Paper (China) Co. Ltd, Metso Paper Inc and Metso Paper Technology (Shanghai) Co. Ltd at a total contractual amount of approximately RMB970,000,000 for the purpose of the White Coated Linerboard Project with annual production capacity of 600,000 tonnes. Please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 18 May 2010 and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 17 May 2010 for details in relation to this matter.

X Material Matters

IV. Significant contracts and their performance (Cont'd)

4. Forward exchange product transactions during the reporting period

Risk analysis of positions in derivatives during the reporting period and explanation on risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)

The Company held three forward exchange product transactions amounting to USD200 million during the reporting period. Shandong Chenming made forward exchange settlement contracts in China and Chenming (HK) made forward exchange settlement contracts in Hong Kong. The product transactions were handled by the Shouguang branch of China Construction Bank Corporation and the Hong Kong branch of China Construction Bank Corporation at the same time. The currency risk was jointly locked up by Shandong Chenming and Chenming (HK). The risk in the products had been assessed by the related departments of the Company and the risk was under control.

Change in market price or fair value of derivatives invested during the reporting period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of the fair value of derivatives

During the reporting period, all of the derivatives of the Company expired. The gain on expiry was charged to foreign exchange loss/gain under finance expenses. Fair value gain/loss in the prior periods was reflected in the fair value changes in the income statement. The aggregate effect on profit or loss amounted to RMB1.52 million.

Explanation on any significant changes in the Company's accounting policies and specific accounting principles on derivatives between the reporting period and the last reporting period

The investment in derivatives was subsequently measured at fair value by the Company. The gain or loss on change in fair value was recognised in profit or loss during the period.

Specific opinions of independent directors, the sponsor or financial advisor on the investment in derivatives and risk control of the Company

In the opinion of the Audit Committee of the Board and the independent Directors of the Company, the forward exchange product transactions of Chenming Paper were operated in accordance with the "Rules on the Administration of Financial Derivatives" (《關於金融衍生品管理辦法》) of Shenzhen Stock Exchange and in strict compliance with the "internal management policy for forward exchange contracts" (《遠期結售匯內控管理制度》) established by the Company during the reporting period. The currency risk of the transactions was jointly locked up by Shandong Chenming and Chenming (HK) and the transaction risk was under control. The pricing of the transactions were objective and fair at arm's length, thus safeguarding the interest of the shareholders of the Company.

X Material Matters

IV. Significant contracts and their performance (Cont'd)

4. Forward exchange product transactions during the reporting period (Cont'd)

Positions in forward exchange product transactions as at the end of the reporting period

Type of contract	Opening contract amount	Closing contract amount	Gain or loss during the reporting period	Unit: RMB Closing contract amount as a percentage of the net assets of the Company as at the end of the reporting period(%)
Buy USD 50.00 million	(328,900,000.00)	—	-3,018,765.00	—
Buy USD 100.00 million	(669,900,000.00)	—	5,900,000.02	—
Buy USD 50.00 million	—	—	-2,101,952.04	—
Sell USD 50.00 million	332,200,000.00	—	2,730,000.00	—
Sell USD 100.00 million	676,400,000.00	—	-6,738,110.00	—
Sell USD 50.00 million	—	—	4,750,000.00	—
Total	9,800,000.00	—	1,521,172.98	—

V. Commitments by holders of non-tradable shares during the reform of conversion

1. Commitments during the reform of conversion and its performance

Shouguang Chenming Holdings Co., Ltd., the controlling shareholder of the Company, committed that the shares held by Shouguang Chenming Holdings Co., Ltd. shall not be listed and traded within 48 months from the date of reform of Conversion.

During the reporting period, Shouguang Chenming Holdings Co., Ltd. strictly performed its commitments and the commitments expired on 29 March 2010.

2. During the reporting period, no shareholders who held 5% (including 5%) or more of the shares in the Company made additional commitments on share lock-up.

VI. The accounting firm engaged by the Company during the reporting period

The 2010 second extraordinary general meeting of the Company considered and approved the resolution of appointment of RSM China Certified Public Accountants and RSM Nelson Wheeler as the PRC and international auditors for 2010. The total audit fee for the PRC and international audit works was RMB2 million (travel expenses, beverage and accommodation and related fees reimbursed by the Company as expensed). RSM China Certified Public Accountants provided the Company with the auditing service for the first year.

VII. The Company was not included in the serious pollution enterprises list published by the environmental protection department.

VIII. During the reporting period, the Board and the Directors of the Company were not fined by China Securities Regulatory Commission nor condemned by any stock exchange

X Material Matters

IX. Launch of various channels to communicate and strengthen investor's relation management

During the reporting period, the Board of the Company not only promptly disclosed sufficient information in strict compliance with the relevant regulations, but also launched various channels to actively manage investor's relations, and strengthen the direct communications with investors, news media and the public, thereby fully introducing and displaying the outstanding image of the Company, as well as our advantages over other players, our continuous improving results and unlimited development prospects which led investors to further understand the investment value of the Company in depth. Our disclosure of information was comprehensively assessed by Shenzhen Stock Exchange as "good" for nine years in succession (2001-2009).

In 2010, the Company' headquarters handled 33 visits from institutions and individual investors for company study. The Company fully utilised investor's special telephone lines, strengthened the telephone communication with shareholders, and answered queries from each shareholder patiently. By way of exchanges through the network, an investor's relation forum was set up on the Company's websites where several personnel were arranged to be responsible for answering questions of various aspects from investors.

X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
18 January 2010	Shouguang, Shandong	On-site research investigation	Liu Hui of Shanghai Representative Office, CSC Int'l Holding Ltd. and others	Recent production and operation of the Company
27 January 2010	Shouguang, Shandong	On-site research investigation	張迪 of China Galaxy Securities	
29 January 2010	Shouguang, Shandong	On-site research investigation	Cheng Shijie of Penghua Fund and others	
2 February 2010	Shouguang, Shandong	On-site research investigation	Wan Youlin and 孫亮, analysts of Sinolink Securities Co., Ltd.	
8 March 2010	Shouguang, Shandong	On-site research investigation	Jl Pelen Peirun of Macquarie Capital Securities and others	
17 March 2010	Shouguang, Shandong	On-site research investigation	Ilkka Kuusisto and Ho See Young of Pöyry Forest Industry	
12 May 2010	Shouguang, Shandong	On-site research investigation	BOCI, Christina of RCM, and others	
1 June 2010	Shouguang, Shandong	On-site research investigation	Mr. Daniel Poon, Fund Manager of Zeal Asset Management Limited, a client of CICC	
8 July 2010	Shouguang, Shandong	On-site research investigation	研李明 of Guoyuen Hong Kong	

X Material Matters

X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period (Cont'd)

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
9 September 2010	Shouguang, Shandong	On-site research investigation	He Jun and David Raper of Comgest Far East Limited	Recent production and operation of the Company
14 September 2010	Shouguang, Shandong	On-site research investigation	穆方舟 of Huatai United Securities	
14 September 2010	Shouguang, Shandong	On-site research investigation	王旭東 of China Merchants Securities	
17 September 2010	Shouguang, Shandong	On-site research investigation	GU Lingwei of Yuanta Securities, Taifook Securities, Korea Investment & Securities, and 東部資產管理公司	
11 October 2010	Shouguang, Shandong	On-site research investigation	Mr. 楊, Mark Wilde and Josh Milberg of Deutsche Bank AG, and others	
3 November 2010	Shouguang, Shandong	Conference Call	Guotai Junan and Mr. 陳 of China Life	
18 November 2010	Shouguang, Shandong	On-site research investigation	王捷民 of 富邦證券, 顏毓靜 of 複華證券, 張正鼎 of 保德信證券	
6 December 2010	Shouguang, Shandong	Conference Call	JI Pelen Peirun of Institutional Analyst of Macquarie	

X Material Matters

X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period (Cont'd)

RECEPTION OF RESEARCH INVESTIGATIONS, COMMUNICATIONS AND INTERVIEWS FROM THE END OF THE REPORTING PERIOD TO THE TIME OF DISCLOSURE IN THE REPORT (Cont'd)

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
7 January 2011	Zhangjinag, Guangdong	On-site research investigation	Institutional analysts such as 朱嘉 of Qilu Securities and others	
12 January 2011	Shouguang, Shandong	On-site research investigation	Guan Xue of China International Capital Corporation Securities Limited and others	Recent production and operation of the Company
17 February 2011	Shouguang, Shandong	On-site research investigation	Wan Youlin of Sinolink Securities, 梁裕宁 of E Fund Management Co., Ltd.	
24 February 2011	Shouguang, Shandong	On-site research investigation	曾晶晶 of China Post Fund and others	

X Material Matters

XI. Other material matters

Independent Directors of the Company expressed the following opinions on the use of funds by related parties and external guarantee provided during the reporting period:

Under the requirements of the listing rules of Shenzhen Stock Exchange in relation to connected transactions, the Company had no material connected transactions, during the reporting period. According to the requirements of the Accounting Standards for Business Enterprises, except for the ordinary connected transactions between the Company and its controlling subsidiaries and investees of the Company (for details, please refer to PRC Auditors' Report and Financial Statements and Note VI thereto Prepared in Accordance with Accounting Standards for Business Enterprises), there were no use of funds by controlling shareholders and other related parties .

Upon verification, except for the above guarantees provided to controlling subsidiaries, the Company had provided RMB0 of external guarantee for the period of and accrued up to 2010. The Company strictly followed the relevant requirements of Notice on Regulation of External Guarantee Provided by Listed Companies (Zheng Jian Fa [2005] No.120) 《關於規範上市公司對外擔保行為的通知》(證監發) [2005]120 號 , and the Articles of Association to earnestly perform its information disclosure obligations in respect of external guarantees and honestly provided information concerning all external guarantee matters to the public accountant. During the reporting period, the Company provided guarantee for controlling subsidiaries for their ordinary production and operation and to meet reasonable funding needs. The decision procedures were legal and without prejudice to the interests of the Company and the shareholders of the Company (especially minority shareholders).

After inspection, the forward foreign exchange contracts made by the Company during the reporting period clearly, truly and accurately reflected the position of the financial derivatives of the Company. They were in compliance with the related requirements of Companies Law and Securities Law and the related procedure was in compliance with Internal Management Policy for Forward Exchange Contracts. The transactions were objectively and fairly priced at arm's length and were not detrimental to the interests of the Company and other shareholders, and more specifically, the interest of minority shareholders and non-related shareholders.

X Material Matters

XII. Index of information disclosure in 2010

Date of announcement	Subject matter	Media for publication
2010-2-25	Announcement in respect of 2010 First Extraordinary General Meeting	C08 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-3-25	Indicative Announcement in respect of 2010 First Extraordinary General Meeting	D004 of China Securities Journal, A15 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-3-27	Announcement in respect of Resolutions of the Eighteenth Meeting of the Fifth Session of the Board of Directors	C005 of China Securities Journal, A5 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-4-13	Notice of 2009 Annual General Meeting Reviewed and adopted the report of the independent directors' of the Company for the year 2009 Considered and approved the financial statements of the Company for the year 2009 Profit distribution plan for 2009 2009 Annual Report Directors' report of the Company for the year 2009 Supervisory Committee's report of the Company for the year 2009	D024 of China Securities Journal, A20 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk

X Material Matters

XII. Index of information disclosure in 2010 (Cont'd)

Date of announcement	Subject matter	Media for publication
2010-4-13	Announcement on Resolution of 2010 First Extraordinary General Meeting	A20 of Hong Kong Commercial Daily, D024 of China Securities Journal http://www.cninfo.com.cn http://www.hkex.com.hk
2010-4-23	First Quarterly Report 2010	D008 of China Securities Journal, A23 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-5-14	Indicative Announcement in respect of 2009 Annual General Meeting	B008 of China Securities Journal, A20 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-5-18	Indicative Announcement in respect of the signing of Equipment Purchase Contract	A44 of China Securities Journal, A3 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-5-28	Indicative Announcement in respect of the Inspection Report on Environmental Protection Review of a Subsidiary	B004 of China Securities Journal, A5 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-6-1	Announcement on Resolution of 2009 Annual General Meeting Directors' report of the Company for 2009 Supervisory Committee's report of the Company for 2009 Independent directors' report of the Company for 2009 Financial statements of the Company for the year of 2009 Profit distribution plan for 2009	B005 of China Securities Journal, A8 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk

X Material Matters

XII. Index of information disclosure in 2010 (Cont'd)

Date of announcement	Subject matter	Media for publication
2010-6-9	Announcement of Dividend Payment for 2009	B005 of China Securities Journal, A18 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-7-15	Announcement in Relation to the Increase in the Estimated 2010 Half-yearly Results	B012 of China Securities Journal, A17 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-8-25	Announcement in Relation to the Increase in the Estimated 2010 First Three Quarters Results	B012 of China Securities Journal, A10 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-8-25	2010 interim report	http://www.cninfo.com.cn http://www.hkex.com.hk
2010-9-30	Announcement in respect of the Progress on Environmental Protection Inspection and Modification by Hailaer Chenming	B009 of China Securities Journal, A6 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-10-19	Notice of Board Meeting for 2010	B004 of China Securities Journal, A6 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-10-29	Announcement in respect of 2010 Second Extraordinary General Meeting	http://www.cninfo.com.cn http://www.hkex.com.hk
2010-10-29	Third Quarterly Report 2010	B048 of China Securities Journal, A5 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk
2010-11-26	Indicative Announcement in respect of 2010 Second Extraordinary General Meeting	A1 of China Securities Journal, A11 of Hong Kong Commercial Daily http://www.cninfo.com.cn http://www.hkex.com.hk

X Material Matters

XII. Index of information disclosure in 2010 (Cont'd)

Date of announcement	Subject matter	Media for publication
2010-12-17	<p>Announcement on Resolution of 2010 Second Extraordinary General Meeting</p> <p>Announcement in respect of the issuance of medium term notes</p> <p>Announcement in respect of the provision of guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the provision of guarantee for the banking facilities granted to Meilun Paper, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the provision of guarantee for the issuance of RMB500 million notes issued by Chenming (HK) Limited, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the appointment of PRC and international auditors for the year of 2010</p>	<p>B012 of China Securities Journal, A9 of Hong Kong Commercial Daily</p> <p>http://www.cninfo.com.cn</p> <p>http://www.hkex.com.hk</p>

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Zhong Rui Yue Hua Shen Zi [2011] No. 03598

To shareholders of Shandong Chenming Paper Holdings Limited:

We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (the "Company" together with its subsidiaries, the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in owners' equity for 2010 and notes to the financial statements.

I. Management's responsibility for the financial statements

The Group's management is responsible for preparing the financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Opinion

In our opinion, the above financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and fairly present, in all material aspects, the financial position of the Group and the Company as at 31 December 2010 and the operating results and the cash flows for 2010.

RSM China Certified Public Accountants Co. Ltd.

PRC Certified Public Accountant: 劉健
Beijing, China

PRC Certified Public Accountant: 王傳順

30 March 2011

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Consolidated Balance Sheet

As at 31 December 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds	VII.1	1,951,854,940.72	2,892,923,245.93
Held-for-trading financial assets	VII.2	—	14,900,000.00
Bills receivable	VII.3	2,762,389,909.89	2,704,799,074.02
Accounts receivable	VII.4	2,122,578,824.27	1,528,991,497.69
Prepayments	VII.6	924,354,545.55	1,000,772,875.85
Interest receivable		—	—
Dividend receivable		—	—
Other receivables	VII.5	117,634,380.52	81,210,643.94
Inventory	VII.7	3,047,078,215.01	2,226,579,492.59
Current assets due within one year		—	—
Other current assets	VII.8	658,572,125.34	90,756,205.60
Total current assets		11,584,462,941.30	10,540,933,035.62
NON-CURRENT ASSETS:			
Available-for-sale financial assets		—	—
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments	VII.9	67,201,931.89	80,984,687.49
Investment properties	VII.10	24,688,212.07	26,426,468.11
Fixed assets	VII.11	12,882,358,381.56	13,529,590,915.63
Construction in progress	VII.12	7,871,512,563.84	1,997,961,262.18
Construction materials	VII.13	116,481,086.12	42,912,962.27
Disposal of fixed assets		—	—
Consumable biological assets	VII.14	726,742,568.44	496,724,974.94
Oil and gas assets		—	—
Intangible assets	VII.15	1,459,453,227.94	1,313,428,867.12
Development expenditure		—	—
Goodwill	VII.16	20,283,787.17	20,283,787.17
Long-term prepaid expenses	VII.17	176,436,950.42	32,411,932.85
Deferred income tax assets	VII.18	147,510,479.23	131,425,981.64
Other non-current assets		—	—
Total non-current assets		23,492,669,188.68	17,672,151,839.40
TOTAL ASSETS		35,077,132,129.98	28,213,084,875.02

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term borrowings	VII.21	3,594,157,220.47	3,103,153,828.18
Held-for-trading financial liabilities	VII.2	—	6,450,000.00
Bills payable	VII.22	218,757,186.75	544,532,508.19
Accounts payable	VII.23	2,708,064,676.44	2,122,860,892.58
Advance receipts	VII.24	410,243,554.75	233,123,691.11
Staff remuneration payables	VII.25	169,426,660.41	245,501,281.04
Taxes payable	VII.26	134,029,387.82	137,491,104.68
Interest payable		—	5,050,000.00
Dividend payable	VII.27	—	78,807.70
Other payables	VII.28	582,052,511.43	321,220,579.61
Non-current liabilities due within one year	VII.29	1,432,841,463.15	345,353,527.87
Other current liabilities	VII.30	3,412,493,915.88	—
Total current liabilities		12,662,066,577.10	7,064,816,220.96
NON-CURRENT LIABILITIES:			
Long-term borrowings	VII.31	4,725,628,719.05	5,087,424,182.26
Bonds payable		—	—
Long-term payables		—	—
Special accounts payable		—	—
Estimated liabilities		—	—
Deferred income tax liabilities	VII.18	1,340,281.66	12,408,618.13
Other non-current liabilities	VII.30	2,427,897,545.67	1,311,375,031.52
Total non-current liabilities		7,154,866,546.38	6,411,207,831.91
TOTAL LIABILITIES		19,816,933,123.48	13,476,024,052.87
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital(or share capital)	VII.32	2,062,045,941.00	2,062,045,941.00
Capital reserves	VII.33	6,093,493,004.71	6,093,483,801.92
Less: Treasury shares		—	—
Special reserves		—	—
Surplus reserves	VII.34	1,046,510,680.99	906,929,047.49
General risk provisions		—	—
Retained profit	VII.35	4,333,731,947.96	3,928,586,297.55
Foreign currency translation differences		4,219.88	859,233.72
Total equity attributable to equity holders of the company		13,535,785,794.54	12,991,904,321.68
Minority interests		1,724,413,211.96	1,745,156,500.47
Total owners' equity		15,260,199,006.50	14,737,060,822.15
TOTAL LIABILITIES AND OWNERS' EQUITY		35,077,132,129.98	28,213,084,875.02

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Balance Sheet of the Parent Company

As at 31 December 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds		704,109,173.25	2,037,930,262.40
Held-for-trading financial assets		—	—
Bills receivable		1,527,349,378.06	1,915,645,987.88
Accounts receivable	XV.1	1,621,939,553.18	1,387,208,451.92
Prepayments		919,638,465.71	826,816,984.44
Interest receivable		—	—
Dividend receivable		25,500,000.00	188,362,997.10
Other receivables	XV.2	4,773,074,610.91	2,045,123,389.13
Inventory		798,447,611.57	901,471,663.46
Entrusted loans due within one year		1,799,625,759.18	1,688,000,000.00
Other current assets		—	35,927,902.98
Total current assets		12,169,684,551.86	11,026,487,639.31
NON-CURRENT ASSETS:			
Available-for-sale financial assets		—	—
Entrusted loans		500,000,000.00	395,000,000.00
Long-term receivables		—	—
Long-term equity investments	XV.3	5,957,887,739.77	4,091,670,495.37
Investment properties		24,688,212.07	26,426,468.11
Fixed assets		5,162,505,904.23	5,741,048,494.95
Construction in progress		377,881,973.00	139,440,285.68
Construction materials		18,789,838.50	6,592,106.05
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		329,934,823.01	349,130,281.02
Development expenditure		—	—
Goodwill		—	—
Long-term prepaid expenses		—	—
Deferred income tax assets		60,305,230.74	73,479,449.99
Other non-current assets		—	—
Total non-current assets		12,431,993,721.32	10,822,787,581.17
TOTAL ASSETS		24,601,678,273.18	21,849,275,220.48

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term loans		2,177,183,475.78	2,637,914,967.54
Held-for-trading financial liabilities		—	6,450,000.00
Bills payable		124,145,654.66	456,914,277.59
Accounts payable		995,425,830.59	1,349,629,055.79
Advance receipt		284,808,123.90	168,878,896.38
Staff remuneration payables		106,040,498.15	133,530,934.62
Taxes payable		36,899,207.08	70,066,082.73
Interest payable		—	5,050,000.00
Dividend payable		—	78,807.71
Other payables		248,170,250.32	225,959,345.59
Non-current liabilities due within one year		1,360,951,000.00	252,423,000.00
Other current liabilities		3,405,958,538.39	—
Total current liabilities		8,739,582,578.87	5,306,895,367.95
NON-CURRENT LIABILITIES:			
Long-term borrowings		852,222,735.94	3,418,358,035.94
Bonds payable		—	—
Long-term payables		—	—
Special accounts payable		—	—
Estimated liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		2,309,355,287.42	1,200,706,698.34
Total non-current liabilities		3,161,578,023.36	4,619,064,734.28
TOTAL LIABILITIES		11,901,160,602.23	9,925,960,102.23
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital(or share capital)		2,062,045,941.00	2,062,045,941.00
Capital reserves		6,184,215,988.77	6,184,215,988.77
Less: Treasury shares		—	—
Special reserves		—	—
Surplus reserves		1,034,321,099.08	894,739,465.58
General risk provisions		—	—
Retained profit		3,419,934,642.10	2,782,313,722.90
Total owners' equity (shareholders' equity)		12,700,517,670.95	11,923,315,118.25
TOTAL LIABILITIES AND OWNERS' EQUITY (SHAREHOLDERS' EQUITY)		24,601,678,273.18	21,849,275,220.48

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Consolidated Income Statement

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Total operating revenue		17,203,123,029.49	14,884,629,349.50
Including: Operating revenue	VII.36	17,203,123,029.49	14,884,629,349.50
II. Total operating costs		15,801,911,781.41	13,904,686,284.84
Including: Operating costs	VII.36	13,683,001,460.32	12,057,415,861.42
Business taxes and surcharges	VII.37	30,117,480.19	16,268,806.81
Selling and distribution expenses	VII.38	873,779,193.05	774,685,975.04
General and administrative expenses	VII.39	871,138,204.71	726,351,661.67
Finance expenses	VII.40	233,455,658.10	312,687,004.02
Loss on impairment of assets	VII.43	110,419,785.04	17,276,975.88
Add: Gain on change in fair value (“-” denotes loss)	VII.41	46,302,250.58	18,311,845.48
Investment income (“-” denotes loss)	VII.42	-13,762,755.60	-15,689,081.65
Including: Investment income from associates and joint ventures		-13,863,141.44	-15,689,081.65
III. Operating profit (“-” denotes loss)		1,433,750,743.06	982,565,828.49
Add: Non-operating income	VII.44	179,418,037.60	201,738,406.80
Less: Non-operating expenses	VII.45	50,814,216.46	11,381,604.06
Including: Loss on disposal of non-current assets		42,128,862.46	10,496,542.97
IV. Total profit (“-” denotes total loss)		1,562,354,564.20	1,172,922,631.23
Less: Income tax expenses	VII.46	260,696,445.13	219,011,201.01
V. Net profit (“-” denotes net loss)		1,301,658,119.07	953,911,430.22
Net profit attributable to equity holders of the Company		1,163,341,066.21	835,947,981.16
Minority interests		138,317,052.86	117,963,449.06
VI. Earnings per share:			
(I) Basic earnings per share	VII.47	0.56	0.41
(II) Diluted earnings per share	VII.47	0.56	0.41
VII. Other comprehensive income	VII.48	-855,013.84	-20,264.42
VIII. Total comprehensive income		1,300,803,105.23	953,891,165.80
Total comprehensive income attributable to equity holders of the Company		1,162,486,052.37	835,927,716.74
Total comprehensive income attributable to minority interests		138,317,052.86	117,963,449.06

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Income Statement of the Parent Company

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Operating revenue	XV.4	13,959,645,213.34	13,357,978,212.60
Less: Cost of operations	XV.4	11,757,986,411.67	11,619,734,565.81
Business tax and surcharges		8,499,517.79	452,585.56
Selling and distribution expenses		437,724,161.64	458,289,660.08
General and administrative expenses		435,746,707.79	285,897,374.67
Finance expenses		208,958,371.56	266,064,829.79
Loss on impairment of assets		14,020,913.64	21,603,609.33
Add: Gain on change in fair value (“-” denotes loss)		6,450,000.00	-6,450,000.00
Investment income (“-” denotes loss)	XV.5	483,889,430.92	192,819,672.62
Including: Investment income from associates and joint ventures		-13,863,141.44	-15,689,081.65
II. Operating profit (“-” denotes loss)		1,587,048,560.17	892,305,259.98
Add: Non-operating income		51,522,683.19	98,945,831.63
Less: Non-operating expenses		37,188,877.94	5,194,358.17
Including: Loss on disposal of non-current assets		36,786,877.94	4,933,009.36
III. Total profit (“-” denotes total loss)		1,601,382,365.42	986,056,733.44
Less: Income tax expenses		205,566,030.42	171,534,763.87
IV. Net profit (“-” denotes net loss)		1,395,816,335.00	814,521,969.57
V. Other comprehensive income		—	—
VI. Total comprehensive income		1,395,816,335.00	814,521,969.57

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Consolidated Cash Flow Statements

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		16,628,774,985.06	14,686,482,966.63
Tax rebates received		35,934,217.79	19,523,996.24
Cash received relating to other operating activities	VII.49(1)	389,651,056.52	272,854,550.68
Subtotal of cash inflows from operating activities		17,054,360,259.37	14,978,861,513.55
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Cash paid for goods and services		13,330,679,721.31	10,961,732,381.79
Cash paid to and for employees		858,757,675.05	583,867,848.84
Payments of taxes and surcharges		1,375,083,198.75	909,030,328.05
Cash paid relating to other operating activities	VII.49(2)	639,510,737.26	885,196,694.88
Subtotal of cash outflows from operating activities		16,204,031,332.37	13,339,827,253.56
Net cash flows from operating activities		850,328,927.00	1,639,034,259.99

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Items	Notes	Amounts for the current period	Amounts for the prior period
II. Cash flows from investing activities:			
Cash received from investments		1,000,000.00	2,000,000.00
Cash received from investment income		20,000.00	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		87,624,212.19	40,417,685.21
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other investing activities	VII.49(3)	35,337,000.00	68,939,100.00
Subtotal of cash inflows from investing activities		123,981,212.19	111,356,785.21
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		6,507,649,651.70	2,232,671,227.37
Cash paid on investments		1,010,000.00	6,000,000.00
Net cash paid for acquisition of subsidiaries and other business units		—	7,131,824.47
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		6,508,659,651.70	2,245,803,051.84
Net cash flows from investing activities		-6,384,678,439.51	-2,134,446,266.63
III. Cash flows from financing activities:			
Cash received from capital contribution		—	—
Including: Cash received from minority interest contribution to subsidiaries		—	—
Cash received from borrowings		6,322,265,778.15	11,232,280,052.31
Cash received from bond issue		4,376,900,000.00	1,200,000,000.00
Cash received relating to other financing activities	VII.49(4)	428,970,082.51	—
Subtotal of cash inflows from financing activities		11,128,135,860.66	12,432,280,052.31
Cash repayments of amounts borrowed		5,104,910,592.34	9,275,173,488.99
Cash paid for dividend and profit distribution or interest payment		991,379,958.69	648,925,641.59
Including: Dividend and profit paid to minority interests to subsidiaries		147,258,509.55	105,780,046.58
Cash paid relating to other financing activities	VII.49(5)	—	2,330,550,075.21
Subtotal of cash outflows from financing activities		6,096,290,551.03	12,254,649,205.79
Net cash flows from financing activities		5,031,845,309.63	177,630,846.52
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		-9,594,019.82	-2,463,797.23
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents as at the beginning of the period		2,367,334,202.50	2,687,579,159.85
VI. Balance of cash and cash equivalents as at the end of the period			
		1,855,235,979.80	2,367,334,202.50

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Cash Flow Statements of the Parent Company

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		13,164,182,753.49	11,809,013,520.46
Tax rebates received		—	—
Cash received relating to other operating activities		56,990,439.95	232,946,975.55
Subtotal of cash inflows from operating activities		13,221,173,193.44	12,041,960,496.01
Cash paid for goods and services		10,928,633,742.88	9,449,618,442.91
Cash paid to and for employees		344,541,075.37	231,873,630.40
Payments of taxes and surcharges		659,896,421.73	524,174,298.79
Cash paid relating to other operating activities		2,458,298,291.23	1,667,936,417.73
Subtotal of cash outflows from operating activities		14,391,369,531.21	11,873,602,789.83
Net cash flows from operating activities		-1,170,196,337.77	168,357,706.18
II. Cash flows from investing activities:			
Cash received from investments		419,394,240.82	1,692,000,000.00
Cash received from investment income		545,267,857.49	145,020,754.27
Disposal of fixed assets, intangible assets and other long-term assets		19,004,765.80	27,464,258.74
Cash received relating to other investing activities		14,390,000.00	6,123,100.00
Subtotal of cash inflows from investing activities		998,056,864.11	1,870,608,113.01
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		190,735,508.66	258,719,440.41
Cash paid on investments		2,591,000,000.00	1,853,500,000.00
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		2,781,735,508.66	2,112,219,440.41
Net cash flows from investing activities		-1,783,678,644.55	-241,611,327.40

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Items	Notes	Amounts for the current period	Amounts for the prior period
III. Cash flows from financing activities:		—	—
Cash received from capital contribution		—	—
Cash received from borrowings		3,239,397,401.53	9,215,114,498.23
Cash received from bond issue		4,376,900,000.00	1,200,000,000.00
Cash received relating to other financing activities		409,984,697.61	—
Subtotal of cash inflows from financing activities		8,026,282,099.14	10,415,114,498.23
Cash repayments of amounts borrowed		5,157,736,193.29	9,897,261,208.41
Cash paid for dividend and profit distribution or interest payment		829,615,829.90	476,168,469.39
Cash paid relating to other financing activities		—	460,250,158.46
Subtotal of cash outflows from financing activities		5,987,352,023.19	10,833,679,836.26
Net cash flows from financing activities		2,038,930,075.95	-418,565,338.03
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-8,891,485.17	-2,140,676.32
V. Net increase in cash and cash equivalents		-923,836,391.54	-493,959,635.57
Add: Balance of cash and cash equivalents as at the beginning of the period		1,586,045,998.83	2,080,005,634.40
VI. Cash and cash equivalents as at the end of the period		662,209,607.29	1,586,045,998.83

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

Consolidated Statement of Changes in Owners' Equity

2010

Prepared by:
Shandong Chenming
Paper Holdings Limited

Unit: RMB

Items	Amounts for the current period					Amounts for the prior year																
	Paid-up capital (or share capital)	Capital reserves	Treasury Shares	Equity attributable to equity holders of the Company	General risk provisions	Retained profit	Others	Minority interests	Total owners' equity	Less: Treasury Shares	Special reserves	Equity attributable to equity holders of the Company	General risk provisions	Retained profit	Others	Minority interests	Total owners' equity					
I. Balance as at the end of the prior year	2,082,045,941.00	6,058,458,801.92	-	-	3,828,538,297.55	859,233.72	1,745,155,500.47	14,737,800,822.15	2,082,045,941.00	6,058,458,801.92	-	859,233.72	1,745,155,500.47	14,737,800,822.15	2,082,045,941.00	6,058,458,801.92	-	859,233.72	1,745,155,500.47	14,737,800,822.15		
Add: Accounting policy change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
II. Balance as at the beginning of the year	2,082,045,941.00	6,058,458,801.92	-	-	3,828,538,297.55	859,233.72	1,745,155,500.47	14,737,800,822.15	2,082,045,941.00	6,058,458,801.92	-	859,233.72	1,745,155,500.47	14,737,800,822.15	2,082,045,941.00	6,058,458,801.92	-	859,233.72	1,745,155,500.47	14,737,800,822.15		
III. Changes in the year	-	9,202.79	-	-	406,145,650.41	-655,013.94	-20,742,238.51	323,128,184.35	-	-	-	81,652,195.96	-	167,350,457.15	-20,264.42	-	-	-	-	-	715,266,571.99	
(*) Net profit	-	-	-	-	1,163,341,066.21	-	1,383,177,952.86	1,301,658,119.07	-	-	-	-	-	835,947,951.16	-	-	-	-	-	-	953,014,430.22	
(II) Other comprehensive income	-	-	-	-	-	-655,013.94	-655,013.94	-655,013.94	-	-	-	-	-	-	-20,264.42	-	-	-	-	-	-20,264.42	
Sub-total of (I) and (II) above	-	-	-	-	1,163,341,066.21	-	1,383,177,952.86	1,301,658,119.07	-	-	-	-	-	835,947,951.16	-20,264.42	-	-	-	-	-	932,793,165.80	
(III) Capital paid in and reduced by owners	-	9,202.79	-	-	-	-	-19,202.79	-0,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Capital paid in by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Amounts of share-based payments recognised in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Others	-	9,202.79	-	-	-	-	-19,202.79	-0,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-	
(IV) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Transfer to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Distribution to owners (shareholders)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(V) Transfer within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Transfer from capital reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Transfer from surplus reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Transfer from surplus reserves to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(VI) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Appropriated in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Used in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(VII) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IV. Balance as at the end of the period	2,082,045,941.00	6,058,468,004.71	-	-	4,333,737,947.96	4,219.88	1,724,452,141.96	15,280,189,006.50	2,082,045,941.00	6,058,468,004.71	-	936,892,947.49	-	3,920,365,297.55	689,233.72	-	-	-	-	-	1,745,166,500.47	14,737,866,822.15

Legal representative:
Chen Hongqiao

Chief financial officer:
Wang Chunfang

Head of the finance section:
Lu Dong

Statement of Changes in Owners' Equity of the Parent Company

2010

Prepared by: Shandong Chenming Paper Holdings Limited
Unit: RMB

Items	Amounts for the current period					Amounts for the prior year									
	Pad-up capital (or share capital)	Capital reserves	Treasury shares	Special reserves	Surplus reserves	General risk provisions	Retained profit	Total owners' equity	Less: Treasury shares	Capital reserves	Special reserves	Surplus reserves	General risk provision	Retained profit	Total owners' equity
I. Balance as at the beginning of the prior year	2,082,045,941.00	6,184,215,988.77	-	894,739,465.58	-	2,782,313,722.90	11,923,315,118.25	2,082,045,941.00	-	6,184,215,988.77	-	813,287,288.82	-	2,152,946,247.34	11,211,855,445.73
Add: Accounting policy changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance as at the beginning of the year	2,082,045,941.00	6,184,215,988.77	-	894,739,465.58	-	2,782,313,722.90	11,923,315,118.25	2,082,045,941.00	-	6,184,215,988.77	-	813,287,288.82	-	2,152,946,247.34	11,211,855,445.73
III. Changes in the year (*: denotes decrease)	-	-	-	139,581,633.50	-	637,620,919.20	777,202,532.70	-	-	-	-	81,452,196.96	-	629,967,475.56	711,416,672.52
(I) Net profit	-	-	-	-	-	1,395,816,335.00	1,395,816,335.00	-	-	-	-	-	-	81,452,196.96	81,452,196.96
(II) Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of (I) and (II)	-	-	-	-	-	1,395,816,335.00	1,395,816,335.00	-	-	-	-	-	-	81,452,196.96	81,452,196.96
(III) Capital paid in and reduced by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital paid in by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Amounts of share-based payments recognised in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Profit distribution	-	-	-	139,581,633.50	-	-758,195,415.80	-618,613,782.30	-	-	-	-	81,452,196.96	-	-184,554,494.01	-103,102,297.05
1. Transfer to surplus reserves	-	-	-	139,581,633.50	-	-	-	-	-	-	-	81,452,196.96	-	-81,452,196.96	-
2. Transfer to general risk provision	-	-	-	-	-	-139,581,633.50	-	-	-	-	-	-	-	-	-
3. Distribution to owners (shareholders)	-	-	-	-	-	-618,613,782.30	-618,613,782.30	-	-	-	-	-	-	-103,102,297.05	-103,102,297.05
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Transfer with owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Transfer from surplus reserves to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriated in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Used in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VII) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance as at the end of the period	2,082,045,941.00	6,184,215,988.77	-	1,034,321,099.08	-	3,419,934,642.10	12,700,517,650.95	2,082,045,941.00	-	6,184,215,988.77	-	894,739,465.58	-	2,782,313,722.90	11,923,315,118.25

Legal representative:
Chen Hongguo

Chief financial officer:
Wang Chunfang

Head of the finance section:
Li Dong

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Notes to the financial statements

Year ended 31 December 2010

I. General Information of the Company

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the "Company"), whose predecessor was Shandong Shouguang Paper Mill Corporation, was reorganised to become a joint stock limited company by way of private placement in May 1993. In December 1996, with the approval issued by the Shandong Provincial Government (Lu Gai Zi [1996] Document No. 270) and by the Securities Committee of the State Council (Zheng Wei [1996] Document No.59), the Company was reorganised to become a joint stock limited company by way of public subscription.

In May 1997, with the approval issued by the Securities Committee of the State Council ([1997] Document No. 26), the Company issued 115 million B Shares in connection with its international offering. B-shares from this issuance were listed on Shenzhen Stock Exchange since 26 May 1997.

In September 2000, with the approval issued by China Securities Regulatory Committee (hereinafter referred to as the "CSRC") (Zheng Jian Gong Si Zi [2000] Document No. 151), the Company issued 70 million A Shares. A-shares from this issuance were listed on Shenzhen Stock Exchange on 20 November 2000.

In June 2008, with the approval issued by the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Stock Exchange"), the Company issued 355,700,000 H shares. Meanwhile, the relevant state shareholders of the Company performed the reduction of state-owned shares, by way of transferring to the Social Security Fund Council (the "NSSF Council") such number of shares held by it, representing 35,570,000 shares, which were to be converted into overseas listed foreign shares (H shares). H-shares under the new issue were listed on the Hong Kong Stock Exchange on 18 June 2008.

As at 31 December 2010, the Company has a total of 2,062,045,941 shares.

The business scope of the Company and its subsidiaries (hereinafter referred as the ("Group")) covers: processing and sale of paper products (including machine made paper and paper board), paper making raw materials and machinery; generation and sale of electric power and thermal power; forestry, saplings growing, processing and sale of timber; manufacturing, processing and sale of wood products; and manufacturing and sale of laminated boards and fortified wooden floorboards.

Shouguang Chenming Holdings Co., Ltd is the parent company of the Group.

Shouguang Chenming Holdings Co., Ltd (hereinafter referred to as "Shouguang Chenming Holdings") was established on 30 December 2005 by State-owned Assets Supervision and Administration Commission of Shouguang City which contributed its state-owned shares to set up the Company. The China Securities Regulatory Commission finally approved the change in the holder of state-owned Shares of Chenming Paper and the change in nature of its equity interests arising from the establishment of Shouguang Chenming Holdings on 14 August 2006 (Guo Zi Chan Quan [2005] No. 1539) . Since then, the largest shareholder of the Company was changed from State-owned Assets Supervision and Administration Commission of Shouguang City to Shouguang Chenming Holdings

The Company's financial statements were approved by the Board on 30 March 2011 (these financial statements will be proposed in the general meeting for approval in accordance with the Articles of Association of the Company).

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

II. Basis of Preparation of the Financial Statements

The Company's financial statements have been prepared based on the going concern assumption. The financial statements have been prepared based on actual transactions and events, in accordance with the accounting standards for business enterprises promulgated by the Ministry of Finance of PRC in 15 February 2006 and 38 specific accounting standards, the subsequently promulgated application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as "ASBEs"), and the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" (revised in 2010) of China Securities Regulatory Commission.

The Group's financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

III. Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 31 December 2010 and relevant information such as the operating results and cash flows of the Company and the Group of 2010. In addition, the financial statements of the Company also comply with, in all material respects, the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission in 2010 and the notes thereto.

IV. Significant Accounting Policies and Estimates

1. Accounting period

Accounting periods of the Company are divided into annual periods and interim periods. Interim periods refer to reporting periods that are shorter than a full fiscal year. The fiscal year of the Company is from 1 January to 31 December of each calendar year.

2. Reporting currency

The Company and its domestic subsidiaries recognise RMB as their reporting currency according to the primary economic environment in which they operate. The reporting currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). Overseas subsidiaries of the Company recognise U.S. dollar as their reporting currency according to the primary economic environment in which these subsidiaries operate. The Group prepares its financial statements in RMB.

3. Accounting treatment of business combination

A business combination refers to the transaction or event to combine two or more separate entities into a single reporting entity. Business combination is classified into business combination under common control and business combination not under common control.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

3. Accounting treatment of business combination (Cont'd)

(1) Business combination under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Assets and liabilities obtained by the absorbing party are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the capital reserve (share capital premium). If the capital reserve (share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquire plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial costs. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognised as contingent consideration. Subsequent adjustments will impact on the goodwill. Involved or contingent consideration charged to the combination cost according to its fair value in the acquisition date, the combined goodwill will be adjusted if new or addition evidence existed about the condition in the acquisition date within twelve months after the acquisition date, which is required to adjust the contingent consideration. When the business combination is achieved in stages through a number of exchange transactions, the Group re-measures its previously held equity interest in the acquiree on the acquisition date, and the difference between the fair value and the net book value is recognised as investment income for the period in the consolidated financial statements of the Group, in the meanwhile, the other comprehensive income related to the equity interest of acquiree held before the acquisition date is transferred to investment income for the period. The cost of combination is the sum of the fair value of the equity interest of the acquiree as at the acquisition date which held before the acquisition date and the fair value of the equity interest of the acquiree as at the acquisition date which additional acquired in the acquisition date.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

3. Accounting treatment of business combination (Cont'd)

(2) Business combination not under common control (Cont'd)

The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

The acquiree's deductible temporary difference acquired by the acquirer, which is still not yet recognised as it does not satisfy the recognition conditions of the deferred income tax assets on the acquisition date. If new or addition information proves that the relevant circumstances have already existed on the acquisition date within twelve months after the acquisition date, which estimates that the economic benefits incurred from the deductible temporary difference at the acquisition date of acquirer can be realised, then the relevant deferred income tax assets will be recognised, and the goodwill will be reduced at the same time, if the goodwill is not sufficient be absorbed, any excess shall be recognised as the profit or loss for the period. Except as disclosed above, the deferred income tax assets related to the business combination are charged in the profit or loss for the period.

4. Basis for preparation of consolidated financial statements

(1) Principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is seterminded on the basis of control. The term "control" means that the Company has the power to secide an investee's financial and operating policy. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is a business or entity controlled by the Company.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Group obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flow statements; for disposal of subsidiaries during the reporting period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (*Cont'd*)

4. Basis for preparation of consolidated financial statements (*Cont'd*)

(2) Basis for preparation of the consolidated financial statements (*Cont'd*)

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For acquisition of subsidiaries arising from merger of entities not under same control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets.

All intra-group significant balances, transactions and unrealised profit are eliminated in the consolidated financial statements.

The shareholder s' equity and the portion of the profit or loss for the period that is not attributable to the Company are presented separately under shareholders' equity and net profit in the consolidated financial statements. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interests.

5. Standards for recognising cash and cash equivalents

Cash and cash equivalents of the Company include cash on hand, deposits readily available for payment purpose and short-term (normally fall due within three months from the date of acquisition) and highly liquid investments held the Company which are readily convertible into known amounts of cash and which are subject to insignificant risk of value change.

6. Foreign currency operations and translation of statements denominated in foreign currency

(1) Basis for translation of foreign currency transactions

The foreign currency transactions of the Company, when initially recognised, are translated into functional currency at the prevailing spot exchange rate on the date of exchange (usually refers to the middle rate of the exchange rate for the day as quoted by the People's Bank of China, the same below) while the Company's foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into functional currency at the exchange rate actually adopted.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

6. Foreign currency operations and translation of statements denominated in foreign currency (Cont'd)

(2) Basis for translation of foreign currency monetary items and foreign currency non-monetary items

On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. All differences are included in the consolidated income statement, except for: (1) the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets which are qualified for capitalisation; and (2) except for other carrying amounts of the amortisation costs, the differences arising from changes of the foreign currency items available for sale.

The foreign currency non-monetary items measured at historical cost shall still be measured by the functional currency translated at the spot exchange rate on the date of the transaction. Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate on the date of determination of the fair value. The difference between the amounts of reporting currency before and after the translation will be treated as changes in fair value (including changes in foreign exchange rates) and recognised in profit or loss for the period or recognised as other consolidated income and included in the capital reserves.

(3) Basis for translation of foreign currency financial statements

Exchange differences arising from change in exchange rate where the preparation of consolidated financial statements relates to overseas operation and foreign currency monetary items materially constitute net investment in overseas operation shall be recorded into "translation reserve" in the shareholders' equity; disposal of overseas operation shall be included into profits and losses on disposal in the current period.

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in comply with the following requirement: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; owner's equity items except for "retained profit" are translated at the spot exchange rates at the dates on which such items arose; income and expenses items in the income statement are translated at the spot exchange rate at the date of transaction. The retained profit brought forward are reported at the prior year's closing balance; the retained profit as at the end of the year are presented after translated the profit appropriation items; differences between the aggregate of asset and liability items and owners' equity items are recognised as "translation differences arising on the translation of financial statements denominated in foreign currencies" in other consolidated income, and presented separately as under owners' equity items in the balance sheet. On disposal of foreign operations and loss of control, exchange differences arising from the translation of financial statements denominated in foreign currencies related to the disposed foreign operation which has been included in owners' equity in the balance sheet, shall be transferred to profit or loss in whole or in proportionate share in the period in which the disposal took place.

Cash flow dominated in foreign currency or from foreign subsidiaries shall be translated at the spot exchange rate when it incurs. Effects arising from changes of exchange rate of cash shall be presented separately in the cash flow statements.

The opening balance and the prior year's figures are presented according to the translated amounts of the prior year.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments

(1) Method of determination of the fair value for financial assets and financial liabilities

The fair value refers to the amount, at which both willing parties to a fair transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. Financial instruments exist in an active market. Fair value is determined based on the quoted price in such market. An active market refers to where pricing is easily and regularly obtained from exchanges, brokers, industrial organisations and price-fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. While financial instruments do not exist in an active market, the fair value is determined using valuation techniques. Valuation technologies include reference to be familiar with situation and prices reached in recent market transactions entered into by both willing parties, reference to present fair values of similar other financial instruments, cash flow discounting method and option pricing models.

(2) Classification, recognition and measurement of the financial assets

By way of buying and selling the financial assets in a regular way, recognition and derecognition are carried out according to the accounts on the transaction day. Financial assets are divided into financial assets at fair value through profit or loss, held-to-maturity investments, accounts receivable and available-for-sale financial assets when they are initially recognised. Financial assets and financial liabilities are initially recognised at fair value. For financial assets and financial liabilities classified as fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial assets classified as other categories, relevant transaction costs are included in the amount initially recognised.

(1) *Financial assets carried at fair value through profit or loss for the current period*

They include financial assets held for trading and financial assets designated as at fair value through profit or loss for the current period. The Group's financial assets at fair value through profit or loss for the current period are all financial assets held for trading.

Financial assets may be classified as financial assets held for trading if one of the following conditions is met: (1) the financial assets is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (2) the financial assets is part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; or (3) the financial assets is a derivative, excluding the derivatives designated as effective hedging instruments, the derivatives classified as financial guarantee contract, and the derivatives linked to an equity instrument investment which has no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

Financial assets held for trading are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial assets are charged to profit or loss for the current period.

(2) *Held-to-maturity investments*

They are non-derivative financial assets with fixed maturity dates and fixed or determinable payments that the Group has positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss on derecognition, impairment or amortisation is recognised through profit or loss for the current period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments (Cont'd)

(1) Method of determination of the fair value for financial assets and financial liabilities (Cont'd)

(2) Classification, recognition and measurement of the financial assets (Cont'd)

(2) *Held-to-maturity investments (Cont'd)*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income or expense over each period based on the effective interest of a financial asset or a financial liability (including a group of financial assets or financial liabilities). The effective interest is the rate that discounts future cash flows from the financial asset or financial liability over its expected life or (where appropriate) a shorter period to the carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group will estimate the future cash flows (excluding future credit losses) by taking into account all contract terms relating to the financial assets or financial liabilities whilst considering various fees, transaction costs and discounts or premiums which are part of the effective interest rate paid or received between the parties to the financial assets or financial liabilities contracts.

(3) *Accounts receivable*

They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including bills receivable, accounts receivable, interest receivable, dividends receivable and other receivables, are classified as accounts receivable by the Group.

The receivables that are formed in sale of goods or rendering of services to external parties, and the receivables, except for the debt instruments quoted in an active market, due to the Company from other entities, including accounts receivable, bills receivable, other receivables, long-term receivables, etc., are initially recognised at the consideration of the contract or agreement to be received from the buyers. Accounts receivable that are of a financing nature are initially recognised at their present value. Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

(4) *Available-for-sale financial assets*

They include non-derivative financial assets that are designated in this category on initial recognition, and the financial assets other than the financial assets at fair value through profit and loss, loans and receivables and held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value. The gain or loss on change in fair value are recognised as other comprehensive income and charged to capital reserves, except for impairment loss and exchange differences arising from foreign monetary financial assets and amortised cost which are accounted for through profit or loss for the current period. The financial assets will be transferred out of the financial assets on derecognition and accounted for through profit or loss for the current period.

Interests received from available-for-sale financial assets held and the cash dividends declared by the investee are recognised as investment income.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments (Cont'd)

(3) Impairment of financial assets

In addition to financial assets at fair value through profit or loss for the current period, the Group reviews the book value of other financial assets at each balance sheet date and provide for impairment where there is objective evidence that financial assets are impaired.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in the collective assessment for impairment.

(1) *Held-to-maturity investments of loans and accounts receivable*

The carrying amount of financial assets measured as costs or amortised costs are subsequently reduced to the present value discounted from its projected future cash flow. The reduced amount is recognised as impairment loss and recorded as profit or loss for the period. After recognition of the impairment loss from financial assets, if there is objective evidence showing recovery in value of such financial assets impaired and which is related to any event occurring after such recognition, the impairment loss originally recognised shall be reversed to the extent that the carrying value of the financial assets upon reversal will not exceed the amortised cost as at the reversal date assuming there is no provision for impairment.

(2) *Impairment of available-for-sale financial assets*

When the available-for-sale financial assets impair, the accumulated loss originally included in the capital reserve arising from the decrease in fair value was transferred out from the capital reserve and included in the profit or loss for the period. The accumulated loss that transferred out from the capital reserve is the balance of the acquired initial cost of asset, after deduction of the principal recovered, amortised amounts, current fair value and the impairment loss originally included in the profit or loss.

After recognition of the impairment loss, if there is objective evidence showing recovery in value of such financial assets impaired and which is related to any event occurring after such recognition in subsequent periods, the impairment loss originally recognised shall be reversed. The impairment loss reversal of the available-for-sale equity instrument will be recognised as other consolidated income, and the impairment loss reversal of the available-for-sale debt instrument will be included in the profit or loss for the period.

When an equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably, or the impairment loss of a derivative financial asset linked to the equity instrument that shall be settled by delivery of that equity instrument, then it will not be reversed.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments (Cont'd)

(4) Recognition and measurement of transfers of financial asset

Financial asset that satisfied any of the following criteria shall be derecognised: (1) the contract right to recover the cash flows of the financial asset has terminated; (2) the financial asset, along with substantially all the risk and return arising from the ownership of the financial asset, has been transferred to the transferee; and (3) the financial asset has been transferred to the transferee, and the transferor has given up the control on such financial asset, though it does not assign maintain substantially all the risk and return arising from the ownership of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises it as a related financial asset and recognises the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

On derecognition of a financial asset, the difference between the following amounts is recognised in profit or loss for the current period: the carrying amount and the sum of the consideration received and any accumulated gain or loss that had been recognised directly in equity.

If a part of the financial assets qualifies for derecognition, the carrying amount of the financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognised in profit or loss for the period: the sum of the consideration received and the carrying amount of the part that qualifies for derecognition and the aforementioned carrying amount.

(5) Classification and measurement of financial liabilities

At initial recognition, financial liabilities are classified either as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities are initially recognised at fair value. For financial liabilities classified as fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognised.

(1) *Financial liabilities at fair value through profit or loss for the period*

The criteria for a financial liability to be classified as held for trading and designated as at financial liabilities at fair value through profit or loss are the same as those for a financial asset to be classified as held for trading and designated as at financial assets at fair value through profit or loss.

Financial liabilities at fair value through profit or loss for the period are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial liabilities are included into the current profit or loss.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments (Cont'd)

(5) Classification and measurement of financial liabilities (Cont'd)

(2) Other financial liabilities

Derivative financial liabilities which are linked to equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably measured, and which shall be settled by delivery of equity instruments are subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from derecognition or amortisation is recognised in profit or loss for the current period.

(3) Financial Guarantee Contracts

Financial guarantee contracts other than those designated as financial liabilities at fair value through profit or loss are initially recognised at fair value, and shall be subsequently measured at the higher of the following: the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 "Contingencies" and the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 "Revenue".

(6) Derecognition of financial liabilities

Financial liabilities are derecognised in full or in part only when the present obligation is discharged in full or in part. An agreement is entered between the Group (debtor) and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognise the original financial liabilities as well as recognise the new financial liabilities.

When financial liabilities is derecognised in full or in part, the difference between the carrying amount of the financial liabilities derecognised and the consideration paid (including transferred non-cash assets or new financial liability) is recognised in profit or loss for the current period.

(7) Derivative Instruments

Derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss for the period, except for derivative instruments that are designated as hedging instruments and which are highly effective in hedging, gains or losses arising from changes in their fair value are taken to the profit or loss for the period in accordance with the hedge accounting requirement based on the nature of hedging relationships.

(8) Offset of Financial Assets and Financial Liabilities

If the Group owns the legitimate rights of offsetting the recognised financial assets and financial liabilities, which are enforceable currently, and the Group plans to realise the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

7. Financial instruments (Cont'd)

(9) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction fees arising from the issue of equity instruments by one party in the business combination shall be reduced in the premium income. If the transaction fees overweight the premium income, it shall be reduced in the retained revenue. For remaining equity instruments, the price received during the issue shall be added to shareholder's equity after reducing the transaction fees.

The distribution (excluding the dividends) to the equity instrument holders by the Group shall reduce the shareholder's equity. The Group shall not recognise the changes of the equity instruments' fair value.

8. Accounts receivable

Accounts receivable includes accounts receivable and other accounts receivable, etc.

(1) Recognition of bad debt provision

The Group carries out an overall inspection on the carrying amount of accounts receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: (1) a serious financial difficulty occurs to the debtor; (2) the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); (3) the debtor will probably go bankrupt or carry out other financial reorganisations; (4) other objective evidences show that the accounts receivable are impaired.

(2) Measurement of bad debt provision

(1) *Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable, which is impaired individually for bad debt*

Accounts receivable of more than RMB1 million is recognised as individually significant accounts receivable by the Group.

For accounts receivable that is individually significant, the Group assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Accounts receivable for which an impairment loss is individually recognised are not included in a group of accounts receivable with similar credit risk characteristics and collectively assessed for impairment.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

8. Accounts receivable (Cont'd)

(1) Recognition of bad debt provision (Cont'd)

(2) Basis for recognition and measurement of bad debt provision for receivable by credit risk features

A. Basis for determining portfolio of credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Group classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

Basis for determining different portfolios:

Items	Basis for determining portfolio
Account receivable for fewer than 2 years age (including 2 years)	Shorter age, fewer risk
Account receivable for over 2 years age	Longer age, greater risk

B. Measurement of determine bad debt provision based on credit risk feature portfolio

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

Basis for bad debt provision of different portfolio:

Items	Basis of provision
Account receivable for fewer than 2 years age	Analysis by age
Account receivable for over 2 years age	Analysis by age

In respect of portfolio, the measurement of bad debt provision for portfolio is based on analysis by age

Age	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year, the same below)	5	5
1-2 years	10	10
2-3 years	20	20
Over 3 years	100	100

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

8. Accounts receivable (Cont'd)

(1) Recognition of bad debt provision (Cont'd)

(3) *Insignificant accounts receivable but impaired individually for bad debt*

The Group conducts impairment tests for the single item with insignificant account receivables but with following features. If there is objective evidence indicating that the accounts receivable is impaired, then impairment loss will be recognised and provision for bad debts according to the difference when the present value of future cash flow is fewer than its carrying amounts: amounts due from associates; accounts receivable with dispute against counterparties or involved in litigation or arbitration; there is obvious objective of the accounts receivable indicated that the debtor is likely to fail to comply with the repayment obligation, etc.

(3) Reversal of provision

If there are evidences indicating that the value of the account receivable is recovered and that recovery is connected to the event subsequent to the recognition of the loss, the impairment loss previously recognised will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment loss has been made.

9. Inventory

(1) Classification of inventories

Inventories mainly include raw materials, work in progress and finished products, etc.

(2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the planned cost first, and deviations in cost will be apportioned by month end, so that the planned cost will be adjusted to become the actual cost.

(3) Recognition of net realisable value of inventory and provision for inventory impairment

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. Provision for inventory impairment is made when the net realisable value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single item exceeds its net realisable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realisable value of an inventory is higher than its book-value, the original provision for inventory impairment shall be transferred back and incorporated into the profit or loss for the current period.

Net realisable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and other amounts after tax and levies in daily operation. The realisable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

9. Inventory (Cont'd)

(4) The inventory taking system shall use permanent inventory system/periodic inventory system.

(5) Amortisation of low-value consumables and packaging materials

Low-value consumables are amortised by lump-sum when taken for use. Also, packaging materials are amortised by lump-sum when taken for use.

10. Long-term equity investments

(1) Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the each direct related expenses of acquirer arising from business combination.

The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost. Such cost is depended upon the acquired means of long-term equity investments, which is recognised based on the purchase cost actually paid by the Group in cash, the fair value of equity securities issued by the Group, the agreed value of investment contract or agreement, the fair value or original carrying amounts of the non-monetary asset exchange transaction which the asset will be transferred out of the Group, and the fair value of long-term equity investment itself. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments are also included in the investment cost.

(2) Method for subsequent measurement and profit or loss recognition

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investments with joint control or significant influence on the investee is accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets.

In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

10. Long-term equity investments (Cont'd)

(2) Method for subsequent measurement and profit or loss recognition (Cont'd)

(1) Long-term equity investments accounted for using the cost method

Under the cost method, a long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognised as the cash dividends or profits declared by the investee.

(2) Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group shall recognise its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. The unrealised gain or loss from internal transactions entered into between the Group and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. However, the unrealised gain or loss from internal transactions entered into between the Group and its investee is not set up if belonging to impairment loss from assets transferred according to regulations such as "Accounting Standards for Business Enterprises No. 8 "Assets impairment". In respect of the other consolidated income of investees, the carrying amount of long-term equity investments is accordingly adjusted and recognised as other consolidated income and included in the capital reserves.

The Group's share of net losses of the investee shall be recognised to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed shall be provided for and charged to the profit or loss as investment loss for the period. Where the investee is making profits in subsequent periods, the Group shall resume recognising its share of profits after setting off against the share of unrecognised losses.

If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the Accounting Standards for Business Enterprises by the Group on 1 January 2007, the amounts amortised over the original residual term using the straight-line method is included in the profit or loss for the period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

10. Long-term equity investments (Cont'd)

(2) Method for subsequent measurement and profit or loss recognition (Cont'd)

(3) Acquisition of minority interests

Upon the preparation of the consolidated financial statements, since acquisition of minority interests increased of long-term equity investment which was compared to fair value of identifiable net assets recognised which are measured based on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares, the difference of which recognised as adjusted capital surplus, capital surplus insufficient to set off impairment and adjusted retained earnings.

(4) Disposal of long-term equity investments

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and disposal of long-term equity investments relative to the net assets of the subsidiary is charged to the owners' equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be treated in accordance with the relevant accounting policies as described in Note IV. 4. (2) "Preparation Method of the Consolidated Financial Statements".

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is recognised through profit or loss in the current period. Where the equity method is adopted, other comprehensive income attributable to the long-term equity investments previously included in shareholders' equity shall be transferred to through profit or loss in the current period on a pro-rata basis. The remaining equity shall be recognised as the long-term equity investments or other relevant financial assets based on the carrying amount and subsequently measured in accordance with the accounting policies of the foresaid long-term equity investments or financial assets. The retrospective adjustment shall be made in accordance with the relevant provisions if the remaining equity is accounted for using the equity method instead of the cost method.

(3) Recognition of having joint control or significant influence over the investee

The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investee and other invested units held) were taken into account.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

10. Long-term equity investments (Cont'd)

(4) Impairment test method and impairment provision

The Group assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly.

An impairment loss recognised on long-term equity investments shall not be reversed in a subsequent period.

11. Investment Property

Investment property refer to real estate held to earn rentals or for capital appreciation, or both including the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out. Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Group adopts cost method for subsequent measurement of investment property, which is depreciated or amortised using the same policy as that for buildings and land use rights.

The method for impaired test of investment property and measurement of impairment provision are detailed in Note IV. 17 "Impairment of non-current non-monetary financial asset".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

12. Fixed assets

(1) Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

(2) Method for depreciation of different fixed assets

Fixed assets shall be initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use. Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method/units-of-production method. The useful life, estimated residual value and annual depreciation rate of each category of fixed assets are as follows:

Category	Useful lives of depreciation	Estimated residual value	Annual depreciation rate
Buildings and structures	20-40	5-10	2.25-4.75
Machinery and equipment	8-20	5-10	4.5-11.88
Transportation equipment	5-8	5-10	11.25-19.00
Electronic equipment and others	5	5-10	18.00-19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the stage and in the condition expected at the end of its useful life.

(3) Impairment testing methods and provision for impairment methods on fixed assets

The method for impaired test of fixed asset and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

(4) Recognition basis and measurement method of fixed assets under finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Title may or may not eventually be transferred. The fixed asset leased by the finance lease is used the policy consistent with that of proprietary fixed assets for provision of depreciated leased asset. If it can be reasonably determined that the ownership of the leased asset can be obtained upon expiration of the lease term, the leased asset shall be depreciated over its useful life. If it cannot be reasonably determined that the ownership of the leased asset can be obtained at the expiration of the lease term, the leased asset shall be depreciated over the shorter of the lease term or its useful life.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

12. Fixed assets (Cont'd)

(5) Explanation on other matters

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Company and the relevant cost can be measured reliably; meanwhile the carrying amount of the replaced part shall be derecognised. Other subsequent expenditures shall be charged to profit or loss when incurred.

When a fixed asset is sold, transferred, retired or damaged, the Group shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

13. Construction in progress

Construction in progress is recognised based on the actual construction cost, including all expenditures incurred for construction projects, capitalised borrowing costs for the construction in progress before it has reached the working condition for its intended use, and other related expenses during the construction period. A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

The method for impaired test of construction in progress and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

14. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised as part of the cost of that asset; and capitalisation shall discontinue when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognised as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

14. Borrowing costs (Cont'd)

During the capitalisation period, exchange differences related to the principal and interest on a specific purpose borrowing denominated in foreign currency shall be capitalised as part of the cost of the qualifying asset. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

Qualifying assets are assets (fixed assets, investment property, inventories, etc) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

15. Biological assets

Consumable biological assets refer to biological assets held for sale or to be harvested as agricultural produce in the future, which include growing commercial forests. Consumable biological assets are stated at cost at initial recognition. The cost of self-planting, self-cultivating consumable biological assets is the necessary expenses directly attributable to such assets prior to canopy closure, including borrowing costs eligible for capitalisation. Subsequent expenses incurred after canopy closure shall be included in profit or loss for the current period.

The cost of consumable biological assets shall, at the time of harvest or disposal, be carried forward at carrying value using the rotation age method.

All the consumable biological assets of the Company are subsequently measured at fair value as they are quoted in an active market where the Company can obtain a quoted market price and other information of the same or similar consumable biological assets and thus their fair values can be reliably estimated. Changes in fair values shall be recognised as profit or loss in the current period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

16. Intangible assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Land use right acquired shall normally be recognised as an intangible asset. Self-constructed buildings (e.g. plants), related land use right and the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as fixed assets.

An intangible asset with an infinite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortised using the straight-line method//units of production method over its useful life when the asset is available for use. Intangible assets with indefinite life are not amortised.

The Group shall review the useful life of intangible asset with an infinite useful life and the amortisation method applied at least at each financial year-end. A change in the useful life or amortisation method used shall be accounted for as a change in accounting estimate. For an intangible asset with an indefinite useful life, the Group shall review the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and apply the accounting policies accordingly.

(2) Research and development expenditure

Expenditure on internal research and development activities of the Group is categorised into expenditure arising from the research phase and expenditure arising from the development phase.

Expenditure arising from the research phase is recognised as profit or loss in the current period.

Expenses incurred during the development stage that satisfy the following conditions are recognised as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

16. Intangible assets (Cont'd)

(2) Research and development expenditure (Cont'd)

(4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;

(5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all development expenses incurred are accounted for in the profit or loss for the current period.

(3) Intangible assets impairment test method and their impairment provision

The method for impaired test of intangible assets and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

17. Long-term deferred expenses

Long-term deferred expenses are expenditures and other expenses which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. Long-term deferred expenses are reasonably amortised over the estimated benefit period, using the straight-line method or other systems.

18. Non-current non-financial assets impairment

The Group will judge if there is any indication of impairment as at the balance sheet date in respect of non-current non-financial assets such as fixed assets, construction in progress, intangible assets with an infinite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill, intangible assets with an indefinite useful life and intangible assets beyond working conditions will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

18. Non-current non-financial assets impairment (Cont'd)

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset groups or group of assets benefiting from synergy of business combination. If the recoverable amount is less than the carrying amount, the Group shall recognise an impairment loss. The amount of impairment loss shall first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of other assets (other than goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

19. Accrued liabilities

Obligations pertinent to the contingencies which satisfy the following conditions are recognised as accrued liabilities: (1) The obligation is a current obligation borne by the Group; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (3) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognised as asset separately, and compensation amount recognised shall not be more than the carrying amount of accrued liabilities.

20. Revenue

(1) Revenue from sales of goods

Revenue is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

(2) Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the proportion of service costs incurred to the estimated total costs.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (1) The relevant amount of revenue can be reliably measured; (2) it is probable that the economic benefits will flow into the enterprise; (3) the completion schedule of the transaction can be reliably ascertained; and (4) transaction costs incurred and to be incurred can be reliably measured.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

20. Revenue (Cont'd)

(2) Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognised as an expense for the current period. If the cost of rendering services is expected not to be compensated, it shall be recognised as an expense.

When a contract or agreement signed by the Group includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognised respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognised as sales of goods in full.

(3) Royalty revenue

Revenue is recognised on an accrual basis under the relevant contracts or agreements.

(4) Interest income

Interest income is measured based on the length of time for which the Group's cash is used by others and the effective interest rate.

21. Government grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration, excluding capital considerations from the government as an owner of the Group. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognised immediately in profit or loss for the current period.

A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognised immediately in profit or loss for the current period.

For the repayment of a government grant already recognised, if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognised in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognised immediately in profit or loss for the current period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

22. Deferred income tax assets / deferred income tax liabilities

(1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

(2) Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognised as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Group able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

22. Deferred income tax assets / deferred income tax liabilities (Cont'd)

(3) Income tax expense

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense (current income tax income) and deferred income tax expense (deferred income tax income) are included in profit or loss for the current period, except for: recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in other comprehensive income or owners' equity, which are recognised directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

(4) Offset of income tax

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

23. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Title may or may not eventually be transferred. All other leases are classified as operating leases.

(1) Operating lease business with the Group recorded as lessee

Lease payment for operating lease is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period upon occurrence.

(2) Operating lease business with the Group recorded as lessor

Rental income is recognised in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is fewer is included in the profit or loss for the period when incurred. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

23. Lease (Cont'd)

(3) The Group as a lessee under a finance lease

On the lease beginning date, a lessee shall recognise the lower of the fair value of the leased asset on the lease beginning date and the present value of the minimum lease payments as the recorded value, and recognise the minimum lease payments as the recorded value of long-term accounts payable, and the difference between such amounts shall be determined as unrecognised finance charge. The initial direct costs directly attributable to the leased item incurred during the process of lease negotiation and execution of the leasing agreement shall be accounted for as the value of the leased asset. The balance of the minimum lease payments after deducting the unrecognised financing charge shall be separately presented as long-term liabilities and long-term liabilities due within one year.

The unrecognised financing charge shall be accounted for during the lease period using the effective interest method and recognised as financing charge for the period. Contingent rent payments are recognised in the profit and loss for the period when actually incurred.

24. Assets held for sale

If the Group has made a resolution in respect of disposal of a non-current asset and signed an irrevocable transfer agreement with the transferee, and such transfer is likely to be completed within one year, this non-current asset shall be accounted for as non-current assets held for sale without any depreciation or amortisation provided and calculated at the lower of carrying amount and net amount of the fair value less disposal cost. Non-current assets held for sale include individual asset and disposal group. If the group of disposal is a set of asset groups and goodwill received from business combination is allocated to such asset groups in accordance with the "Accounting Standards for Business Enterprises No.8 "Assets Impairment" or such disposal group is an operation in the asset groups, it shall include the goodwill in business combination.

If an asset or disposal group is classified as held for sale, but fails to meet recognition requirements for non-current assets held for sale, it shall no longer be classified as assets held for sale and calculated at the lower of the following two amounts: (i) the carrying amount of such asset or disposal group before being classified as assets held for sale subsequent to the adjustment to the originally recognised depreciation, amortisation or impairment under the condition that they are not classified as assets held for sale; and (2) the recoverable amount at the date on which no future sale is decided.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

25. Employee Benefits

In the accounting period in which an employee has rendered services, the Group shall recognise the employee benefits payable as a liability.

The Group participates in social security systems operated by the government. Payments of social security contributions for employees, such as premiums or contributions on pensions, medical insurance, payments of housing funds and other social welfare contributions shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the profit or loss for the current period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date are recognised in profit or loss for the period when the recognition criteria for provisions are met (termination benefits).

26. Changes in Significant Accounting Policies and Estimates

(1) Changes in accounting policies

Nil.

(2) Changes in accounting estimates

Nil.

27. Corrections on accounting errors in prior periods

Nil.

28. Critical accounting judgments and estimate

The Group needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately calculated during the application of the Group's accounting policies. Such judgments, estimates and assumptions are made based on the historical experiences of the Group's management and taking into account other relevant factors, which may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the outcome from such estimate uncertainties may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Group regularly reviews the aforesaid judgments, estimates and assumptions on the basis of continued operation. A revision to accounting estimates is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

28. Critical accounting judgments and estimate (Cont'd)

At the balance sheet date, the critical areas where Group needs to make judgments, estimates and assumptions as to the items amount of financial statements are set out below:

(1) Provision for bad debts

The Group adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

(2) Allowance for inventories

Under the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Group makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the saleability of the evaluated inventory and their net realisable values. Given the management's judgments and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

(3) Subsequent measurement of biological assets

The Group has appointed an independent professional valuer to value the fair value of the biological assets. When the valuer determines the fair value, the valuation method used by the valuer includes some assumptions. Directors have judged that the valuation method reflects the prevailing market conditions.

(4) Provision for impairment of non-financial non-current assets

At the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing.

Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered. When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. Significant Accounting Policies and Estimates (Cont'd)

28. Critical accounting judgments and estimate (Cont'd)

(4) Provision for impairment of non-financial non-current assets (Cont'd)

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Group may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

The test shall be performed at least once a year as to whether there is any impairment. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Group needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

(5) Depreciation and amortisation

The Group shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value, using straight-line method. The Group shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Group according to its previous experience on the similar assets and estimated technical innovation. If there is any material change in the previously made estimate, the depreciation and amortisation will be adjusted over the future period.

(6) Deferred income tax assets

It is probable that all unused tax loss will be recognised as the deferred income tax assets to the extent there will be sufficient taxable profits against which the deductible loss is available. This requires the Group's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy.

(7) Income tax

There are some uncertainties in tax treatment and calculation for some transactions of the Group during its ordinary course of business. The approval from the tax authority is required for pre-tax expending of some items. Any difference between the final recognition outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during their final recognition period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

v. Taxation

1. Main Tax Types and Tax Rates

Tax type	Basis of taxing	Taxrat
Value: added tax		
Of which: Product sold in the domestic market	Sales volume	17%
Paper core sales, printing	Sales volume	17%
Purchase of barley grass, pampas grass	Procurement volume	13%
Purchase of steam power for production use	Procurement volume	13%
Purchase of electric power for production use	Procurement volume	17%
Purchase of sodium silicate, paperboard for production use	Procurement volume	17%
Purchase of waste paper in the PRC	Procurement volume	10%
Coal	Procurement volume	17%
Business tax		
Of which: Repair services	Revenue from repair	5%
Entrusted loans	Interests income	5%
Transportation services	Revenue from transportation	3%
Urban maintenance and construction tax	Amount of value added tax and business tax paid	5-7%
Education surtax	Amount of value added tax and business tax paid	3%
Enterprise income tax	Taxable income	15%, 25% tax rate

2. Tax Incentives and Approvals

Enterprise Income Tax

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) dated 16 March 2007, the Company is recognised as a high or new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Shouguang, Shandong. An enterprise income tax rate of 15% is applicable to the Company since 1 January 2009 for three years. The sales branches of the Company were still subject to an enterprise income tax rate of 25%.

Hailaer Chenming Paper Co., Ltd. (海拉爾晨鳴紙業有限責任公司), a subsidiary of the Company established in the Inner Mongolia Autonomous Region and covered by the preferential tax policy for industries encouraged by the State Government, enjoyed the preferential income tax rate of 15% from 2001 to 2010 pursuant to Guo Shui Fa (2002) Document No. 47 issued by the State Administration of Taxation.

Pursuant to the Guo Xi Ban Zong [2001] Document No. 10 "Written Reply concerning the Application of the Preferential Tax Policies on Development of the Western Region in Yanbian Korean Autonomous Prefecture" issued by the Office of the Leading Group for Western Region Development of the State Council (《國家稅西部開發辦關於延邊朝鮮族自治州參照報行國家西部大開發優惠政策的覆函》) and Yanzhou local tax notice [2001] Document No. 99 "Letter confirming the entitlement of 吉林晨鳴亞松漿紙有限公司 to preferential tax policy" issued by the local tax bureau of Yanbian Korean Autonomous Prefecture (《延邊州地方稅務局關於吉林晨鳴亞松漿紙有限公司享受稅收優惠政策承諾的函》), Yanbian Chenming Paper Co., Ltd. (延邊晨鳴紙業有限公司), a subsidiary of the Company, is covered by the preferential tax policies on development of the Western Region and thus enjoys preferential tax rate of 15% from 2001 to 2010.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

v. Taxation (Cont'd)

2. Tax Incentives and Approvals (Cont'd)

Enterprise Income Tax (Cont'd)

Shandong Chenming Xinli Power Co., Ltd. (山東晨鳴新力熱電有限公司), a subsidiary of the Company, was established in 2001 as a Sino-foreign joint venture and engaged in the business of electric power and thermal power generation. Pursuant to Rule No. 73 of "Detailed Rules on the Implementation of the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》) and rules under the State Council's Circular on Expanding Application Scope of Income Tax Preferential Treatment on Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (《國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定使用範圍的通知》) (Guo Fa [1999] No. 13), and Guo Shui Han [2002] Document No. 1032 "Written Reply on issues regarding the application of preferential enterprise income tax rate to Shandong Chenming Xinli Power Co., Ltd." from the State Council (《國家稅務總局關於山東晨鳴新力熱電有限公司適用企業所得稅率問題的批覆》), Shandong Chenming Xinli Power Co., Ltd. is subject to income tax rate of 15%. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

Wuhan Chenming Hanyang Paper Holdings Co., Ltd. (武漢晨鳴漢陽紙業股份有限公司), a subsidiary of the Company, was transformed into an EFI in April 2005. Pursuant to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, and as approved by State Taxation Administration of Economic and Technological Development Zone of Wuhan City, the income tax for 2007 was reduced in half. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

Jiangxi Chenming Paper Co., Ltd. (江西晨鳴紙業有限責任公司), a subsidiary of the Company, was transformed into an EFI in 2004. It engaged in production with a period of operation of more than 10 years as a foreign-investment enterprise. 2009 was the third year since it started to make profits. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax of 12.5% in 2010.

Pursuant to the "Revenue Bill 2008" passed by The Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, Chenming (HK) Limited, a subsidiary of the Company, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2010 was 16.5%.

Except for the above preferential policies, the Company and its remaining subsidiaries are subject to enterprise income tax rate of 25%.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

v. Taxation (Cont'd)

2. Tax Incentives and Approvals (Cont'd)

Value-added Tax ("VAT") incentives

Pursuant to the requirements of the "Provisional Regulations on Value-added Tax of the People's Republic of China" (《中華人民共和國增值稅暫行條例》) and "Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China" (《中華人民共和國增值稅暫行條例實施細則》), with effect from 1 January 2009, general payers of VAT may have the input amount incurred from acquiring (including acceptance of donation and investment in kind) or manufacturing (including rebuilding, expansion of building and installation) fixed assets deducted from the output amount upon the proof of the VAT-specific invoice, special bill of payment of import VAT obtained from the customs and freight settlement voucher.

Pursuant to Cai Shui [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources" issued by the State Administration of Taxation (《國家稅務總局對部分資源綜合利用產品免徵增值稅的通知》), enterprises engaged in utilisation of raw materials containing not less than 30% of coal gangue, stone coal, coal ash, bottom ash of coal boiler (excluding blast furnace water quenching residue) in the production of building material products shall be exempted from VAT. Wuhan Chenjian New-style Wall Materials Co., Ltd. (武漢晨建新型牆體材料有限公司), a subsidiary of the Company, utilises raw materials containing above 30% of coal ash in its production. It is thus qualified as an enterprise engaged in the utilisation of waste in production and is exempted from VAT in 2010.

Pursuant to Cai Shui [2001] No. 78 "Circular on the VAT Policy concerning Waste Collection Business" issued by the State Administration of Taxation (《國家稅務總局關於廢舊物資回收經營業務有關增值稅政策的通知》), since 2001, general taxpayers engaging in the sale of waste materials business will be exempted from VAT. Accordingly, Qihe Chenming Waste Collection Co., Ltd. (齊河晨鳴廢舊物資收購有限公司), Jilin Chenming Waste Collection Co., Ltd. (吉林晨鳴廢舊物資回收有限公司) and Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd. (壽光市潤生廢紙回收有限責任有限公司), subsidiaries of the Company, are covered by the preferential policy of VAT exemption.

Pursuant to Cai Shui Zi [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources issued by the Ministry of Finance and the State Administration of Taxation" (《財政部、國家稅務總局關於對部分資源綜合利用產品免徵增值稅問題的通知》) and the relevant requirements of Cai Shui [2001] Document No. 72, Shandong Chenming Panels Co., Ltd. (山東晨鳴板材有限責任公司), Qihe Chenming Panels Co., Ltd. (齊河晨鳴板材有限公司), Juancheng Chenming Panels Co., Ltd. (鄆城晨鳴板材有限公司) and Heze Chenming Panels Co., Ltd. (河澤晨鳴板材有限責任公司) all being subsidiaries of the Company and produce products that applied integrated use of resources, are subject to an immediate VAT refund policy.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements

1. Subsidiaries

(1) Subsidiaries acquired through establishment or investment

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority	Shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Setting off of the loss attributable to the minority shareholders of the subsidiaries
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Sino-foreign joint venture	Wuhan City	Manufacture of paper	21,136	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	Tan Daocheng	27189235-4	20,283	—	50.93	50.93	Yes	42,847.53	—	—	—
Shandong Chenming Paper Group Qihé Paperboard Co., Ltd.	Limited liability company	Qihé, Shandong	Manufacture of paper	37,620	Manufacture, processing and sales of paperboard and packaging paper	Hou Huancai	72074277-4	37,620	—	100	100	Yes	—	—	—	—
Shandong Chenming Power Supply Holdings Co., Ltd.	Limited liability stock company	Shouguang, Shandong	Electricity	9,955	Manufacture and supply of electricity and steam	蔡洪吉	70620711-8	15,781	—	86.71	86.71	Yes	10,916.39	—	—	—
Yanbian Chenming Paper Co., Ltd.	Limited liability company	Yanji, Jilin	Manufacture of paper	8,163.30	Mucilage glue fiber pulp, pulp and machine-made paper	桑景高	72956940-0	4,009	—	76.73	76.73	Yes	4,667.94	—	—	—
Jiangxi Chenming Paper Co., Ltd.	Sino-foreign joint venture	Nanchang city	Manufacture of paper	USD72.00 million	Production and processing, etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials	Geng Guangjin	74426460-7	68,755	—	51	51	Yes	83,277.28	—	—	—
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Limited liability company	Shouguang, Shandong	Arboriculture	1,059	Development, nurture of fast growth poplar, forest, vegetable and fruit	李德江	73925671-7	720	—	68	68	Yes	-80.26	—	—	—
Haier Chenming Paper Co., Ltd.	Limited liability company	Haier City	Manufacture of paper	1,600	Sales and processing, sales of machine-made paper and pulp paper	高子偉	70160836-6	1,200	—	75	75	Yes	3,201.80	—	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority	Settling off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Chibi Chenming Paper Co., Ltd.	Limited liability company	Chibi, Hubei	Manufacture of paper	17,742	Production, processing and sales of pulp and paper products; land transport	陳建明	42203935-3	2,627	—	51	51	Yes	20,448.55	—	—
Wuhan Chenming Qianmeng Electric Power Co., Ltd.	Limited liability company	Wuhan City	Electricity	8,824	Generation and sales of electricity and steam	胡建國	72579372-2	4,500	—	51	51	Yes	8,081.09	—	—
Wuhan Chenjian New-style Wall Materials Co., Ltd.	Limited liability company	Wuhan City	Wall materials	1,000	Production, operation and sales of aerated fly ash concrete blocks	呂學峰	74475404-0	510	—	51	51	Yes	2,744.12	—	—
Shandong Chenming Xinli Power Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Electricity	USD11.80 million	Generation and sales of electricity and steam	孫洪吉	72073121-5	4,982	—	51	51	Yes	9,000.93	—	—
Shouguang Chenming Cement Co., Ltd.	Limited liability company	Shouguang, Shandong	Production and sales of cement	700	Utilisation of ash in the production of cement and sales of cement	孫洪吉	73720178-X	700	—	100	100	Yes	288.36	—	—
Shouguang Chenming Panels Co., Ltd.	Limited liability company	Shouguang, Shandong	Production and sales of panels	3,000	Decorative board of the layer of laminated board, wooden products, laminated board and fortified wooden floorboard	劉樹森	73816170-8	3,000	—	100	100	Yes	1,692.07	—	—
Shouguang Chenming Floor Board Co., Ltd.	Limited liability company	Shouguang, Shandong	Production and sales of floor board	50	Production, processing and sales of fortified wooden floorboard and impregnated paper	劉樹森	76386212-5	50	—	100	100	Yes	111.55	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Setting off of the loss attributable to the minority shareholders of the subsidiaries
Qihe Chenming Panels Co., Ltd.	Limited liability company	Qihe, Shandong	Production and sales of panels	4,082	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	劉樹森	76001404-2	4,082	—	100	100	Yes	—	—	—	—
Heze Chenming Panels Co., Ltd.	Limited liability company	Heze, Shandong	Production and sales of panels	3,000	Production and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	劉樹森	76827615-8	2,010	—	67	67	Yes	-953.59	—	—	—
Yangjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Yangjiang, Guangdong	Arboriculture	100	Plantation and development of forest, and technology consultation of forestry	Yin Tongyuan	78487434-6	100	—	100	100	Yes	—	—	—	—
Zhanjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	Arboriculture	100	Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	Wang Zaiguo	78288807-5	100	—	100	100	Yes	—	—	—	—
Jilin Chenming Paper Co., Ltd.	Limited liability company	Jilin City, Jilin	Manufacture of paper	150,000	Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper	Zhang Chunlin	78288566-0	150,135	—	100	100	Yes	—	—	—	—
Juancheng Chenming Panels Co., Ltd.	Limited liability company	Juancheng, Shandong	Production and sales of panels	1,500	Production and sales of particle board, decorative particle board and melamine impregnated paper	劉樹森	77872495-X	1,500	—	100	100	Yes	—	—	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Set off the profit or loss of the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Setting off of the loss attributable to the minority shareholders of the subsidiaries
Shandong Grand View Hotel Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Beverage	USD13.91 million	Restaurant and beverage services	Xia Guangchun	97529557-8	8,050	—	70	70	Yes	325.39	—	—	—
Zhanjiang Chenming Paper Pulp Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	Arboriculture	80,000	Improvement of plant foottering, tree planting and soil, research of forestry, manufacture, production, processing and sales of paper pulp etc.	Yin Tongyuan	77527884-1	80,000	—	100	100	Yes	—	—	—	—
Chenming (HK) Limited	Limited liability company	Hong Kong, China	Trade of paper	USD0.10 million	Export and import trade of paper products and market research	Li Feng	3734927300011080	78	—	100	100	Yes	—	—	—	—
Shouguang Chenming Modern Logistic Co., Ltd.	Limited liability company	Shouguang, Shandong	Transportation	1,000	Transportation of goods	Chen Hongguo	66015223-7	1,000	—	100	100	Yes	—	—	—	—
Shouguang Chenming Art Paper Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Manufacture of paper	USD20.00 million	Production and sales of machine-made paper	Yin Tongyuan	79867677-0	11,382	—	75	75	Yes	5,355.60	—	—	—
Qihe Chenming Waste Collection Co., Ltd.	Limited liability company	Qihe, Shandong	Purchase and sales of waste and old material	50	Purchase and sales of wastes and old materials	汪興龍	75825591-2	50	—	100	100	Yes	—	—	—	—
Jilin Chenming Waste Collection Co., Ltd.	Limited liability company	Jilin	Purchase and sales of waste and old material	100	Purchase and sales of wastes and old materials	姜邦吉	77872731-5	100	—	100	100	Yes	—	—	—	—
Jilin Chenming Machinery Manufacturing Co., Ltd.	Limited liability company	Jilin	Processing of machinery	60	Processing of machinery, manufacture, installation and repair of the equipment of machinery	Zhang Chunlin	66012410-5	60	—	100	100	Yes	—	—	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes investment net in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority shareholders in the current period from the owner's equity of the Company	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Unit: RMB '0000
																68204306-9
Nanchang Chenming Arboriculture Co., Ltd.	Limited liability company	Nanchang, Jiangxi	Arboriculture	1,000	Processing and sales of wooden finished products, semi-finished products and by-products of timber	Geng Guangjin	68204306-9	1,000	-	100	100	Yes	683.25	-	-	-
Fuyu Chenming Paper Co., Ltd.	Limited liability company	Fuyu County, Qiqihar City	Manufacture of paper	20,800	Production and sales of machine-made paper and paperboard	劉春山	66389298-6	20,800	-	100	100	Yes	-	-	-	-
Huanggang Chenming Arboriculture Co., Ltd.	Limited liability company	Huanggang City, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	Wang Zaiguo	67036898-X	1,000	-	100	100	Yes	-	-	-	-
Huanggang Chenming Paper Co., Ltd.	Limited liability company	Huanggang City, Hubei	Arboriculture	2,000	Operation and acquisition of forest, establishment of paper pulp projects	肖翔	67976588-9	2,000	-	100	100	Yes	-	-	-	-
Xanning Chenming Arboriculture Co., Ltd.	Limited liability company	Xanning, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	Wang Zaiguo	67975036-8	1,000	-	100	100	Yes	-	-	-	-
Shouguang Meitun Paper Co. Ltd.	Limited liability company	Shouguang, Shandong	Manufacture of paper	150,000	Production and sales of machine-made paper and paperboard	Yin Tongyuan	69064934-0	150,000	-	100	100	Yes	-	-	-	-
Shouguang Shun Da Customs Declaration Co., Ltd.	Limited liability company	Shouguang, Shandong	Customs declaration, inspection declaration	150	Business agency of professional customs declaration and inspection declaration	Chen Hongguo	68689781-2	150	-	100	100	Yes	-	-	-	-
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Limited liability company	Wuhan, Hubei	Real estate	2,000	Development of real estate and sales of commodity house	Tan Baocheng	69534985-0	2,000	-	100	100	Yes	924.37	-	-	-
Shandong Chenming Paper Sales Company Limited	Limited liability company	Shouguang, Shandong	Sales of paper	10,000	Sales of machine-made paper, paperboard and paper making raw materials	Chen Hongguo	5522531-5	10,000	-	100	100	Yes	-	-	-	-

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(2) The subsidiaries not acquired from business combination under common control

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority	Shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Set off the profit or loss of the minority interests from the equity of the minority	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Limited liability company	Shouguang, Shandong	Purchase and sales of waste and old materials	100	Purchase and sales of waste and obsolete materials	Chen Honguo	77316557-9	100	100	100	100	Yes	—	—	—	—	—
Wuxie Song Ling Paper Co., Ltd.	Limited liability company	Wuxi City	Manufacture of paper	501	Sales, cutting and processing of paper	劉雲山	74243145-6	—	—	100	100	Yes	—	—	—	—	—
Shouguang Hongji Decorative Packaging Co., Ltd.	Limited liability company	Shouguang, Shandong	Packaging	155	Processing and sales of packaging Products, indoor and outdoor decorations	丁步勳	78077580-7	170	170	100	100	Yes	—	—	—	—	—
Shouguang Wei Yuan Logistics Company Limited	Limited liability company	Shouguang, Shandong	Transportation	393	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency service	蘇利民	78079463-X	400	400	100	100	Yes	—	—	—	—	—
Shouguang Xinyuan Coal Co., Ltd.	Limited liability company	Shouguang, Shandong	Coal	300	Retail of coal, gasoline, construction materials and plumbing parts	蘇利民	86570424-2	200	200	100	100	Yes	—	—	—	—	—
Shandong Lin Dun Wood Industry Co., Ltd.	Limited liability company	Shouguang, Shandong	Panels	1384	Production and sales of panels	劉樹森	16889784-1	370	370	67	67	Yes	822.87	—	—	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. Business Combination and Consolidated Financial Statements (Cont'd)

1. Subsidiaries (Cont'd)

(3) Entities newly consolidated during the reporting period

Subsidiaries newly consolidated during the period

Name	Net assets as at the end of the period	Net profit for the period
Shandong Chenming Paper Sales Company Limited	100,267,956.34	267,956.34

(4) The exchange rate of translation of the major statement items of the overseas operating entities

The reporting currency of the consolidated financial statements of exchange rate of translation translated from Chenming (HK) Limited, an overseas controlling subsidiary of the Company, is as follows: all asset and liability items of the balance sheet was translated according to the spot exchange rate (i.e. translated according to RMB6.6227: USD1) prevailing at the reporting date; all the owner's equity items were translated according to the spot exchange rate when occurrence, except the "retained profit" item. The income and expense items in the income statement shall be translated at the approximate exchange rate of the spot exchange rate of the transaction date.

VII. Notes to the Consolidated Financial Statements

Unless specified otherwise, the notes to the consolidated financial statements, the "opening balance" and "closing balance" refer to the balances as at 1 January 2010 and 31 December 2010 respectively, and the "current period" and "prior period" refer to 2009 and 2010 respectively.

1. Monetary funds

Items	Closing balance			Opening balance		
	Foreign currency amounts	Exchange Rate	Amount in RMB	Foreign currency amounts	Exchange Rate	Amount in RMB
Treasury cash:						
- RMB	—	—	1,100,197.18	—	—	1,734,099.25
- USD	20,000.00	6.6227	132,454.00	25,035.00	6.8282	170,943.99
Cash in Bank:						
- RMB	—	—	1,546,974,335.41	—	—	1,922,160,187.63
- USD	45,958,441.92	6.6227	304,368,975.24	63,601,348.40	6.8282	434,282,727.15
- HKD	759,304.73	0.8509	646,115.18	750.18	0.8805	660.53
- EURO	228,683.68	8.8065	2,013,902.79	917,167.73	9.7971	8,985,583.95
Other monetary funds:						
- RMB	—	—	95,802,510.63	—	—	524,368,583.55
- USD	123,264.82	6.6227	816,345.94	177,901.64	6.8282	1,214,747.97
- EURO	11.85	8.8065	104.35	583.02	9.7971	5,711.91
Total			1,951,854,940.72			2,892,923,245.93

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

1. Monetary funds (Cont'd)

- Note: (1) As at 31 December 2010, the Group's restricted monetary funds was RMB22,640,933.48 (31 December 2009: RMB39,333,000.00), which contained certificate of the Group's fixed deposit of RMB22,640,933.48 secured for 6-month bank borrowings of USD3,104,700.00;
- (2) Other monetary funds of RMB13,899,565.96 (31 December 2009: RMB467,154,426.78) contained the Group's bank acceptance deposit to the bank;
- (3) Other monetary funds of RMB60,078,461.48 (31 December 2009: RMB19,101,616.65) contained the Group's letter of credit deposit to the bank.

2. Held-for-trading financial assets/liabilities

(1) Held-for-trading financial assets

Items	Fair value as at the end of the period	Fair value as at the beginning of the period
Derivative financial assets (foreign currency forward contracts)	—	14,900,000.00
Total	—	14,900,000.00

(2) Held-for-trading financial liabilities

Held-for-trading financial liabilities

Items	Fair value as at the end of the period	Fair value as at the beginning of the period
Derivative financial assets (foreign currency forward contracts)	—	6,450,000.00
Total	—	6,450,000.00

The decrease of RMB14,900,000.00 in held-for-trading financial assets and of RMB6,450,000.00 in held-for-trading financial liabilities were caused by the expiry of the foreign currency forward contracts entered between the Company and its subsidiary Chenming (HK) Limited.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

3. Bills receivable

(1) Classification of bills receivable

Category	Closing balance	Opening balance
Bank acceptance	2,762,389,909.89	2,704,799,074.02
Commercial acceptance	—	—
Total	2,762,389,909.89	2,704,799,074.02

Note: (1) As at 31 December 2010, notes with a carrying value of RMB1,583,925,454.80 (31 December 2009: RMB2,091,067,806.59) was discounted for short-term borrowings. The Group did not cease to recognise discounted bills.

(2) Overview of outstanding notes endorsed to other parties at the end of the period (Top 5 amounts)

Unit of issue	Date of issue	Date of expiry	Amount	Whether de-recognised	Remarks
Customer I	2010.11.20	2011.3.31	34,927,194.40	Yes	
Customer II	2010.12.1	2011.3.31	31,991,781.48	Yes	
Customer III	2010.12.15	2011.3.15	13,990,000.00	Yes	
Customer IV	2010.9.30	2011.2.28	13,925,000.00	Yes	
Customer V	2010.11.29	2011.5.29	10,000,000.00	Yes	
Total			104,833,975.88		

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

4. Accounts receivable

(1) The breakdown of accounts receivable according to classification is as follows

Category	Closing balance		Bad debt provision	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable provided as single bad debt	2,059,893,496.83	87.36	192,995,370.65	9.37
Accounts receivable provided as bad debt by category				
Accounts receivable aged within two years (including two years)	255,673,024.22	10.84	13,138,786.03	5.14
Accounts receivable aged over two years	32,119,826.36	1.36	29,221,227.50	90.98
Sub-total	287,792,850.58	12.20	42,360,013.53	14.72
Single item without significant accounts receivable yet provided as single bad debt	10,247,861.04	0.44		
Total	2,357,934,208.45	100.00	235,355,384.18	9.98

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

4. Accounts receivable (Cont'd)

(1) The breakdown of accounts receivable according to classification is as follows (Cont'd)

Category	Opening balance		Bad debt provision	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable provided as single bad debt	1,462,971,676.02	85.08	132,882,322.49	9.08
Accounts receivable provided as bad debt by category				
Accounts receivable aged within two years (including two years)	202,405,187.34	11.77	26,758,259.93	13.22
Accounts receivable aged over two years	35,161,196.35	2.04	31,038,532.32	88.27
Sub-total	237,566,383.69	13.81	57,796,792.25	24.32
Single item without significant accounts receivable yet provided as single bad debt	19,132,552.72	1.11		
Total	1,719,670,612.43	100.00	190,679,114.74	11.09

(2) Accounts receivable stated according to aging

Items	Closing balance		Bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	2,223,077,582.95	94.28	120,249,426.99	51.09
1 to 2 years	28,201,927.17	1.20	12,316,780.20	5.23
2 to 3 years	59,631,780.81	2.53	55,766,259.47	23.70
Over 3 years	47,022,917.52	1.99	47,022,917.52	19.98
Total	2,357,934,208.45	100.00	235,355,384.18	100.00

Items	Closing balance		Bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,507,264,155.22	87.65	72,733,231.12	38.14
1 to 2 years	152,953,443.62	8.89	65,319,432.65	34.26
2 to 3 years	8,758,784.64	0.51	1,932,222.02	1.01
Over 3 years	50,694,228.95	2.95	50,694,228.95	26.59
Total	1,719,670,612.43	100.00	190,679,114.74	100.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

4. Accounts receivable (Cont'd)

(3) Overview of bad debt provision

(1) Single item with significant accounts receivable provided as single bad debt

Accounts receivable	Carrying amount	Bad debt provision	Percentage of provision(%)	Reason
Good payments	2,059,893,496.83	192,995,370.65	9.37	Provision according to aging
Total	2,059,893,496.83	192,995,370.65	9.37	

(2) Provision of bad debt on accounts receivable by category

Within the category, the provision of bad debt on accounts receivable according to aging analysis:

Aging	Closing balance			Opening balance		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	249,299,453.17	86.62	12,464,972.68	214,967,642.86	84.05	10,748,382.14
1 to 2 years	6,373,571.05	2.21	637,357.10	5,626,755.67	2.20	562,675.57
2 to 3 years	3,577,678.27	1.24	715,535.66	5,154,237.01	2.02	1,031,572.98
Over 3 years	28,542,148.09	9.93	28,542,148.09	30,006,959.34	11.73	30,006,959.34
Total	287,792,850.58	100.00	42,360,013.53	255,755,594.88	100.00	42,349,590.03

(3) Single item without significant accounts receivable yet provided as single bad debt

Accounts receivable	Book balance	Percentage of provision(%)	Bad debt provision	Reason for provision
Good payments	10,247,861.04	—	—	Mainly good payments settled by letter of credit, could be fully recover upon individual recognition.
Total	10,247,861.04			

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

4. Accounts receivable (Cont'd)

(4) Actual write-off of significant accounts receivable (RMB1 million) during the reporting period

Name	Nature of accounts receivable	Amount of write-off	Reason for write-off	Whether arising from connected transaction
丹東化學纖維股份有限公司	Good payments	2,048,394.36	Non-recoverable due to the customer's bankruptcy	No
瀋陽錦增化工建材有限公司	Good payments	332,485.50	Failure to recognise all of the amounts by the court upon proceedings with the difference written off	No
Other write-off of small amounts	Good payments	1,993,300.17	Non-recoverable due to the reasons such as customer's bankruptcy	No
Total		4,374,180.03		

(5) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

4. Accounts receivable (Cont'd)

(6) Top 5 accounts receivable are as follows

Name	Relationship with the Group	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Customer I	Non-related party	47,706,660.23	2 to 3 years	2.02
Customer II	Non-related party	24,743,097.06	Within 1 year	1.05
Customer III	Non-related party	19,992,163.33	Within 1 year	0.85
Customer IV	Non-related party	19,750,329.91	Within 1 year	0.84
Customer V	Non-related party	18,086,187.24	Within 1 year	0.77
Total		130,278,437.77		5.53

(7) Overview of accounts receivable of the related parties

Please refer to Note 9 5. Amounts receivable and payable of the related parties.

(8) Accounts receivable denominated in foreign currency stated in original currency and exchange rate are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	49,294,334.22	6.6227	326,461,587.20	44,132,791.00	6.8282	301,347,523.52

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

5. Other receivables

(1) The breakdown of other receivables according to classification is as follows

Category	Closing balance			
	Book balance Amount	Ratio (%)	Bad debt provision Amount	Ratio (%)
Single item with significant other receivables provided as single bad debt	154,360,691.65	69.39	61,922,131.27	40.12
Other receivables provided as bad debt by category				
Other receivables aged within two years (including two years)	10,888,111.35	4.89	1,800,736.15	16.54
Other receivables aged over two years	31,710,164.35	14.25	18,690,064.13	58.94
Sub-total	42,598,275.70	19.15	20,490,800.28	48.10
Single item without significant other receivables yet provided as single bad debt	25,495,433.35	11.46	22,407,088.63	87.89
Total	222,454,400.70	100.00	104,820,020.18	47.12
Category	Opening balance			
	Book balance Amount	Ratio (%)	Bad debt provision Amount	Ratio (%)
Single item with significant other receivables provided as single bad debt	72,104,024.34	49.63	24,837,434.15	34.45
Other receivables provided as bad debt by category				
Other receivables aged within two years (including two years)	50,797,029.90	34.96	22,698,735.18	44.69
Other receivables aged over two years	19,169,593.80	13.19	16,542,105.20	86.29
Sub-total	69,966,623.70	48.16	39,240,840.38	56.09
Single item without significant other receivables yet provided as single bad debt	3,218,270.43	2.21	—	—
Total	145,288,918.47	100.00	64,078,274.53	44.10

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

5. Other receivables (Cont'd)

(2) Other receivables stated according to aging

Items	Closing balance		Bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	151,664,283.27	68.19	65,207,184.95	62.21
1 to 2 years	17,605,155.37	7.91	696,954.52	0.67
2 to 3 years	17,427,665.73	7.83	3,158,584.38	3.01
Over 3 years	35,757,296.33	16.07	35,757,296.33	34.11
Total	222,454,400.70	100.00	104,820,020.18	100.00

Items	Opening balance		Bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	88,229,738.28	60.73	28,833,141.06	45.00
1 to 2 years	17,862,033.95	12.29	770,390.47	1.20
2 to 3 years	5,542,592.98	3.81	820,189.34	1.28
Over 3 years	33,654,553.66	23.17	33,654,553.66	52.52
Total	145,288,988.47	100.00	64,078,274.53	100.00

(3) Bad debt provisions

(1) Single item with significant other receivables provided as single bad debt

Other receivables	Carrying amount	Bad debt provision	Percentage of provision	Reason
Current accounts	154,360,691.65	61,922,131.27	40.12%	Mainly amounts aged over two years
Total	154,360,691.65	61,922,131.27	40.12%	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

5. Other receivables (Cont'd)

(3) Bad debt provisions (Cont'd)

(2) Other receivables provided as bad debt by category

Within the category, the provision of bad debt on other receivables according to aging analysis:

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio (%)	Bad debt provision	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	9,379,072.78	22.02	468,953.62	23,785,634.00	34.00	10,628,649.12
1 to 2 years	1,482,824.56	3.48	148,282.46	27,011,395.90	38.60	12,070,086.06
2 to 3 years	14,828,517.70	34.81	2,965,703.54	3,022,880.10	4.32	395,391.50
Over 3 years	16,907,860.66	39.69	16,907,860.66	16,146,713.70	23.08	16,146,713.70
Total	42,598,275.70	100	20,490,800.28	69,966,623.70	100.00	39,240,840.38

(3) Single item without significant other receivables yet provided as single bad debt

Other receivables	Book balance	Percentage of provision (%)	Bad debt provision	Reasons for provision
Transfer from prepayments of over 2 years	22,407,088.63	100	22,407,088.63	Estimated to be unable to be recoverable due to the passage of a prolonged time
Deposits and petty cash	3,088,344.72			Estimated to be able to be recoverable in full
Total	25,495,433.35	87.79	22,407,088.63	

(4) No other receivables of significance were written off during the reporting period.

(5) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

5. Other receivables (Cont'd)

(6) Top 5 other receivables are as follows

Name	Relationship with the Group	Amount	Aging	Percentage of the total balance of other receivables %)
Customer I	Non-related party	57,070,093.03	Within 1 year	25.66
Customer II	Non-related party	13,389,926.07	Over 5 years	6.02
Customer III	Non-related party	5,189,046.86	Within 1 year	2.33
Customer IV	Non-related party	4,316,772.78	1 to 3 years	1.94
Customer V	Non-related party	2,899,642.97	Within 1 year	1.30
Total		82,865,481.71		37.25

(7) Overview of other receivables of the related parties

Please refer to Note 9 5. Amounts receivable and payable of the related parties.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

6. Prepayments

(1) Prepayments stated according to aging

Aging	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	618,529,456.56	66.91	869,002,788.87	86.83
1 to 2 years	305,825,088.99	33.09	131,770,086.98	13.17
Total	924,354,545.55	100.00	1,000,772,875.85	100.00

(2) Top 5 prepayments are set out as follows

Name	Relationship with the Group	Amount	Year of prepayment	Reason of outstanding
Customer I	Non-related party	80,000,000.00	Within 1 year	Prepaid the good payments according to the agreed contract
Customer II	Non-related party	42,129,020.25	1 to 2 years	Prepaid the good payments according to the agreed contract
Customer III	Non-related party	37,409,402.21	Within 1 year, 1 to 2 years	Prepaid the good payments according to the agreed contract
Customer IV	Non-related party	35,051,725.63	Within 1 year	Prepaid the good payments according to the agreed contract
Customer V	Non-related party	29,516,562.46	Within 1 year, 1 to 2 years	Prepaid the good payments according to the agreed contract
Total		224,106,610.55		

(3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company in the reporting period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

6. Prepayments (Cont'd)

(4) Other advances denominated in foreign currency stated in original currency and exchange rate are as follows

Items	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	58,981,185.01	6.6227	390,614,694.000	65,435,367.15	6.8282	446,805,773.97
EURO	4,878,217.69	8.8065	42,960,024.10			

7. Inventory

(1) Inventory categories:

Items	Book balance	Closing balance	
		Allowance for inventories	Carrying amount
Raw materials	1,834,652,151.48	3,092,298.90	1,831,559,852.58
Goods-in stock	118,807,317.30		118,807,317.30
Work-in-progress	1,101,441,158.39	4,730,113.26	1,096,711,045.13
Total	3,054,900,627.17	7,822,412.16	3,047,078,215.01

Items	Book balance	Opening balance	
		Allowance for inventories	Carrying amount
Raw materials	1,469,188,916.71	4,175,527.37	1,465,013,389.34
Goods-in stock	58,174,106.14	3,743,111.46	54,430,994.68
Work-in-progress	712,296,442.78	5,161,334.21	707,135,108.57
Total	2,239,659,465.63	13,079,973.04	2,226,579,492.59

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

7. Inventory (Cont'd)

(2) Changes in allowance for inventories

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
Raw materials	4,175,527.37			1,083,228.47	3,092,298.90
Work-in-progress	3,743,111.46		2,775,300.05	967,811.41	
Goods-in stock	5,161,334.21		251,574.39	179,646.56	4,730,113.26
Total	13,079,973.04		3,026,874.44	2,230,686.44	7,822,412.16

(3) Allowance for inventories and reason for reversal

Items	Basis of allowance for inventories	Reason of reversal and write-off of allowance for inventories for the current period	Percentage of the reversal and write-off in the current period to the closing balance of such inventory
Work-in-progress		Provided impairment was reversed resulting from an improvement in the market price of a portion of the goods	2.34%
Goods-in-stock		Provided impairment was reversed resulting from an improvement in the market price of a portion of the goods	0.02%

8. Other current assets

Items	Closing balance	Opening balance
Non-credited VAT proceeds	652,018,306.99	64,332,041.62
Prepaid enterprise income tax	6,553,818.35	26,424,163.98
Total	658,572,125.34	90,756,205.60

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

9. Long-term equity investments

(1) Classification of Long-term equity investments

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Investments in associates	58,033,225.56		13,863,141.44	44,170,084.12
Other equity investments	24,950,000.00	1,000,000.00	1,000,000.00	24,950,000.00
Less: Provision for impairment of long equity investments	1,998,538.07		80,385.84	1,918,152.23
Total	80,984,687.49	1,000,000.00	14,782,755.60	67,201,931.89

(2) The details of long-term equity investments

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /deduction	Closing balance
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	18,826,749.91	-2,146,119.62	16,680,630.29
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	32,610,827.22	-10,959,327.37	21,651,499.85
Qingzhou Chenming Denaturation Amylum Co., Ltd	Equity method	900,000.00	900,000.00		900,000.00
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	5,695,648.43	-757,694.45	4,937,953.98
Weifang Venture Capital Co., Ltd.	Cost method	1,000,000.00	1,000,000.00	-1,000,000.00	
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00		200,000.00
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00		2,000,000.00
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00		350,000.00
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd	Cost method	1,400,000.00	1,400,000.00		1,400,000.00
安徽時代物資股份有限公司	Cost method	—	—	1,000,000.00	1,000,000.00
Total			82,983,225.56	- 13,863,141.44	69,120,084.12

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

9. Long-term equity investments (Cont'd)

(2) The details of long-term equity investments (Cont'd)

Name of investee entity	Percentage of shareholding in the investee entity (%)	Percentage of voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Write off provision of impairment for the current period	Cash bonuses for the current period
Shouguang Liben Paper Making Co., Ltd.	26.40	26.40				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	30.00	30.00				
Qingzhou Chenming Denaturation Amylum Co., Ltd	30.00	30.00		900,000.00		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21.16	21.16				
Weifang Venture Capital Co., Ltd.				80,385.84	-80,385.84	
Shandong Paper Making & Printing Enterprises Corporation	2.00	2.00		200,000.00		
Zhejiang Province Guangyu Media Printing Company Limited	9.96	9.96				
Jinan Shangyou Commercial Company Limited	5.00	5.00		350,000.00		
Shouguang Mihe Water Company Limited	19.46	19.46				
Shanghai Forest & Paper E-Commerce Co., Ltd	14.00	14.00		468,152.23		
安徽時代物資股份有限公司	10.00	10.00				
Total				1,998,538.07	-80,385.84	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

9. Long-term equity investments (Cont'd)

(3) Investments in associates

Overview of associates

Name of investee entity	Enterprise type	Registration place	Legal Representative	Business nature	Registered capital	Percentage of the shareholding of the investee entity (%)	Percentage of the voting right in the investee entity (%)
Shouguang Liben Paper Making Co., Ltd.	Sino-foreign joint venture	Shandong	Cang Tiantai	Manufacture of paper	74,070,000	30	30
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Sino-foreign joint venture	Shandong	Tong Chong	Manufacture of paper	267,368,330	26.4	26.4
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Limited liability company	Shandong	Fang Shiming	Deep processing of starch	3,000,000	30	30
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Limited liability company	Jiangxi	Ou Yang	Printing	23,140,000	21.15	21.15

Name of investee entity	Total assets at the end of period	Total liabilities at the end of period	Total net asset value for the current period	Operating revenue for the current period	Net profit for the current period	Relationship	Organisation No.
Shouguang Liben Paper Making Co., Ltd.	81,136,121.80	17,951,916.17	63,184,205.63	90,759,099.57	-7,090,607.15	Associated corporations	61358854-8
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	359,971,449.39	287,799,783.22	72,171,666.17	8,953,600.21	-36,899,421.25	Associated corporations	78233868-9
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Its operation was poor and it was fully provided for impairment in prior years					Associated corporations	16937769-8
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	40,577,059.46	17,229,759.30	23,347,300.16	13,399,770.17	-514,152.08	Associated corporations	79479506-X

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

9. Long-term equity investments (Cont'd)

(6) Details of impairment provision on long-term equity investments

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Qingzhou Chenming Denaturation Amylum Co., Ltd.	900,000.00			900,000.00
Weifang Venture Capital Co., Ltd.	80,385.84		80,385.84	
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23			468,152.23
Total	1,998,538.07		80,385.84	1,918,152.23

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

10. Investment Properties

(1) The details of investment properties

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Investment property adopting cost method for subsequent measurement	26,426,468.11		1,738,256.04	24,688,212.07
Less: Provision for impairment of long investment property	—		—	—
Total	26,426,468.11		1,738,256.04	24,688,212.07

(2) Investment properties measured at cost

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
I. Total original value	38,291,395.70			38,291,395.70
Buildings	38,291,395.70			38,291,395.70
II. Accumulated depreciation and accumulated amortisation in total	11,864,927.59	1,738,256.04		13,603,183.63
Buildings	11,864,927.59	1,738,256.04		13,603,183.63
III. Impairment provision in total				
Buildings				
IV. Total carrying amount	26,426,468.11	1,738,256.04		24,688,212.07
Buildings	26,426,468.11	1,738,256.04		24,688,212.07

Note: Depreciation and amortisation for the current period amounted to RMB1,738,256.04.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

11. Fixed Assets

(1) Overview of fixed assets

Items	Opening balance	Additions for the current period	Deductions for the current period	Closing balance
I. Total original carrying amount:	19,994,415,603.39	606,028,646.91	199,117,650.92	20,401,326,599.38
Of which: Buildings	3,406,027,308.96	117,110,655.99	34,016,167.56	3,489,121,797.39
Machinery and equipment	15,904,536,297.54	427,681,142.28	144,880,559.32	16,187,336,880.50
Electronic equipment and others	527,857,057.43	35,042,849.79	11,974,579.97	550,925,327.25
Vehicles	155,994,939.46	26,193,998.85	8,246,344.07	173,942,594.24
		New provision for fixed assets in the current period	Provision for the current period	
II. Accumulated depreciation				
Total accumulated depreciation:	6,458,522,672.77	25,211,745.08	1,160,051,669.56	7,490,186,114.37
Of which: Buildings	671,663,469.93	4,062,436.02	117,225,584.98	776,138,764.87
Machinery and equipment	5,443,371,103.92	17,523,640.73	981,884,775.67	6,325,073,882.19
Electronic equipment and others	275,345,215.51	941,375.78	44,303,393.03	309,393,625.93
Vehicles	68,142,883.41	2,684,292.55	16,637,915.88	79,579,841.38
III. Net carrying amount	13,535,892,930.62			12,911,140,485.01
Of which: Buildings	2,734,363,839.03			2,712,983,032.52
Machinery and equipment	10,461,165,193.62			9,862,262,998.31
Electronic equipment and others	252,511,841.92			241,531,701.32
Vehicles	87,852,056.05			94,362,752.86
IV. Total impairment provision	6,302,014.99		22,480,088.46	28,782,103.45
Of which: Buildings				
Machinery and equipment	6,302,014.99		22,480,088.46	28,782,103.45
Electronic equipment and others				
Vehicles				
V. Net carrying amount	13,529,590,915.63			12,882,358,381.56
Of which: Buildings	2,734,363,839.03			2,712,983,032.52
Machinery and equipment	10,454,863,178.63			9,833,480,894.86
Electronic equipment and others	252,511,841.92			241,531,701.32
Vehicles	87,852,056.05			94,362,752.86

Note: Depreciation for the current period amounted to RMB 1,160,051,669.56. RMB 446,602,913.83 was transferred from construction in progress to the original value of fixed assets for the current period.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

11. Fixed Assets (Cont'd)

(2) Details of restricted fixed assets

As at 31 December 2010, the titles of buildings and equipment with a carrying value of approximately RMB1,022,544,077.50 in an original value of RMB1,352,124,400.00 (31 December 2009: carrying amount of RMB1,083,389,675.50, original value of RMB1,352,124,400.00) and land use rights within intangible assets with a carrying value of RMB71,448,435.14 (31 December 2009: RMB73,051,016.90) was restricted as the collaterals for a long-term borrowings of RMB127,175,683.11 (31 December 2009: RMB205,341,955.16) and long-term borrowings due within 1 year of RMB71,890,463.15 (31 December 2009: RMB91,223,477.87).

(3) Temporary unused fixed assets

Items	Original carrying value	Accumulated depreciation	Impairment provision	Carrying value	Remarks
Buildings	58,297,955.63	15,426,453.42		42,871,502.21	Suspension
Machinery and equipment	193,610,851.11	102,085,646.51	26,986,104.60	64,539,100.00	Suspension
Total	251,908,806.74	117,512,099.93	26,986,104.60	107,410,602.21	

(4) Fixed assets without property right certificates

Items	Reason for not yet obtaining property right certificates	Estimated time for obtaining property right certificates	Carrying amount
Jilin Chenming Paper Co., Ltd.	Being applied	2011	136,036,223.84
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Being applied	2011	42,702,749.01
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Being applied	2011	30,729,099.13
Fuyu Chenming Paper Co., Ltd.	Being applied	2011	48,395,983.13
Total			257,864,055.11

Note: During the current period, the Group recognised an impairment loss on fixed assets of RMB22,480,088.46 due to the suspension of the subsidiaries, Qihe Chenming Paper Co., Ltd. and Heze Chenming Panels Co., Ltd., which resulted in an allowance for impairment on the difference between recoverable amount and carrying value of their machinery and equipment. Recoverable amount was determined by the estimated net realisable value of asset group.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

12 Construction in progress

(1) The general information of constructions in progress

Items	Closing balance		Carrying amount	Opening balance		Carrying amount
	Book balance	Impairment provision		Book balance	Impairment provision	
The high-end coated paper project of annual production capacity of 800,000 tonnes	2,277,312,260.67		2,277,312,260.67	413,790,949.09		413,790,949.09
The household paper project of annual production capacity of 98,000 tonnes	407,103,435.25		407,103,435.25	61,564,178.12		61,564,178.12
Huanggang forestry pulp integration project (Huanggang)	30,383,565.19		30,383,565.19	3,404,520.95		3,404,520.95
Intermediate water advance treatment in drainage workshops (Qihe)	—		—	45,552,578.47		45,552,578.47
4400 paper machine technological improvement (Qihe)	61,850,381.70		61,850,381.70	46,132,143.40		46,132,143.40
Pulping production plant oxygen delignification improvement (Qihe)	11,613,569.78		11,613,569.78			
Power workshop (Chibi)				30,295,414.25		30,295,414.25
Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)	10,513,384.07		10,513,384.07	11,405,829.00		11,405,829.00
Sheet machine ultra pressure improvement (Jiangxi)				13,869,977.50		13,869,977.50
Intermediate water advance treatment (Jilin)	34,341,668.12		34,341,668.12	12,572,495.32		12,572,495.32
Second plant paper machine improvement (Jilin)	45,216,980.09		45,216,980.09	12,944,711.67		12,944,711.67
Power plant phase III expansion and improvement (the Company)	234,299,205.48		234,299,205.48	77,591,734.87		77,591,734.87
Data improvement of construction in progress (the Company)	42,830,017.64		42,830,017.64	13,665,377.92		13,665,377.92
Thermoelectrical pipes of eastern cities (Xinli)				22,232,122.98		22,232,122.98
Reclamation of recyclable water (electricity and steam)	20,129,045.13		20,129,045.13	3,595,587.98		3,595,587.98
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	4,092,344,011.00		4,092,344,011.00	959,976,410.72		959,976,410.72
Mihe River view wetland (Grand View Hotel)	33,615,119.48		33,615,119.48	15,967,509.04		15,967,509.04
Other projects of construction in progress	569,959,920.24		569,959,920.24	253,399,720.90		253,399,720.90
Total	7,871,512,563.84		7,871,512,563.84	1,997,961,262.18		1,997,961,262.18

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

12 Construction in progress (Cont'd)

(2) Change in material constructions in progress projects

Project name	(RMB in 100 million)	Opening balance	Additions for the current period	Transfer to fixed asset for the current period	Other deductions	Closing balance
The high-end coated paper project of an annual production capacity of 800,000 tonnes	35	413,790,949.09	1,863,606,531.01	85,219.43		2,277,312,260.67
98,000-tonne household paper project	5	61,564,178.12	345,563,313.97	24,056.84		407,103,435.25
Huanggang forestry pulp integration project (Huanggang)	0.5	3,404,520.95	26,979,044.24			30,383,565.19
Intermediate water advance treatment in drainage workshops (Qihe)	0.39	45,552,578.47	2,537,637.31	48,090,215.78		—
4400 paper machine technological improvement (Qihe)	0.32	46,132,143.40	15,718,238.30			61,850,381.70
Pulping production plant oxygen delignification improvement (Qihe)			11,613,569.78			11,613,569.78
Power workshop (Chibi)	0.43	30,295,414.25	4,897,071.56	35,192,485.81		
Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)	0.15	11,405,829.00	497,201.42	1,389,646.35		10,513,384.07
Sheet machine ultra pressure improvement (Jiangxi)	0.15	13,869,977.50	2,971,062.21	16,841,039.71		
Intermediate water advance treatment (Jilin)		12,572,495.32	21,769,172.80			34,341,668.12
Second plant paper machine improvement (Jilin)		12,944,711.67	32,272,268.42			45,216,980.09
Power plant phase III expansion and improvement (the Company)	4.5	77,591,734.87	156,707,470.61			234,299,205.48
Data improvement of construction in progress (the Company)		13,665,377.92	36,710,147.35	7,545,507.63		42,830,017.64
Thermoelectrical pipes of eastern cities (Xinli)		22,232,122.98	3,023,112.71	25,255,235.69		
Reclamation of recyclable water (electricity and steam)	0.13	3,595,587.98	16,533,457.15			20,129,045.13
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	94	959,976,410.72	3,132,367,600.28			4,092,344,011.00
Mihe River view wetland (Grand View Hotel)	0.6	15,967,509.04	17,647,610.44			33,615,119.48
Other projects of construction in progress		253,399,720.90	628,739,705.93	312,179,506.59		569,959,920.24
Total		1,997,961,262.18	6,320,154,215.49	446,602,913.83		7,871,512,563.84

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

12 Construction in progress (Cont'd)

(2) Change in material constructions in progress projects (Cont'd)

Project name	Accumulated capitalised interest amount	Of which: capitalised interest amount for the current period	Capitalisation rate of the interest amount for the current period (%)	Investment to budgeted costs (%)	Construction progress	Sources of Fund
The high-end coated paper project of an annual production capacity of 800,000 tonnes	26,739,666.67	26,739,666.67	3.43%	65%	65.07%	Self raised and borrowing
98,000-tonne household paper project	20,950,380.74	20,950,380.74	3.43%	79.42%	81.42%	Self raised and borrowing
Huanggang forestry pulp integration project (Huanggang)				59.87%	60.77%	Self raised
Intermediate water advance treatment in drainage workshops (Qihe)				123%	Completed	Self raised
4400 paper machine technological improvement (Qihe)				130%	97%	Self raised
Pulping production plant oxygen delignification improvement (Qihe)					Completed	Self raised
Power workshop (Chibi)				81.84%	Completed	Self raised
Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)				70.01%	71%	Self raised
Sheet machine ultra pressure improvement (Jiangxi)				112%	Completed	Self raised
Intermediate water advance treatment (Jilin)				99%	98.11%	Self raised
Second plant paper machine improvement (Jilin)				27.23%	26%	Self raised
Power plant phase III expansion and improvement (the Company)				52.01%	52%	Self raised
Data improvement of construction in progress (the Company)					Completed	Self raised
Thermoelectrical pipes of eastern cities (Xinli)	1,814,064.27	680,282.78	5%	99%	Completed	Self raised and borrowing
Reclamation of recyclable water (electricity and steam)	320,532.63	320,532.63	5%	120%	99%	Self raised and borrowing
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	23,177,105.88	19,646,120.78	3.38%	43.54%	40%	Proceeds and borrowing
Mihe River view wetland (Grand View Hotel)	1,799,756.58	1,476,425.95	4%	56.03%	57%	Self raised and borrowing
Other projects of construction in progress	3,632,235.62	3,631,164.39	3.43%			Self raised and borrowing
Total	78,433,742.39	73,444,573.94				

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

12 Construction in progress (Cont'd)

(3) There was no provision for impairment of construction in progress.

(4) Construction progress of material constructions

Projects	Construction progress	Notes
The high-end coated paper project of an annual production capacity of 800,000 tonnes	32.17%	Construction progress was estimated on the basis of investment to budgeted costs
98,000-tonne household paper project	87.49%	Construction progress was estimated on the basis of investment to budgeted costs
600,000 white coated linerboard project	7%	Construction progress was estimated on the basis of investment to budgeted costs
Zhanjiang 700,000-tonne pulp paper and 450,000-tonne culture paper	40%	Construction progress was estimated on the basis of investment to budgeted costs

13. Project materials

Items	Opening balance	Additions for the current period	Deduction for the current period	Closing balance
Special equipment	26,266,286.51	426,434,100.05	358,955,111.80	93,745,274.76
Special materials	16,646,675.76	35,955,705.34	29,866,569.74	22,735,811.36
Total	42,912,962.27	462,389,805.39	388,821,681.54	116,481,086.12

14. Consumable biological assets

Measured at fair value

Items	Opening balance	Additions for the current period	Deduction for the current period	Closing balance
Timber	496,724,974.94	230,448,055.78	430,462.28	726,742,568.44
Total	496,724,974.94	230,448,055.78	430,462.28	726,742,568.44

Consumable biological assets are measured at fair value, the fair value of timber increased by RMB26,436,097.29 due to acquisition, increased by RMB149,259,707.91 due to breeding, decreased by RMB 430,462.28 due to disposal, and increased by RMB54,752,250.58 due to change of fair value.

As at 31 December 2010, consumable biological assets held by Yangjiang Chenming Forestry Development Co., Ltd., Zhanjiang Chenming Forestry Development Co., Ltd. and Huanggang Chenming Arboriculture Co., Ltd., subsidiaries of the Company, were assessed to be RMB 726,742,568.44 in fair value by Jones Lang LaSalle Sallmanns Limited.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

15. Intangible assets

(1) The details of intangible assets

Items	Opening book balance	Additions for the current period	Deductions for the current period	Closing book balance
I. Total original carrying amount:	1,440,628,963.95	322,430,124.03	163,565,124.30	1,599,493,963.68
Land use rights	1,425,343,340.90	322,430,124.03	163,565,124.30	1,584,208,340.63
Software	15,285,623.05			15,285,623.05
II. Total accumulated amortisation	127,200,096.83	32,111,970.96	19,271,332.05	140,040,735.74
Land use rights	120,017,377.03	30,530,476.32	19,271,332.05	131,276,521.30
Software	7,182,719.80	1,581,494.64		8,764,214.44
III. Total impairment provision				
Land use rights				
Software				
IV. Total carrying amount	1,313,428,867.12			1,459,453,227.94
Land use rights	1,305,325,963.87			1,452,931,819.33
Software	8,102,903.25			6,521,408.61

Notes: ① The amortisation amount was RMB 32,111,970.96 during the current period.

② Intangible assets -for the pledge of land use rights, please see Note VII. 11. (2). The amortisation of the land use right in 2010 was RMB1,602,581.76(2009: RMB1,602,581.76).

③ As at 31 December 2010, the carrying amount of land use right of land use right certificates not yet obtained was RMB80,539,494.82.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

16. Goodwill

(1) Breakdown of the goodwill

Name of investee units or matters generating goodwill	Opening balance	Additions for the current period	Deductions for the current period	Closing balance	Impairment provision at the end of the period
Jilin Chenming Paper Co., Ltd.	14,314,160.60	—	—	14,314,160.60	—
Shandong Chenming decorating materials Panels Co., Ltd.	5,969,626.57	—	—	5,969,626.57	—
Total	20,283,787.17	—	—	20,283,787.17	—

(2) Impairment test method and impairment provision on goodwill

Goodwill of the Group arose from the acquisition of minority interests in prior year by a subsidiary of the Company.

On the balance sheet date, management of the Group assesses the recoverable amount of cash-generating unit which results goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating unit is determined based on the estimated cash flow in financial budget of five years in the future by management, using the steady annual growth rate in the industry of 5% (2009: 5%) expected by the market, and time value of currency was estimated using the discount rate of 8.32% (2009: 5.33%). Management of the Group expects no provision for impairment loss is necessary to be made for goodwill during the reporting period.

17. Long-term prepaid expenses

Items	Opening balance	Additions for the current period	Amortisation for the current period	Other deductions	Closing balance	Reasons for other deductions
Transforming expense on leased assets	23,250,993.55	994,328.91	3,610,766.32		20,634,556.14	
Woodland expenses		160,171,689.80	5,340,352.56	2,082,589.42	152,748,747.82	Lease terminated
Others	9,160,939.30		6,107,292.84		3,053,646.46	
Total	32,411,932.85	161,166,018.71	15,058,411.72	2,082,589.42	176,436,950.42	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

18. Deferred income tax assets / deferred income tax liabilities

(1) Recognised deferred income tax assets and deferred income tax liabilities

(1) Recognised deferred income tax assets

Items	Closing balance		Opening balance	
	Deferred income tax assets	Deductible temporary differences and deductible loss	Deferred income tax assets	Deductible temporary differences and deductible loss
Provision for impairment of assets	74,965,397.98	338,243,809.22	53,878,364.07	222,033,817.90
Elimination of unrealised profit arising from intra-group	15,789,316.34	63,157,265.36	14,994,641.01	59,978,564.03
Prepaid salaries of senior management	14,321,072.45	91,406,128.57	27,168,742.57	157,407,608.42
Unpaid payables	11,347,991.44	59,934,063.55	6,054,842.19	37,790,684.33
Deferred income	21,067,365.45	96,948,558.78	15,567,479.30	68,791,580.31
Preliminary expenses			433,988.10	3,471,904.76
Decrease in fair value of consumable biological assets			2,236,876.05	8,947,504.20
Deductible losses	10,019,335.57	40,077,342.27	10,123,548.35	40,494,193.42
Changes in fair value			967,500.00	6,450,000.00
Total	147,510,479.23	689,767,167.75	131,425,981.64	605,365,857.37

(2) Recognised deferred income tax liabilities

Items	Closing balance		Opening balance	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Business combination not under common control	1,340,281.66	5,361,126.68	1,371,092.74	5,484,370.99
Change in fair value of biological assets			11,037,525.39	44,150,101.59
	1,340,281.66	5,361,126.68	12,408,618.13	49,634,472.58

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

18. Deferred income tax assets / deferred income tax liabilities

(2) The breakdown of unrecognised deferred income tax assets

Items	Closing balance	Opening balance
Deductible temporary differences	4,496,126.97	4,506,016.14
Deductible loss	293,028,858.81	208,897,048.41
Total	297,524,985.78	213,403,064.55

Note: As shown in the table above, it is uncertain that whether there is sufficient taxable profit in the future. Therefore, deductible temporary differences and deductible loss of deferred income tax assets were not recognised.

(3) Deductible loss of unrecognised deferred income tax will expire by the following periods:

Year	Closing balance	Opening balance	Note
2010		45,659,451.85	
2011	6,982,828.04	6,982,828.04	
2012	14,585,476.04	14,585,476.04	
2013	72,648,810.53	72,648,810.53	
2014	69,020,481.95	69,020,481.95	
2015	129,791,262.25		
Total	293,028,858.81	208,897,048.41	

19. Provision for impairment of assets

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
I. Provisions for bad debts	254,757,389.27	90,966,571.02		5,548,555.93	340,175,404.36
II. Provisions for inventory impairment	13,079,973.04		3,026,874.44	2,230,686.44	7,822,412.16
III. Impairment provisions for long-term equity investments	1,998,538.07			80,385.84	1,918,152.23
IV. Impairment provisions for fixed assets	6,302,014.99	22,480,088.46			28,782,103.45
Total	276,137,915.37	113,446,659.48	3,026,874.44	7,859,628.21	378,698,072.20

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

20 Assets with limited ownership or use rights

Items	Closing balance	Reasons of limitations
Sub-total of assets used for providing guarantees:	1,093,992,512.64	
Machinery and equipment (Jiangxi)	1,022,544,077.50	As collaterals for bank borrowings
Land use rights (Jiangxi)	71,448,435.14	As collaterals for bank borrowings
Sub-total of assets with limited ownership or use rights due to other reasons:	96,618,960.92	
Other monetary funds	96,618,960.92	Secured bank borrowings, bank acceptance bills and letter of credit deposits
Total	1,190,611,473.56	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

21. Short-term borrowings

Items	Closing balance	Opening balance
Secured borrowings	20,561,496.69	39,093,574.20
Guarantee loans	187,493,632.08	40,000,000.00
Credit loans	1,802,176,636.90	932,992,447.39
Discounted bills	1,583,925,454.80	2,091,067,806.59
Total	3,594,157,220.47	3,103,153,828.18

Note: ① For the category and amount of secured assets under secured borrowings, please see Note VII.1;

② Guarantee loans are the loans obtained by the subsidiaries of the Company from financial institutions when the Company acts as their guarantee;

③ Discounted loans are the loans obtained from financial institutions with pledged bank acceptance.

22. Bills payable

Type	Closing balance	Opening balance
Bank acceptance	213,607,186.75	544,532,508.19
Commercial acceptance	5,150,000.00	
Total	218,757,186.75	544,532,508.19

Note: Amount to be due in the next accounting period amounted to RMB218,757,186.75.

23. Accounts payable

(1) Breakdown of accounts payable:

Items	Closing balance	Opening balance
Within 1 year	2,516,618,611.43	1,885,379,043.87
1-2 years	71,824,074.09	155,633,581.77
2-3 years	64,607,259.87	52,665,733.96
Over 3 years	55,014,731.05	29,182,532.98
Total	2,708,064,676.44	2,122,860,892.58

(2) During the reporting period, the accounts payable was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

23. Accounts payable (Cont'd)

(3) Explanation on the significant trade payables (above RMB1,000,000) aged over one year

Name of creditors	Amount	Reason of outstanding loans	Repay after the reporting period or not
Customer I	11,318,056.97	Temporary outstanding	No
Customer II	4,435,786.09	Temporary outstanding	No
Customer III	3,672,748.71	Temporary outstanding	No
Customer IV	3,180,110.15	Temporary outstanding	No
Customer V	2,100,307.00	Temporary outstanding	No
Total	24,707,008.92		

(4) Accounts receivable at the end of the reporting period comprised the following balances in foreign currencies:

Items	Closing balance			Opening balance		
	Foreign currency	Foreign exchange rates	RMB	Foreign currency	Foreign exchange rates	RMB
USD	99,658,689.98	6.6227	660,009,606.14	99,120,930.23	6.8282	676,817,535.78
EURO	7,753.51	8.8065	68,281.29			
Total			660,077,887.43			676,817,535.78

24. Advance receipts

(1) Breakdown of advance receipts

Items	Closing balance	Opening balance
Within 1 year	400,171,708.36	226,597,505.20
1-2 years	10,071,846.39	6,526,185.91
Total	410,243,554.75	233,123,691.11

(2) As at the end of the reporting period, the advance receipts were not received from any shareholders holding over 5% (5% inclusive) of the Company's shares.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

24. Advance receipts (Cont'd)

(3) Explanation on the significant advance receipts (above RMB1 million) aged over one year

Name of creditors	Amount	Reasons of not being carried forward
Customer I	1,065,775.96	No delivery requirement from the counterparty
Total	1,065,775.96	

25. Staff remuneration payables

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
I. Salaries, bonuses, allowance and subsidies	173,292,799.49	599,894,138.69	667,022,000.52	106,164,937.66
II. Staff welfare	2,062,876.48	58,652,761.09	60,023,498.17	692,139.40
III. Social insurance premiums	19,007,627.96	130,317,260.45	133,802,951.95	15,521,936.46
Of which:				
1. Medical insurance premium	11,588,304.58	19,484,239.28	20,944,846.82	10,127,697.04
2. Pension insurance premium	4,813,758.04	98,931,054.70	100,335,147.89	3,409,664.85
3. Unemployment insurance premium	331,610.39	8,273,456.03	8,447,850.62	157,215.80
4. Work-related injury insurance premium	48,535.03	2,533,332.61	2,533,339.26	48,528.38
5. Maternity insurance premium	2,225,419.92	1,095,177.83	1,541,767.36	1,778,830.39
IV. Housing provident funds	9,172,595.01	39,619,210.34	42,631,657.71	6,160,147.64
V. Union operation costs and employee education costs	22,245,970.39	13,856,193.70	14,077,963.56	22,024,200.53
VI Non-monetary welfare				
VII Lay off welfare				
VIII Cash-settled share-based payment				
IX Others	19,719,411.71	818,747.36	1,674,860.35	18,863,298.72
Total	245,501,281.04	843,158,311.63	919,232,932.26	169,426,660.41

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

26. Taxes payables

Items	Closing balance	Opening balance
Enterprise income tax	63,216,459.39	39,908,712.66
Value added tax	22,409,317.62	66,671,372.07
Business tax	4,809,383.74	7,355,951.33
Land use tax	13,840,227.24	9,183,246.64
Property tax	5,578,174.83	6,765,846.63
Urban maintenance and construction tax	5,088,049.71	1,142,128.84
Educational surcharges and others	6,402,114.55	1,066,275.19
Individual income tax	10,532,914.69	1,386,280.36
Stamp duty	2,152,746.05	4,011,290.96
Total	134,029,387.82	137,491,104.68

27. Dividend payable

Name	Closing balance	Opening balance
Legal person shares		78,807.70
Total		78,807.70

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

28. Other payables

(1) Breakdown of other payables

Items	Closing balance	Opening balance
Within 1 year	467,607,969.48	122,415,639.41
1-2 years	38,962,690.39	114,863,418.12
2-3 years	51,434,377.75	25,071,672.83
Over 3 years	24,047,473.81	58,869,849.25
Total	582,052,511.43	321,220,579.61

(2) The other payables during of the reporting period were not due to any shareholders who holding over 5% (5% inclusive) of the Company's shares.

(3) Explanation on the significant other payables (above RMB1 million) aged over one year

Name of creditors	Amount	Reason of outstanding loans	Repay after the reporting period or not
Customer I	19,137,819.41	Temporary outstanding	No
Customer II	11,475,826.89	Temporary outstanding	No
Customer III	8,800,000.00	Temporary outstanding	No
Customer IV	2,760,000.00	Temporary outstanding	No
Customer V	2,623,200.00	Temporary outstanding	No
Total	44,796,846.30		

(4) Explanation on the significant other payables (the top five)

Name of creditors	Outstanding balance	Nature or details
Customer I	39,608,592.98	Temporary outstanding
Customer II	20,518,970.91	Temporary outstanding
Customer III	19,137,819.41	Temporary outstanding
Customer IV	18,722,869.49	Temporary outstanding
Customer V	17,000,000.00	Temporary outstanding
Total	114,988,252.79	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

29. Non-current liabilities due within one year

(1) Breakdown of long-term liabilities due within one year

Items	Closing balance	Opening balance
Long-term liabilities due within one year (Note VII.31)	1,432,841,463.15	345,353,527.87
Total	1,432,841,463.15	345,353,527.87

(1) Breakdown of long-term borrowings due within one year

Items	Closing balance	Opening balance
Secured borrowings	71,890,463.15	91,223,477.87
Guarantee loans		1,707,050.00
Credit loans	1,360,951,000.00	252,423,000.00
Total	1,432,841,463.15	345,353,527.87

(2) Top five long-term borrowings due within one year

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance	
					Foreign currency	Functional currency
Bank I	20081223	20111222	4.8600	RMB		400,000,000.00
Bank II	20091020	20111019	1.4178	USD	30,000,000.00	198,681,000.00
Bank III	20091228	20111228	1.6943	USD	30,000,000.00	198,681,000.00
Bank IV	20090520	20110509	1.3291	USD	25,000,000.00	165,567,500.00
Bank V	20091106	20111105	1.4629	USD	25,000,000.00	165,567,500.00
Total						1,128,497,000.00

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Opening balance	
					Foreign currency	Functional currency
Bank I	20080227	20101227	4.8600	RMB		150,000,000.00
Bank II	20090511	20101010	1.1500	USD	10,000,000.00	68,282,000.00
Bank III	20061129	20101215	1.4500	USD	7,000,000.00	47,797,400.00
Bank IV	20050228	20101215	2.2000	USD	5,333,334.00	36,417,071.22
Bank V	20090319	20090918	1.1500	USD	5,000,000.00	34,141,000.00
Total						336,637,471.22

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

30. Other current liabilities/other non-current liabilities

(1) Other current liabilities

Items	Details	Closing balance	Opening balance
Deferred income		7,609,415.89	
Medium-term debentures interests		46,115,333.31	
Short-term debentures payable		3,358,769,166.68	
Total		3,412,493,915.88	

(2) Other non-current liabilities

Items	Details	Closing balance	Opening balance
Deferred income		142,414,214.19	121,890,615.92
Medium-term debentures		2,285,483,331.48	1,189,484,415.60
Total		2,427,897,545.67	1,311,375,031.52

Of which,

① the breakdown of deferred income is as follows:

Items	Closing balance	Opening balance
Funds for three projects in connection with technology allocated by the local financial authority		80,000.00
Special subsidy funds for environmental protection	49,868,423.92	38,777,543.10
Project fund for National technological support scheme	4,660,575.00	3,196,628.91
Special subsidy fund for Songhuajiang environmental protection project	23,060,833.12	31,698,333.15
Modification of alkaline recycling system	5,350,416.65	1,381,250.00
Atmospheric pollution prevention and treatment subsidy fund	993,785.71	1,000,000.00
Sewage treatment and water conservation reconfiguration project	21,892,797.56	4,364,285.71
Financial grants for technological modification project	2,164,285.79	2,332,142.89
Zhejiang pulp project and construction project of eucalyptus forest	40,992,000.00	37,996,000.00
Others	1,040,512.33	1,064,432.16
Total	150,023,630.08	121,890,615.92

Deferred income of RMB35,337,000.00 was received in the current period. Deferred income recognised through profit or loss was RMB7,203,985.84 for the current period.

- ② Principal payments of short-term debentures were RMB3,300,000,000.00. Accrued interest was RMB58,769,166.68.
- ③ Principal payments of medium-term notes were RMB 2,300,000,000.00. Interest due within one year was RMB46,115,333.31. Handling charges not fully amortised under the effective interest method were RMB14,516,668.52.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

31. Long-term borrowings

(1) Types of long-term borrowings

(1) Types of long-term borrowings

Items	Closing balance	Opening balance
Secured borrowings	199,066,146.26	296,565,433.03
Guarantee loans	3,746,230,300.00	1,454,064,350.00
Credit loans	2,213,173,735.94	3,682,147,927.10
Less: Long-term borrowings due within one year (Note VII.31)	1,432,841,463.15	345,353,527.87
Total	4,725,628,719.05	5,087,424,182.26

Note: For the category and amount of secured assets under secured borrowings, please see Note VII.11 and VII.15.

(2) Top five long-term borrowings

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance	
					Foreign currency	Functional currency
Bank I	20080325	20230324	2.96	USD	309,000,000.00	2,046,414,300.00
Bank II	20090325	20230324	4.86	RMB		540,000,000.00
Bank III	20090910	20130910	3.60	USD	80,000,000.00	529,816,000.00
Bank IV	20091210	20121210	4.06	RMB		450,000,000.00
Bank V	20081213	20111222	4.86	RMB		400,000,000.00
Total						3,966,230,300.00

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Opening balance	
					Foreign currency	Functional currency
Bank I	20080325	20230324	2.96	USD	76,500,000.00	522,357,300.00
Bank II	20091210	20121210	3.81	RMB		450,000,000.00
Bank III	20081223	20111222	4.86	RMB		400,000,000.00
Bank IV	20081223	20111112	4.86	RMB		300,000,000.00
Bank V	20090928	20120927	3.51	RMB		280,000,000.00
Total						1,952,357,300.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

32. Share capital

Items	Opening balance		New issue	Change for the period (Increase/decrease)				Closing balance	
	Amounts	Percentage		Bonus shares	Shares transfer from reserve	Others	Sub-total	Amounts	Percentage
I. Restricted shares									
1. State-owned legal person shares	293,003,657	14.21						293,003,657	14.21
2. Other domestic shares	10,295,148	0.50				-286,833	-286,833	10,008,315	0.48
Total number of restricted shares	303,298,805	14.71				-286,833	-286,833	303,011,972	14.69
II. Non-restricted shares									
1. RMB ordinary shares	809,979,651	39.28				286,833	286,833	810,266,484	39.30
2. Domestic listed foreign shares	557,497,485	27.04						557,497,485	27.04
3. Overseas listed foreign shares	391,270,000	18.97						391,270,000	18.97
Total number of non-restricted shares	1,758,747,136	85.29				286,833	286,833	1,759,033,969	85.31
III. Total shares	2,062,045,941	100.00						2,062,045,941	100.00

A capital review report named as Zhong Rui Yue Hua Yan Zi [2008] No. 2189 was published for the certification of the review.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

33. Capital reserves

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Capital premium	5,391,471,967.47			5,391,471,967.47
Of which: Capital contribution from investors	3,373,256,665.49			3,373,256,665.49
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98			2,018,215,301.98
Acquisition of minority interests		9,202.79		9,202.79
Other capital reserves	702,011,834.45			702,011,834.45
Of which: transfer from capital reserves under the original system	702,011,834.45			702,011,834.45
Total	6,093,483,801.92			6,093,493,004.71

34. Surplus reserve

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Statutory surplus reserves	906,929,047.49	139,581,633.50		1,046,510,680.99
Total	906,929,047.49	139,581,633.50		1,046,510,680.99

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

35. Retained profit

(1) Information on the change of retained profit

Items	Amounts in the current period	Amounts in prior period	Proportion of appropriation or allocation
Retained profit of prior period before adjustment	3,928,586,297.55	3,277,192,810.40	
Adjustment of the aggregate retained profit as at the beginning of the period (increase after adjustment +, decrease after adjustment -)			
Retained profit as at the beginning of the period after adjustment	3,928,586,297.55	3,277,192,810.40	
Add : Net profit of the current period attributable to equity holders of the Company	1,163,341,066.21	835,947,981.16	
Less : Withdrawn statutory surplus reserves	139,581,633.50	81,452,196.96	10% of net profit of the Company
Ordinary shares dividend payable	618,613,782.30	103,102,297.05	
Retained profit as at the end of the period	4,333,731,947.96	3,928,586,297.55	

(2) Information on the breakdown of profit distribution

According to the profit distribution plan for 2009 approved by 2010 Annual General Meeting of the Company on 12 April 2010, the Company declared cash dividends of RMB0.3 per share to all shareholders, totalling RMB618,613,782.30, which was calculated based on the 2,062,045,941 shares in issue.

(3) Breakdown of the transfer to surplus reserve of subsidiaries during the reporting period

The transfer to surplus reserve of subsidiaries in 2010 was RMB36,678,585.19, of which RMB22,137,235.52 was attributable to the parent company.

36. Operating revenue and operating costs

(1) Operating revenue and operating costs

Items	Incurred during the current period	Incurred during the prior period
Operating revenue from principal operations	17,129,820,871.55	14,754,119,019.01
Other operating revenue	73,302,157.94	130,510,330.49
Total operating revenue	17,203,123,029.49	14,884,629,349.50
Operating costs from principal operations	13,651,586,236.61	11,989,510,699.92
Other operating costs	31,415,223.71	67,905,161.50
Total operating costs	13,683,001,460.32	12,057,415,861.42

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

36. Operating revenue and operating costs (Cont'd)

(2) Principal operation (by products)

Product name	Incurred during the current period		Incurred during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
I. Machine-made paper	16,163,909,140.60	12,886,896,603.15	14,083,887,907.78	11,545,540,911.31
II. Electricity and steam	444,972,993.46	392,235,364.46	238,892,641.07	144,143,760.11
III. Building materials	388,957,755.02	306,730,154.46	340,100,005.22	267,499,944.43
IV. Paper chemicals	74,269,212.30	50,859,132.91	31,390,145.44	15,027,019.84
V. Hotel	47,197,701.30	12,352,389.61	40,925,941.35	11,672,673.72
VI. Others	10,514,068.87	2,512,592.02	18,922,378.15	5,626,390.51
Total	17,129,820,871.55	13,651,586,236.61	14,754,119,019.01	11,989,510,699.92

(3) Principal operations - Machine-made paper (by geographical segment)

Regions	Incurred during the current period	Incurred during the prior period
PRC	14,166,233,174.99	12,297,186,133.31
Hong Kong	160,884,123.01	374,478,230.81
United States	167,762,309.03	157,117,644.23
Japan	187,537,719.18	308,298,475.22
South Africa	67,501,630.34	128,115,404.52
Other overseas countries and regions	1,413,990,184.26	818,692,019.69
Total	16,163,909,140.60	14,083,887,907.78

(4) The following table sets forth operating revenue from top 5 customers

Period	Total operating revenue from top 5 customers	Percentage of the total operating revenue of the Company (%)
2010	994,768,181.55	5.81
2009	884,783,299.65	6.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

37. Business taxes and surcharges

Items	Incurred during the current period	Incurred during the prior period
Business taxes	7,952,885.00	7,133,927.79
Urban maintenances and construction tax	13,037,023.71	5,539,020.33
Educational surcharges	9,127,571.48	3,595,858.69
Total	30,117,480.19	16,268,806.81

Note: For the calculation standard of business taxes and surcharges, please see Note V. Taxation.

38. Selling expenses

Items	Incurred during the current period	Incurred during the prior period
Wages	70,958,713.15	48,094,735.01
Depreciation expense	23,472,608.62	26,147,830.64
Material consumption expense	4,373,193.85	3,898,212.87
Office expense	5,409,515.58	5,359,891.61
Travel expense	14,761,401.84	19,493,531.97
Sales commission and selling expense	7,528,296.95	2,500,323.00
Transportation expense	636,649,348.94	560,963,219.97
Cargo handling charges	19,857,614.51	14,867,777.04
Rental expense	5,808,268.58	5,257,013.05
Hospitality expense	43,408,878.49	48,316,564.22
Others	41,551,352.54	39,786,875.66
Total	873,779,193.05	774,685,975.04

39. General and administrative expenses

Items	Incurred during the current period	Incurred during the prior period
Wages and surcharges	188,691,060.22	150,935,941.88
Welfare expense	42,228,553.17	25,882,735.94
Depreciation expense	40,359,737.06	40,411,344.61
Waste disposal expense	23,727,498.39	20,917,652.71
Hospitality expense	22,865,705.13	9,966,422.19
Amortisation of intangible assets	26,402,995.63	28,732,413.75
Technological development expense	199,666,494.12	74,057,678.49
Tax	79,297,284.58	70,898,333.80
Production interruption loss	70,450,167.93	139,591,029.97
Insurance premium	18,562,842.04	16,911,644.83
Others	158,885,866.44	148,046,463.50
Total	871,138,204.71	726,351,661.67

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

40. Finance expenses

Items	Incurred during the current period	Incurred during the prior period
Interest expenses	371,456,433.00	403,545,987.55
Less: interest income	21,817,317.38	85,355,112.41
Less: capitalised interest amount	88,798,479.28	19,522,907.59
Foreign exchange gains and losses	-51,823,694.62	-2,036,771.53
Less: capitalised foreign exchange gains and losses amount	—	—
Others	24,438,716.38	16,055,808.00
Total	233,455,658.10	312,687,004.02

Note: Out of the capitalised interest amount, RMB73,744,573.93 was used in construction in progress and RMB15,353,905.35 was used in consumable biological assets.

41. Gain on changes in fair value

Source of gain on changes in fair value	Incurred during the current period	Incurred during the prior period
Gain on changes in fair value generated from derivative financial Instruments	-8,450,000.00	8,443,100.00
Biological assets measured at fair value	54,752,250.58	9,868,745.48
Total	46,302,250.58	18,311,845.48

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

42. Investment income

(1) Breakdown of investment income

Items	Incurred during the current period	Incurred during the prior period
Gain from long-term equity investments accounted for using the equity method	-13,863,141.44	-15,689,081.65
Investment gain on disposal of long-term equity investments	100,385.84	—
Total	-13,762,755.60	-15,689,081.65

(2) Gain on long-term equity investments accounted for using the cost method

Name of investee entity	Incurred during the current period	Incurred during the prior period
Weifang Venture Capital Co., Ltd.	100,385.84	—
Total	100,385.84	—

(3) Gain on long-term equity investments of the Company accounted for using equity method

Name of investee entity	Incurred during the current period	Incurred during the prior period	Reason of addition or deduction
Arjo Wiggins Chenming Specialty Paper Co., Ltd	-10,959,327.37	-15,868,038.28	Investment loss due to the company's loss
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-757,694.45	-304,351.57	Investment loss due to the company's loss
Shouguang Liben Paper Making Co., Ltd.	-2,146,119.62	483,308.20	Investment loss due to the company's loss
Total	-13,863,141.44	-15,689,081.65	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

43. Loss on impairment of assets

Items	Incurred during the current period	Incurred during the prior period
Loss on bad debts	90,966,571.02	35,447,564.77
Loss on allowance for inventories	-3,026,874.44	-22,676,605.03
Loss on impairment of fixed assets	22,480,088.46	4,506,016.14
Total	110,419,785.04	17,276,975.88

44. Non-operating income

Items	Incurred during the current period	Incurred during the prior period	Amount of extraordinary gains and losses recorded for the current period
Total income on disposal of non-current assets	36,633,268.16	12,345,492.47	36,633,268.16
Of which: Income on disposal of fixed assets	36,633,268.16	12,345,492.47	36,633,268.16
Income from debt reconstructing	54,841.22	329,236.08	54,841.22
Government grants (For details, please see the following table: breakdown of government grants)	128,131,184.48	159,814,323.91	96,530,256.72
Others	14,598,743.74	29,249,354.34	14,598,743.74
Total	179,418,037.60	201,738,406.80	147,817,109.84

Of which, breakdown of government grants:

Items	Incurred during the current period	Incurred during the prior period	Explanation
Expansion grants	96,530,256.72	140,290,327.67	Deferred income amortised was RMB7,203,985.84, and the income-related expansion grants were RMB89,326,270.88.
Value-added tax refund	31,600,927.76	19,523,996.24	
Total	128,131,184.48	159,814,323.91	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

45. Non-operating expenses

Items	Incurred during the current period	Incurred during the prior period	Amount of extraordinary gains and losses recorded for the current period
Total loss on disposal of non-current assets	42,128,862.46	10,496,542.97	42,128,862.46
Of which: Loss on disposal of fixed assets	42,128,862.46	10,496,542.97	42,128,862.46
Donation expenses	437,000.00	303,100.00	437,000.00
Others	8,248,354.00	581,961.09	8,248,354.00
Total	50,814,216.46	11,381,604.06	50,814,216.46

46. Income tax expenses

Items	Incurred during the current period	Incurred during the prior period
Current income tax calculated according to tax laws and relevant rules	287,849,279.19	217,930,242.47
Adjustment on deferred income tax	-27,152,834.06	1,080,958.54
Total	260,696,445.13	219,011,201.01

47. Basic earnings per share and diluted earnings per share

The basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders of the Company by the number of weighted average ordinary shares in issue. The number of newly issued ordinary shares is confirmed starting from the day of consideration receivables (generally the offering date of stock) according to the specific terms in the offering agreement.

The numerator of the diluted earnings per share is the net profit for the period attributable to ordinary shareholders of the Company, which is confirmed after adjusting the following factors: (1) interests of diluted potential ordinary shares recognised as expenses for the period; (2) gains or expenses arising from the transfer of diluted potential ordinary shares; and (3) effect of income tax due to the above adjustment.

The denominator of diluted earnings per share is the sum of the followings: (1) weighted average number of ordinary shares in issue of the parent company in the basic earnings per share; and (2) average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares.

For the purpose of calculating the average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares in issue, diluted potential ordinary shares issued during the prior period were assumed to be transferred as at the beginning of the current period while diluted potential ordinary shares issued in the current period were assumed to be transferred on offering date.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

47. Basic earnings per share and diluted earnings per share (Cont'd)

(1) Basic earnings per share and diluted earnings per share over the periods

Profit for the reporting period	Current period		Prior period	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	0.56	0.56	0.41	0.41
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.50	0.50	0.35	0.35

(2) Calculation of earnings per share and diluted earnings per share

During the reporting period, the Company did not have any potential diluted ordinary shares. Therefore, diluted earnings per share are equal to basic earnings per share.

(1) Net profit for the period attributable to ordinary shareholders for the purpose of calculating earnings per share are as follows:

Items	RMB	
	Incurred during the current period	Incurred during the prior period
Net profit for the period attributable to ordinary shareholders	1,163,341,066.21	835,947,981.16
Of which: net profit attributable to continued operations	1,163,341,066.21	835,947,981.16
net profit attributable to discontinued operations	—	—
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	1,034,233,761.46	715,013,042.84
Of which: net profit attributable to continued operations	1,034,233,761.46	715,103,042.84
net profit attributable to discontinued operations	—	—

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

47. Basic earnings per share and diluted earnings per share (Cont'd)

- (2) For the purpose of calculating earnings per share, the denominator is the weighted average of outstanding ordinary shares. The calculation is as follows:

Items	Incurred during the current period	RMB Incurred during the prior period
Number of outstanding ordinary as at the beginning of the period	2,062,045,941.00	2,062,045,941.00
Add: number of weighted ordinary shares issued during the period	—	—
Less: number of weighted ordinary shares repurchased during the period	—	—
Number of outstanding ordinary as at the end of the period	2,062,045,941.00	2,062,045,941.00

48. Other comprehensive income

Items	Incurred during the current period	Incurred during the prior period
Translation difference of financial statements denominated in foreign currency	-855,013.84	-20,264.42
Total	-855,013.84	-20,264.42

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

49. Notes to the cash flow statement items

(1) Cash received relating to other operating activities

Items	Incurred during the current period	Incurred during the prior period
Finance support fund	89,326,270.88	136,413,468.36
Interest income	21,817,317.38	85,355,112.41
Income on default penalty and fine	671,021.75	17,027.94
Bank balances and other income	277,836,446.51	51,068,941.97
Total	389,651,056.52	272,854,550.68

(2) Cash paid relating to other operating activities

Items	Amounts during the current period	Amounts during the prior period
Transportation expense	330,426,629.06	580,416,679.11
Hospitality expense	63,220,204.41	52,915,456.77
Rental expense	10,705,849.00	19,467,795.74
Travel expense	27,613,014.17	28,791,771.42
Office expense	12,855,624.55	17,829,066.30
Waste disposal expense	33,110,383.24	20,918,366.63
Insurance premium	9,873,464.98	18,857,842.45
Water and electricity expense	201,268.63	17,169,140.88
Repair expense	11,412,162.05	15,273,508.25
Advertising expense	1,604,141.09	896,896.57
Intermediary service expense	7,462,551.70	12,948,286.58
Quality compensation	53,134.33	3,250,273.70
Financial institutions charge	24,438,716.38	16,055,808.00
Others	106,533,593.67	80,405,802.48
Total	639,510,737.26	885,196,694.88

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

49. Notes to the cash flow statement items (Cont'd)

(3) Cash received relating to other investing activities

Items	Incurred during the current period	Incurred during the prior period
Special subsidy funds received	35,337,000.00	68,939,100.00
Total	35,337,000.00	68,939,100.00

(4) Cash received relating to other financing activities

Items	Amounts during the current period	Amounts during the prior period
Decrease in restricted bank deposits during the period	428,970,082.51	—
Total	428,970,082.51	—

(5) Cash paid relating to other financing activities

Items	Incurred during the current period	Incurred during the prior period
Increase in restricted bank deposits during the period	—	359,750,075.21
Issuance expenses of medium-term debentures	—	10,800,000.00
Payments of bank balances	—	60,000,000.00
Cash paid in repaying bonds	—	1,900,000,000.00
Total	—	2,330,550,075.21

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

50. Supplementary information on cash flow statements

(1) Information on reconciliation of net profit to cash flows from operating activities

Items	Amounts during the current period	Amounts during the prior period
1. Reconciliation of net profit as cash flows from operating activities:		
Net profit	1,301,658,119.07	953,911,430.22
Add: Provision for impairment of assets	110,419,785.04	17,276,975.88
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	1,161,789,925.60	1,203,617,152.34
Amortisation of intangible assets	32,111,970.96	32,772,748.83
Long-term prepaid expenses	15,058,411.72	19,276,067.41
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" denotes gain)	5,495,594.30	-1,848,949.50
Loss on retired fixed assets ("-" denotes gain)	—	—
Loss on change in fair value ("-" denotes gain)	-46,302,250.58	-18,311,845.48
Finance expenses ("-" denotes gain)	282,657,953.72	384,814,680.61
Investment loss ("-" denotes gain)	13,762,755.60	15,689,081.65
Decrease in deferred income tax assets ("-" denotes increase)	-16,084,497.59	-3,509,615.52
Increase in deferred income tax liabilities ("-" denotes decrease)	-11,068,336.47	4,590,574.06
Decrease in inventory ("-" denotes increase)	-820,498,722.42	1,120,251,944.17
Decrease in Consumable biological assets ("+" denotes increase)	-175,265,342.92	-168,077,594.10
Decrease in operating receivables ("-" denotes increase)	-584,900,050.48	-1,964,023,762.78
Increase in operating payables ("-" denotes decrease)	-418,506,388.55	53,095,813.60
Others	—	-10,490,441.40
Net cash flows from operating activities	850,328,927.00	1,639,034,259.99
2. Major investing and financing activities not involving cash settlements:		
Capital converted from debts	—	—
Convertible bonds of the Company due within one year	—	—
Finance leases of fixed assets	—	—
3. Net change in cash and cash equivalents:		
Cash balance at the end of the period	1,855,235,979.80	2,367,334,202.50
Less: cash balance at the beginning of the period	2,367,334,202.50	2,687,579,159.85
Add: balance of cash equivalents at the end of the period	—	—
Less: balance of cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	-512,098,222.70	-320,244,957.35

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the Consolidated Financial Statements (Cont'd)

50. Supplementary information on cash flow statements (Cont'd)

(2) *Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the reporting period*

Items	Amounts during the current period	Amounts during the prior period
I. Relevant information with respect to acquisition of subsidiaries and other operating units:		
1 Consideration for acquisition of subsidiaries and other operating units	—	10,600,000.00
2 Cash and cash equivalents paid on acquisition of subsidiaries and other operating units	—	11,600,000.00
Less: cash and cash equivalents held by subsidiaries and other operating units	—	4,468,175.53
3 Net cash paid on acquisition of subsidiaries and other operating units	—	7,131,824.47
4 Net assets of subsidiaries acquired	—	27,628,656.36
Of which: Current assets	—	47,781,786.69
Non-current assets	—	42,409,749.47
Current liabilities	—	61,176,381.52
Non-current liabilities	—	1,386,498.28

(3) *The compositions of cash and cash equivalents*

Items	Closing balance	Opening balance
I. Cash		
Of which : Bank deposits repayable on demand	1,232,651.18	1,905,043.24
Treasury cash	1,854,003,328.62	2,365,429,159.26
II. Cash equivalents		
Of which : bond investments due within 3 months	—	—
III. Balance of cash and cash equivalents at the end of period	1,855,235,979.80	2,367,334,202.50

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Segment reporting

The Group determined the reporting segments and disclosed the segments information according to the requirements of China Accounting Standards Explanatory Notice No.3 in 2010, and the Group no longer adopted the requirements of China Accounting Standards Explanatory Notice No.35 which was related to the determination of the geographical segment and business segments, and the requirements of disclosure of segment information of the primary reporting format and the secondary reporting format.

According to the internal organisation structure, the requirement of management and the internal reporting system of the Group, the operating businesses of the Group is categorised into 4 reporting segments, such reporting segments is based on its primary product categories. The management of the Group evaluates the financial results of such reporting segments in regular basis, in order to allocate the resources and evaluate its result. The primary products or services provided by each reporting segments of the Group are machine-made paper, construction materials, electricity and steam supply and others.

The segment reporting information disclosed according to the accounting standards and the measurements basis which reported from each segments to the management, such measurement basis is consistent with accounting and measurement basis of the preparation of the financial statements.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Segment reporting

(1) Segment revenue

Items	RMB'0000											
	Machine-made paper		Construction materials		Electricity and steam		Others		Eliminations among each segment		Total	
	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year
External transaction sales	1,620,061.01	1,421,439.82	38,895.78	34,010.00	44,497.30	23,889.26	16,858.21	9,123.85	—	—	1,720,312.30	1,488,462.93
Inter-segment sales	—	—	6,287.09	4,645.76	26,610.60	22,930.12	20,118.91	34,701.67	53,016.60	62,277.55	—	—
Total segment operating revenue	1,620,061.01	1,421,439.82	45,182.87	38,655.76	71,107.90	46,819.38	36,977.12	43,825.52	53,016.60	62,277.55	1,720,312.30	1,488,462.93
Operating costs	1,401,036.67	1,247,657.95	45,352.57	38,779.97	67,112.49	38,313.06	36,241.56	43,969.46	53,016.60	62,277.55	1,496,726.69	1,306,442.89
Segment operating profit	219,024.34	173,781.87	-169.70	-124.21	3,995.41	8,506.32	735.56	-143.94	—	—	223,585.61	182,020.04
Adjustment items:												
Administrative expenses											42,338.31	26,587.74
Finance expenses											28,265.80	38,402.31
Profit or loss from change in fair value											-4,630.23	-1,831.18
Investment income											1,376.28	1,568.91
Total profit											156,235.45	117,292.26
Income tax											26,069.64	21,901.12
Net profit											130,165.81	95,391.14

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Segment reporting (Cont'd)

(2) Segment assets and liabilities

	RMB'0000											
	Machine-made paper		Construction materials		Electricity and steam		Others		Eliminations among each segment		Total	
	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year
Segment assets	3,203,769.33	2,507,647.26	58,495.26	64,086.03	233,790.37	267,368.49	44,364.95	45,388.66	-32,706.70	-63,181.96	3,507,713.21	2,821,308.49
Segment liabilities	1,915,539.36	1,311,401.22	42,327.35	39,777.32	21,482.84	24,200.02	35,050.46	35,405.81	-32,706.70	-63,181.96	1,981,693.31	1,347,602.41

IX. Related party relations and transactions

1. The information on the parent company of the Company:

Name of the parent company	Relationship	Type of corporation	Place of registration	Legal representative	Type of business	Registered capital	The parent company's shareholding in the Company (%)	Voting rights of the largest shareholder in the Company (%)	Ultimate controller of the Company	Organisation code
Shouguang Chenming Holdings Co., Ltd	The largest shareholder	Limited liability company	Shouguang City	Chen Hongguo	Investments in papermaking, power and steam, forestry projects	RMB 168,542	14.21	14.21	State-owned Assets Supervision and Administration Commission of Shouguang City	78348518-9

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IX. Related party relations and transactions (Cont'd)

2. The subsidiaries of the Company

Refer to Note VI.1 for further information.

3. Information on the joint ventures and associates of the Company

Refer to Note VII.9 (3) for further information. For the investments in other related parties of the Group, please refer to Note VII.9 (2).

4. Information on related party transactions

(1) Related party transactions involving sales of goods and provision of services

Related party	Details of related party transactions	Pricing principle of related party transactions and decision making process	During the current period Amount	As a percentage of similar transaction amounts (%)	During the prior period Amount	As a percentage of similar transaction amounts (%)
安徽時代物資股份有限公司 (Anhui Shidai Resources Holdings Co. Ltd.)	Sales of paper	Market price Authorised by the Board	18,221,859.35	0.11		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Sales of paper	Market price Authorised by the Board	2,077,643.00	0.01		
Shouguang Liben Paper Making Co., Ltd.	Purchase of electricity and steam	Market price Authorised by the Board	8,086,265.50	0.05	8,212,268.25	0.06

(2) Guarantees provided for related parties

Guarantor	Party being guaranteed	Amounts under guarantee	Starting date of guarantee	Expiry date of guarantee	Performance of guarantee is completed
The Company	Jiangxi Chenming Paper Co., Ltd.	50,000,000.00	2009.4.22	2012.4.21	No
The Company	Jiangxi Chenming Paper Co., Ltd.	450,000,000.00	2009.12.10	2012.12.10	No
The Company	Wuhan Chenming	40,000,000.00	2010.03.08	2011.03.04	No
The Company	Huanggang Chenming Arboriculture Co., Ltd.	50,000,000.00	2009.06.03	2012.06.02	No
The Company	Huanggang Chenming Arboriculture Co., Ltd.	20,000,000.00	2010.04.29	2013.04.28	No
The Company	Huanggang Chenning Arboriculture Co., Ltd.	30,000,000.00	2010.07.08	2013.07.07	No
The Company	Shouguang Meilun Paper Co. Ltd.	529,816,000.00	2010.09.10	2013.08.10	No
The Company	Shouguang Meilun Paper Co. Ltd.	147,493,632.08	2010.11.01	2011.06.27	No
The Company	Zhanjiang Chenming Paper Pulp Co., Ltd.	2,586,414,300.00	2008.03.25	2023.03.24	No

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IX. Related party relations and transactions (Cont'd)

4. Information on related party transactions (Cont'd)

(3) Entrusted loan to subsidiaries of the Company

Unit: RMB'0000

Related party	Amount of entrusted loan incurred	Starting date	Expiry date	Explanation
Jiangxi Chenming Paper Co., Ltd.	30,000.00	2007.05.24	2017.05.25	Entrusted loan
Shouguang Chenming Art Paper Co.,Ltd	59,749.05	2010.12.03	2011.12.02	Entrusted loan
Shandong Chenming Qihe Paperboard Co., Ltd.	8,950.35	2010.12.03	2011.12.02	Entrusted loan
Huanggang Chenming Arboriculture Co., Ltd.	8,000.00	2010.01.06	2011.01.05	Entrusted loan
Fuyu Chenming Paper Co., Ltd.	9,959.90	2009.12.15	2010.12.14	Entrusted loan
Heze Chenming Panels Co., Ltd.	5,577.31	2010.01.14	2011.04.20	Entrusted loan
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	78,166.99	2010.01.27	2011.08.02	Entrusted loan
Jiangxi Chenming Paper Co., Ltd.	20,000.00	2010.04.19	2013.04.18	Entrusted loan
Shandong Chenming Panels Co., Ltd.	2,576.21	2010.12.03	2011.12.03	Entrusted loan
Qihe Chenming Panels Co., Ltd.	1,482.77	2010.12.02	2011.12.03	Entrusted loan
Wuhan Chenming Qianneng Electric Power Co., Ltd.	5,500.00	2010.04.21	2011.04.20	Entrusted loan

(4) Compensation of key management personnel

Unit: RMB'0000

Annual Remunerations	Amounts during the current period	Amounts during the prior period
Total	2,525.64	1,568.78

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IX. Related party relations and transactions (Cont'd)

5. Receivables and payables of related parties

(1) Receivables and prepayments of related parties

Unit: RMB'0000

Name of items	Closing balance		Opening balance	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable:				
安徽時代物資股份有限公司 (Anhui Shidai Resources Holdings Co. Ltd.)	1,079.13	53.96		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	56.67	2.83	113.56	5.68
Total	1,135.80	56.79	113.56	5.68
Other receivables:				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	129.09	16.65	129.09	8.33
Total	129.09	16.65	129.09	8.33

There were no prepayments of related parties during the reporting period.

(2) Payables and advances of related parties

There were no payables and advances of related parties during the reporting period.

XI Contingent items

As at 31 December 2010, it was not necessary for the Group to disclose significant contingent items.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XII. COMMITMENTS

1. Significant Commitments

(1) Capital commitments

	Closing balance	Opening balance
RMB		
Items		
Contracted but not yet recognised in the financial statements – commitments in relation to acquisition and construction of long-term assets	4,634,896,079.74	5,553,397,880.88
Total	4,634,896,079.74	5,553,397,880.88

(2) Operating lease commitments

As at the balance sheet date, the Group entered into irrevocable operating lease contracts with non-group companies as follows:

	Closing balance	Opening balance
RMB		
Name of items		
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	60,189,073.16	43,349,747.30
The second year after balance sheet date	28,385,986.80	31,564,538.27
The third year after balance sheet date	28,492,058.29	30,774,546.27
In the years thereafter	938,172,599.89	1,081,173,531.06
Total	1,055,239,718.14	1,186,862,362.90

2. Performance of commitments for the prior period

As at 31 December 2010, significant commitments had been performed by the Group.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XIII After-Balance-Sheet-Date Events

Explanation on profit distribution after the balance sheet date

As at 30 March 2011, the fifth meeting of the sixth session of the board of the Company approved the profit distribution proposal for 2010 to distribute cash dividends of RMB 618,613,782.30.

XIV. Other important explanations

1. Lease

For details on investment properties held under operation lease, please refer to note VII.10.

Remaining lease terms	Minimum lease payments
Within 1 year (including 1 year)	2,572,582.42
1-2 years	141,172.20
Total	2,713,754.62

2. Biological assets measured at fair value

Items	Opening balance	Profit or loss from change in fair value for the period	Accumulated change of fair value accounted for equity	Provision of impairment for the period	Closing balance
Consumable biological assets	496,724,568.44	54,752,250.58	89,954,847.97		726,724,974.94
Total	496,724,568.44	54,752,250.58	89,954,847.97		726,724,974.94

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company

1. Accounts receivable

Unless specified otherwise, in the notes to the financial statements, the "opening balance" and "closing balance" refer to the balances as at 1 January 2010 and 31 December 2010 respectively and the "current period" and "prior period" refer to 2009 and 2010 respectively.

(1) Accounts receivable stated according to breakdown

Breakdown	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable and bad debt provision	1,652,798,337.63	95.01	104,159,492.68	6.30	1,366,289,828.00	89.37	123,636,211.26	9.05
Accounts receivable with bad debt provision by group								
Accounts receivable aged within 2 years	75,752,870.19	4.35	4,256,709.90	5.62	151,309,437.89	9.90	8,506,292.04	5.62
Accounts receivable aged more than 2 years	10,746,015.20	0.62	9,299,662.52	86.54	10,228,140.55	0.67	9,358,032.57	91.49
Group sub-total	86,498,885.39	4.97	13,556,372.42	15.67	161,537,578.44	10.57	17,864,324.61	11.06
Single item without significant accounts receivable but with bad debt provision	358,195.26	0.02	—	—	881,581.35	0.06	—	—
Total	1,739,655,418.28	100.00	117,715,865.10	6.77	1,528,708,987.79	100.00	141,500,535.87	9.26

(2) Accounts receivable stated according to aging

Items	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,644,505,095.40	94.53	1,438,967,138.28	94.13
1 to 2 years	21,571,510.58	1.24	71,019,354.05	4.65
2 to 3 years	57,067,573.19	3.28	4,221,540.91	0.28
Over 3 years	16,511,239.11	0.95	14,500,953.55	0.94
Total	1,739,655,418.28	100	1,528,708,987.79	100

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

1. Accounts receivable (continued)

(3) Information on the provision of bad debts

- (1) Information on the provision of bad debts of single items with significant accounts receivable and bad debt provision

Details of accounts receivable	Carrying amount	Bad debt provision	Percentage of provision (%)	Reason
Types of paper	1,652,798,337.63	104,159,492.68	6.30	aging analysis
Total	1,652,798,337.63	104,159,492.68		

- (2) Accounts receivable with bad debt provision by group

Among the group, accounts receivable with bad debt provision based on the aging analysis:

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio (%)	Bad debt provision	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	72,156,953.55	83.42	3,607,847.68	132,493,034.98	82.02	6,624,651.75
1 to 2 years	3,595,916.64	4.16	359,591.66	18,816,402.91	11.65	1,881,640.29
2 to 3 years	1,446,352.65	1.67	289,270.53	1,087,634.97	0.67	217,526.99
Over 3 years	9,299,662.55	10.75	9,299,662.55	9,140,505.58	5.66	9,140,505.58
Total	86,498,885.39	100.00	13,556,372.42	161,537,578.44	100.00	17,864,324.61

- (3) Single item without significant accounts receivable but with bad debt provision as at the end of the period

Details of accounts receivable	Carrying amount	Bad debt provision	Percentage of provision (%)	Reason
Types of paper	358,195.26	—		No provision of bad debt of related parties within the scope of consolidation
Total	358,195.26			

- (4) During the current reporting period, there were no accounts receivable from shareholder units holding 5% (including 5%) or more shares with voting power in the Company.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

1. Accounts receivable (continued)

(5) Top 5 accounts receivable are set out as follows

Entities	Relationship with the Company	Amount	Aging	As a percentage of the total balance of accounts receivable (%)
Entity I	Related party within the scope of consolidation	978,541,407.22	Within 1 year	56.61
Entity II	Related party within the scope of consolidation	192,336,505.56	Within 1 year	11.13
Entity III	Non-related party	47,706,660.23	2 to 3 years	2.76
Entity IV	Non-related party	17,994,012.59	Within 1 year	1.04
Entity V	Non-related party	16,755,095.30	Within 1 year	0.97
Total		1,253,333,680.90		72.51

(6) Information on accounts receivable of the related parties

Name of units	Relationship with the Company	Amounts	Percentage of the total accounts receivable (%)
Shandong Chenming Paper Sales Company Limited	Subsidiary of the Company	978,541,407.22	56.25
Shouguang Chenming Art Paper Co., Ltd.	Subsidiary of the Company	192,336,505.56	11.06
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Subsidiary of the Company	9,161,978.88	0.53
Shouguang Meilun Paper Co., Ltd.	Subsidiary of the Company	6,112,135.10	0.35
Fuyu Chenming Paper Co., Ltd.	Subsidiary of the Company	3,054,118.53	0.18
Shandong Grand View Hotel Co., Ltd.	Subsidiary of the Company	226,195.26	0.01
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiary of the Company	132,000.00	0.01
Total		1,189,564,340.55	68.39

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables

(1) Other receivables stated according to breakdown

Breakdown	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables and bad debt provision	4,803,742,856.08	99.16	39,885,247.29	0.83	2,039,880,017.86	98.13	7,993,27.36	0.39
Other receivables with bad debt provision by group								
Other receivables aged within 2 years	2,758,118.53	0.06	172,244.01	6.24	28,226,795.77	1.36	19,008,207.57	67.34
Other receivables aged more than 2 years	15,143,251.74	0.31	8,972,454.14	59.25	7,429,754.74	0.36	6,630,034.74	89.24
Group sub-total	17,901,370.27	0.37	9,144,698.15	51.08	35,656,550.51	1.72	25,638,242.31	71.90
Single item without significant other receivables but with bad debt provision	22,867,418.63	0.47	22,407,088.63	97.99	3,218,270.43	0.15	—	—
Total	4,844,511,644.98	100	71,437,034.07	1.47	2,078,754,838.80	100	33,631,449.67	1.62

(2) Other receivables stated according to aging

Items	Closing balance		Bad debt balance	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Within 1 year	4,140,927,115.96	85.48	61,887,118.78	86.63
1 to 2 years	688,441,277.28	14.21	577,461.14	0.81
2 to 3 years	7,713,497.00	0.16	1,542,699.40	2.16
Over 3 years	7,429,754.74	0.15	7,429,754.74	10.40
Total	4,844,511,644.98	100.00	71,437,034.06	100.00

Items	Opening balance		Bad debt balance	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Within 1 year	2,058,407,292.23	99.02	23,937,311.43	71.18
1 to 2 years	8,564,681.36	0.41	580,416.16	1.73
2 to 3 years	2,869,073.13	0.14	199,930.00	0.59
Over 3 years	8,913,792.08	0.43	8,913,792.08	26.50
Total	2,078,754,838.80	100.00	33,631,449.67	100.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (continued)

(3) Information on the provision of bad debts

- (1) Information on the provision of bad debts of single items with significant other receivables and bad debt provision

Details of other receivables	Carrying amount	Bad debt provision	As Percentage of provision (%)	Reason
Bank balances	4,803,742,856.08	39,885,247.29	0.83	No bad debt was provided for the accounts receivable from related parties upon consolidation and other accounts receivable were provided for under aging analysis on individual basis.
Total	4,803,742,856.08	39,885,247.29		

- (2) Other receivables with bad debt provision by group

Among the group, other receivables with bad debt provision based on the aging analysis:

Aging	Closing balance			Opening balance		
	Book balance Amounts	Ratio (%)	Bad debt provision	Book balance Amounts	Ratio (%)	Bad debt provision
Within 1 year	2,071,356.84	11.57	103,567.84	5,238,455.42	14.69	261,922.77
1 to 2 years	686,761.69	3.84	68,676.17	22,988,340.35	64.47	18,746,284.80
2 to 3 years	7,713,497.00	43.09	1,542,699.40	999,650.00	2.80	199,930.00
Over 3 years	7,429,754.74	41.50	7,429,754.74	6,430,104.74	18.04	6,430,104.74
Total	17,901,370.27	100	9,144,698.15	35,656,550.51	100	25,638,242.31

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (continued)

(3) Information on the provision of bad debts (continued)

(3) Single item without significant other receivables but with bad debt provision at the end of the period

Details of other receivables	Book balance	Percentage of provision (%)	Bad debt provision	Reason for provision
Bank balances of related parties	460,330.00			No provision of bad debts of consolidated related parties
Other bank balances	22,407,088.63	100	22,407,088.63	Longer aging; may be unrecoverable based on past experience
Total	22,867,418.63	97.99	22,407,088.63	

(4) During the current reporting period, there were no other receivables from shareholder units holding 5% (including 5%) or more shares with voting power in the Company.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (continued)

(5) Top 5 other receivables are set out as follows

Name	Relationship with the Company	Amount	Aging	As a percentage of the total balance of accounts receivable (%)
Zhanjiang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	2,047,604,721.09	Within 1 year	42.27
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	1,296,956,018.77	Within 1 year	26.77
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	851,196,513.48	Within 1 year	17.57
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	274,699,954.60	Within 1 year	5.67
Juancheng Chenming Panels Co., Ltd.	Related party within the scope of consolidation	46,731,171.36	Within 1 year	0.96
Total		4,517,188,379.30		93.24

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (continued)

(6) Information on other receivables of the related parties

Name of units	Relationship with the Company	Amounts	As a percentage of the total balance of other receivables (%)
Zhanjiang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	2,047,604,721.09	42.27
Shouguang Meilun Paper Co. Ltd.	Related party within the scope of consolidation	1,296,956,018.77	26.77
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	851,196,513.48	17.57
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	274,699,954.60	5.67
Juancheng Chenming Panels Co., Ltd.	Related party within the scope of consolidation	46,731,171.36	0.96
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	41,466,796.21	0.86
Chibi Chenming Paper Co., Ltd.	Related party within the scope of consolidation	35,326,943.14	0.73
Heze Chenming Panels Co., Ltd.	Related party within the scope of consolidation	35,000,000.00	0.72
Xianning Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	32,663,530.00	0.67
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	24,445,022.39	0.50
Yanbian Chenming Paper Co. Ltd.	Related party within the scope of consolidation	20,156,262.43	0.42
Huanggang Chenming Paper Co., Ltd.	Related party within the scope of consolidation	13,842,200.00	0.29
Zhanjiang Chenming Forestry Development Co., Ltd.	Related party within the scope of consolidation	7,000,000.00	0.14
Hailaer Chenming Paper Co., Ltd.	Related party within the scope of consolidation	4,194,485.63	0.09
Yangjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	3,000,000.00	0.06
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Related party within the scope of consolidation	2,492,142.92	0.05
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Associate enterprise of the Company	1,290,901.12	0.03
Total		4,738,048,663.14	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments

(1) Types of long term equity investments

Items	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Investment in subsidiaries	4,010,685,807.88	1,880,000,000.00		5,890,685,807.88
Investment in associate enterprises	58,033,225.56		13,863,141.44	44,170,084.12
Other equity investments	24,950,000.00	1,000,000.00	1,000,000.00	24,950,000.00
Less: impairment provision for long term equity investments	1,998,538.07		80,385.84	1,918,152.23
Total	4,091,670,495.37	1,881,000,000.00	14,782,755.60	5,957,887,739.77

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments (Cont'd)

(2) Breakdown of long-term equity investments

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /Deduction	Closing balance
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Cost method	202,824,716.34	202,824,716.34		202,824,716.34
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Cost method	376,200,000.00	376,200,000.00		376,200,000.00
Shandong Chenming Power Supply Holdings Co., Ltd.	Cost method	157,810,117.43	157,810,117.43		157,810,117.43
Chibi Chenming Paper Co., Ltd.	Cost method	26,270,460.90	26,270,460.90		26,270,460.90
Yanbian Chenming Paper Co., Ltd.	Cost method	40,083,733.01	40,083,733.01		40,083,733.01
Hailaer Chenming Paper Co., Ltd.	Cost method	12,000,000.00	12,000,000.00		12,000,000.00
Jiangxi Chenming Paper Co., Ltd.	Cost method	697,548,406.40	697,548,406.40		697,548,406.40
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Cost method	7,199,000.00	7,199,000.00		7,199,000.00
Jilin Chenming Paper Co., Ltd.	Cost method	1,501,350,000.00	1,501,350,000.00		1,501,350,000.00
Juancheng Chenming Panels Co., Ltd.	Cost method	15,000,000.00	15,000,000.00		15,000,000.00
Shandong Grand View Hotel Co., Ltd.	Cost method	80,500,000.00	80,500,000.00		80,500,000.00
Zhanjiang Chenming Paper Pulp Co., Ltd.	Cost method	500,000,000.00	500,000,000.00	300,000,000.00	800,000,000.00
Chenming (HK) Limited	Cost method	783,310.00	783,310.00		783,310.00
Shouguang Chenming Modern Logistic Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00
Shouguang Chenming Art Paper Co., Ltd.	Cost method	113,616,063.80	113,616,063.80		113,616,063.80
Fuyu Chenming Paper Co., Ltd.	Cost method	208,000,000.00	208,000,000.00		208,000,000.00
Xianning Chenming Arboriculture Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00
Huanggang Chenming Paper Co., Ltd.	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Huanggang Chenming Arboriculture Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments (Cont'd)

(2) Breakdown of long-term equity investments (Cont'd)

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /Deduction	Closing balance
Shouguang Meilun Paper Co. Ltd.	Cost method	20,000,000.00	20,000,000.00	1,480,000,000.00	1,500,000,000.00
Shouguang Shun Da Customs Declaration Co, Ltd.	Cost method	1,500,000.00	1,500,000.00		1,500,000.00
Shandong Chenming Paper Sales Company Limited	Cost method			100,000,000.00	100,000,000.00
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	18,826,749.91	-2,146,119.62	16,680,630.29
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	32,610,827.22	-10,959,327.37	21,651,499.85
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Equity method	900,000.00	900,000.00		900,000.00
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	5,695,648.43	-757,694.45	4,937,953.98
Weifang Venture Capital Co., Ltd.	Cost method	1,000,000.00	1,000,000.00	-1,000,000.00	
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00		200,000.00
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00		2,000,000.00
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00		350,000.00
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd	Cost method	1,400,000.00	1,400,000.00		1,400,000.00
安徽時代物資股份有限公司	Cost method			1,000,000.00	1,000,000.00
Total			4,093,669,033.44	1,866,136,858.56	5,959,805,892.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments (Cont'd)

(2) Breakdown of long-term equity investments (Cont'd)

Name of investee entity	Percentage of shareholding in investee entity (%)	Percentage of the voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonus
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	50.93	50.93				81,488,000.00
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	100	100				
Shandong Chenming Power Supply Holdings Co., Ltd.	86.71	86.71				108,769,576.86
Chibi Chenming Paper Co., Ltd.	51	51				
Yanbian Chenming Paper Co., Ltd.	76.75	76.75				147,016,842.86
Hailaer Chenming Paper Co., Ltd.	75	75				
Jiangxi Chenming Paper Co., Ltd.	51	51				25,500,000.00
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	68	68				
Jilin Chenming Paper Co., Ltd.	100	100				
Juancheng Chenming Panels Co., Ltd.	100	100				
Shandong Grand View Hotel Co., Ltd.	70	70				
Zhanjiang Chenming Paper Pulp Co., Ltd.	100	100				
Chenming (HK) Limited	100	100				21,119,060.00
Shouguang Chenming Modern Logistic Co., Ltd.	100	100				
Shouguang Chenming Art Paper Co., Ltd.	75	75				
Fuyu Chenming Paper Co., Ltd.	100	100				
Xianning Chenming Arboriculture Co., Ltd.	100	100				
Huanggang Chenming Paper Co., Ltd.	100	100				
Huanggang Chenming Arboriculture Co., Ltd.	100	100				

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments (Cont'd)

(2) Breakdown of long-term equity investments (Cont'd)

Name of investee entity	Percentage of shareholding in investee entity (%)	Percentage of the voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonus
Shouguang Meilun Paper Co. Ltd.	100	100				
Shouguang Shun Da Customs Declaration Co, Ltd.	100	100				
Shandong Chenming Paper Sales Company Limited	100	100				
Shouguang Liben Paper Making Co., Ltd.	26.40	26.40				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	30	30				
Qingzhou Chenming Denaturation Amylum Co., Ltd.	30	30		900,000.00		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21.16	21.16				
Weifang Venture Capital Co., Ltd.	—	—		80,385.84	-80,385.84	
Shandong Paper Making & Printing Enterprises Corporation	2.00	2.00		200,000.00		
Zhejiang Province Guangyu Media Printing Company Limited	9.96	9.96				
Jinan Shangyou Commercial Company Limited	5.00	5.00		350,000.00		
Shouguang Mihe Water Company Limited	19.46	19.46				
Shanghai Forest & Paper E-Commerce Co., Ltd	14.00	14.00		468,152.23		
安徽時代物資股份有限公司	10.00	10.00				
Total				1,998,538.07	-80,385.84	383,893,479.72

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

3. Long-term equity investments (Cont'd)

(3) Breakdown of impairment provision of long term equity investments

Items	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Qingzhou Chenming Denaturation Amylum Co., Ltd.	900,000.00			900,000.00
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00
Weifang Venture Capital Co., Ltd.	80,385.84		80,385.84	—
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23			468,152.23
Total	1,998,538.07		80,385.84	1,918,152.23

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

4. Operating Revenue and Operating Costs

(1) Operating revenue and operating costs

	Incurred during the current period	Incurred during the prior period
Operating revenue from principal operations	13,608,918,924.77	12,839,020,998.17
Revenue from other operations	350,726,288.57	518,957,214.43
Total operating revenue	13,959,645,213.34	13,357,978,212.60
Operating costs from principal operations	11,438,120,302.94	11,138,783,584.09
Costs of other operations	319,866,108.73	480,950,981.72
Total operating costs	11,757,986,411.67	11,619,734,565.81

(2) Principal operations (by industry)

Products	Incurred during the current period		Incurred during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Machine-made paper	13,152,125,384.31	11,038,128,469.34	12,608,435,463.26	11,000,256,296.99
Electricity and steam supply	456,793,540.46	399,991,833.60	230,585,534.91	138,527,287.10
Total	13,608,918,924.77	11,438,120,302.94	12,839,020,998.17	11,138,783,584.09

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

5. Investment Income

(1) Breakdown of investment income

Name of investee entity	Incurred during the current period	Incurred during the prior period
Gain from long-term equity investments accounted for using the cost method	383,893,479.72	116,988,000.00
Gain from long-term equity investments accounted for using the equity method	-13,863,141.44	-15,689,081.65
Investment gain on disposal of long-term equity investments	100,385.84	
Interest income from entrusted loans	113,758,706.80	91,520,754.27
Total	483,889,430.92	192,819,672.62

Note: There are no significant restrictions on remittance of investment gains back to the Company.

(2) Gains on long-term equity investment accounted for using cost method

Name of investee entity	Incurred during the current period	Incurred during the prior period
Shandong Chenming Power Supply Holdings Co., Ltd.	108,769,576.86	
Wuhan Chenming Hanyang Paper Holdings Co., Ltd	81,488,000.00	81,488,000.00
Yanbian Chenming Paper Co., Ltd	147,016,842.86	
Jiangxi Chenming Paper Co., Ltd.	25,500,000.00	25,500,000.00
Chenming (HK) Limited	21,119,060.00	
Weifang Venture Capital Co., Ltd.	100,385.84	
Chibi Chenming Paper Co., Ltd.		10,000,000.00
Total	383,993,865.56	116,988,000.00

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

5. Investment Income (continued)

(3) Gain from long-term equity investments accounted for using the cost method

Name of investee entity	Incurred during the current period	Incurred during the prior period	Reasons for change
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	-10,959,327.37	-15,868,038.28	Investee's loss for the current period
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-757,694.45	-304,351.57	Investee's loss for the current period
Shouguang Liben Paper Making Co., Ltd.	-2,146,119.62	483,308.20	Investee's loss for the current period
Total	-13,863,141.44	-15,689,081.65	

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XV. Notes of the major financial statements' items of the company (Cont'd)

6. Supplementary information on cash flow statements

Supplementary Information	Amounts for the current period	Amounts for the prior period
1. Reconciliation of net profits as cash flows from operating activities:		
Net profit	1,395,816,335.00	814,521,969.57
Add: Provision for impairment of assets	14,020,913.64	21,603,609.33
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive biological-assets	588,144,762.31	643,800,381.80
Amortisation of intangible assets	7,977,892.17	9,162,240.14
Long-term prepaid expenses	—	—
Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is shown as "-")	33,788,191.33	-5,980,778.45
Loss from retired fixed assets (gain is shown as "-")	—	—
Loss from change in fair value (gain is shown as "-")	-6,450,000.00	6,450,000.00
Financial expenses (gain is shown as "-")	262,396,581.31	337,805,310.28
Investment losses (gain is shown as "-")	-483,889,430.92	-192,819,672.62
Decrease in deferred income tax assets (increase is shown as "-")	13,174,219.25	5,126,271.74
Increase in deferred income tax debt (decrease is shown as "-")	—	—
Decrease in stock (gain is shown as "-")	103,024,051.89	770,881,606.07
Decrease in operating receivables (increase is shown as "-")	-2,634,300,205.14	-2,354,401,149.66
Increase in operating payables (decrease is shown as "-")	-463,899,648.61	112,207,917.98
Others	—	—
Net cash flows from operating activities	-1,170,196,337.77	168,357,706.18
2. Major investments and financing activities not involving cash settlements:		
Capital converted from debts	—	—
Convertible bonds of the Company due within one year	—	—
Finance leases of fixed assets	—	—
3. Net change in cash and cash equivalents:		
Cash balance at the end of the period	662,209,607.29	1,586,045,998.83
Less: cash balance at the beginning of the period	1,586,045,998.83	2,080,005,634.40
Add: cash equivalents as at the end of the period	—	—
Less: cash equivalents as at the beginning of the period	—	—
Net increase in cash and cash equivalents	-923,836,391.54	-493,959,635.57

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XVI. SUPPLEMENTARY INFORMATION

1. Breakdown of extraordinary gains and losses

	Unit: RMB	
Items	Amounts in the current period	Amounts in the prior period
Profit or loss from disposal of non-current assets	-5,495,594.30	1,848,949.50
Government grants accounted for in profit and loss account of the current period (except for government grants closely related to the corporate business that were given under at a fixed standard amount or quantity as stipulated by the State)	96,530,256.72	140,290,327.67
Profit or loss arising from investment costs for acquisition of subsidiary, associated corporation and joint-venture by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition		10,490,441.40
Net gains and losses from debt restructuring	54,841.22	329,236.08
Except for effective hedging business conducted over the course of ordinary operation of the Company, profit or loss arising from fair value change in financial assets held for trading and financial liabilities held for trading, as well as investment gains from disposal of financial assets held for trading and financial liabilities held for trading and available-for-sale financial assets	1,521,172.98	8,443,100.00
Reversal of impairment provision on receivables tested for impairment on individual basis		1,085,771.23
Gains or losses from changes in fair value of biological assets adopting fair value method for follow-up measurements	54,752,250.58	9,868,745.48
Non-operating gains and losses other than the above items	5,913,389.74	17,948,671.99
Sub-total	153,276,316.94	190,305,243.35
Effect of income tax	-4,961,885.60	-53,698,195.03
Effect of minority interests (after tax)	-19,207,126.59	-15,762,110.00
Total	129,107,304.75	120,844,938.32

Note: In respect the figures of extraordinary gains and losses, "+" refer to gains or incomes, "-" refer to losses or expenditures.

The Group's recognition of non-recurring items is in accordance with the regulations of "No.1 Interpretation - Non-recurring profit or loss on Disclosure of Companies with Public Offering of Securities" (CSRC [2008] No. 43).

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XVI. SUPPLEMENTARY INFORMATION (Cont'd)

2. Differences in accounting data between domestic and overseas accounting standards

- (1) The differences between net profit and net assets as disclosed in the financial statements prepared in accordance with IFRS and China Accounting Standards simultaneously

Items	Net profit		Net assets	
	Amounts in the current period	Amounts in the prior period	Closing balance	Opening balance
Per China Accounting Standards	1,301,658,119.07	953,911,430.22	15,260,199,006.50	14,737,060,822.15
Receipt of special funds	32,492,567.06	32,492,567.06	-279,963,111.77	-312,455,678.83
Capitalisation of foreign exchange gains and losses on project loans	2,966,916.01	2,966,916.01	-13,923,684.81	-16,890,600.82
Per IFRS	1,337,117,602.14	989,370,913.29	14,966,312,209.92	14,407,714,542.50

- (2) In years prior to 2006, according to the principles of the PRC Accounting Standards of Business Enterprises (ASBEs), the Group will receive special funds related to construction of relevant fixed assets which are included in capital reserve. However, according to IAS, the Group will account for special funds under deferred income and be amortised by instalments over the useful lives of fixed assets.

The above differences were all incurred in years prior to 2006; the management believes such differences in accounting principles will gradually be eliminated in future years.

3. Return on net assets and earnings per share

Profit during the reporting period	Weighted average return on assets	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to holders of ordinary shares of the Company	8.80%	0.56	0.56
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	7.87%	0.50	0.50

Note: (1) Weighted average return on assets = Net profit attributable to holders of ordinary shares in the current period/(Equity attributable to holders of ordinary shares at the beginning of period + Net profit attributable to holders of ordinary shares in the current period/2 - Cash dividend in the current period*(12- Dividend months)/12).

- (2) See Note VII. 47 for the calculation of basic earnings per share and diluted earnings per share.

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XVI. SUPPLEMENTARY INFORMATION (Cont'd)

4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group

(1) Items in balance sheet:

- (1) The amount of closing balance of monetary funds as at 31 December 2010 was RMB1,951,854,940.72, decreased by 32.53% as compared with the opening balance, mainly due to a significant increase in the Group's investment in construction in progress in the current period, which resulted the decrease in monetary fund as compared with the beginning of the year;
- (2) Held-for-trading financial assets and held-for-trading financial liabilities as at 31 December 2010 was Nil of the closing balance due to the expiry of the future polling foreign exchange contract of Chenming (HK) Limited, a subsidiary of the Group;
- (3) The closing balance of the remaining accounts receivable as at 31 December 2010 amounted to RMB2,122,578,824.27, increased by 38.82% as compared with the opening balance, an increase in the accounts receivable was mainly due to a significant increase in the Group's operating revenue of the current year;
- (4) The closing balance of inventory as at 31 December 2010 amounted to RMB3,047,078,215.01, increased by 36.85% as compared with the opening balance, mainly due to an increase in the Group's production and sales in the year with a higher price of raw materials as compared with the last year, which resulted in an increase in raw materials and finished goods;
- (5) The closing balance of other receivable as at 31 December 2010 amounted to RMB117,634,380.52, increased by 44.85% as compared with the opening balance, mainly due to an increase in the advanced customs duty paid by the Group's subsidiaries for the projects;
- (6) The closing balance of other current assets as at 31 December 2010 amounted to RMB658,572,125.34, increased by 625.65% as compared with the opening balance, mainly due to an increase in the Group's construction in progress and a significant increase in the input tax of the equipment procurement, which resulted in a significant increase in the input tax of non-credited value added tax;
- (7) The closing balance of construction in progress as at 31 December 2010 amounted to RMB7,871,512,563.84, increased by 293.98% as compared with the opening balance, mainly due to an increase in investments in the Group's major investment projects: the 800,000-tonne copperplate paper project, 98,000-tonne household paper project and 700,000-tonne pulp production line project of Shouguang Meilun Paper Co. Ltd. and Zhanjiang Chenming Paper Pulp Co., Ltd.;
- (8) The closing balance of biological assets as at 31 December 2010 amounted to RMB726,742,568.44, increased by 46.31% as compared with the opening balance, mainly due to purchase and growing of timber by the Company and change in their fair value;
- (9) The closing balance of intangible assets as at 31 December 2010 amounted to RMB1,459,453,227.94, increased by 11.12% as compared with the opening balance, mainly due to an increase in the land use rights in the current period;
- (10) The closing balance of long-term prepaid expenses as at 31 December 2010 amounted to RMB176,436,950.42, increased by 444.36% as compared with the opening balance, mainly due to a significant increase in the forestry charge in the current period;

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XVI. SUPPLEMENTARY INFORMATION (Cont'd)

4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)

(1) Items in balance sheet: (Cont'd)

- (11) The closing balance of short-term borrowings as at 31 December 2010 amounted to RMB3,594,157,220.47, increased by 15.82% as compared with the opening balance, mainly due to an increase in the investment in the construction in progress of the current period;
- (12) The closing balance of non-current liabilities due within one year as at 31 December 2010 amounted to RMB1,432,841,463.15, increased by 314.89% as compared with the opening balance, mainly because of an increase in the long-term borrowings due within one year;
- (13) The closing balance of other current liabilities as at 31 December 2010 amounted to RMB3,412,493,915.88, as compared with nil opening balance, mainly because of the issuance of short-term debentures in the year;
- (14) The closing balance of deferred income tax liabilities as at 31 December 2010 amounted to RMB1,340,281.66, decreased 89.20% as compared with the opening balance, mainly because the provision of deferred income tax liabilities by the subsidiaries of growing timber which would be eligible for tax exemption policy has been reversed in the year;
- (15) The closing balance of long-term borrowings as at 31 December 2010 amounted to RMB4,725,628,719.05, decreased 7.11% as compared with the opening balance, mainly because long-term borrowings due within one year were reclassified as non-current liabilities due within one year, and the investment in construction projects resulted in an increase in a portion of long-term borrowings;
- (16) The closing balance of other non-current liabilities as at 31 December 2010 amounted to RMB2,427,897,545.67, increased 85.14% as compared with the opening balance, mainly because of an increase in the issuance of medium-term notes in the year;

XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

XVI. SUPPLEMENTARY INFORMATION (Cont'd)

4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)

(2) Items in income statement:

- (1) Operating revenue incurred in 2010 amounted to RMB17,203,123,029.49, increased by 15.58% as compared to the prior period, mainly due to an increase in sales prices in the year under the influence of the changes in market condition;
- (2) Operating cost incurred in 2010 amounted to RMB13,683,001,460.32, increased by 13.48% as compared to the prior period, mainly due to the price rise in raw materials as well as the increased labour cost in the year;
- (3) Selling and distribution expenses incurred in 2010 amounted to RMB873,779,193.05, increased by 12.79% as compared to the prior period, mainly due to the higher transportation costs, handling charges and salaries;
- (4) General and administrative expenses incurred in 2010 amounted to RMB871,138,204.71, increased by 19.93% as compared to the prior period, mainly due to the higher technical development costs and salaries;
- (5) Finance expenses incurred in 2010 amounted to RMB233,455,658.10, decreased by 25.34% as compared to the prior period, mainly due to an increase in exchange gain resulting from the higher exchange rate of RMB, and the decrease in interests from short-term debentures bearing low interests issued in the year;
- (6) Loss on impairment of assets incurred in 2010 amounted to RMB110,419,785.04, increased by 539.12% as compared to the prior period, mainly due to an increase in accounts receivable caused by a higher sales revenue, therefore bad debt provision of accounts receivable was increase accordingly under the Group's accounting policy of bad debt provision, as well as the larger impairment provided for the machinery and equipment of the suspended subsidiaries;
- (7) Non-operating expenses incurred in 2010 amounted to RMB50,814,216.46, increased by 346.46% as compared to the prior period, mainly due to the increased loss on the disposal of fixed assets in the year.

Shandong Chenming Paper Holdings Limited
28 March 2011

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHANDONG CHENMING PAPER HOLDINGS LIMITED 山東晨鳴紙業集團股份有限公司 (established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shandong Chenming Paper Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 234 to 297, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

30 March 2011

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	6	17,099,703	14,815,253
Cost of sales		(13,616,777)	(11,998,392)
Gross profit		3,482,926	2,816,861
Other income	7	234,160	306,642
Distribution expenses		(873,779)	(774,686)
Administrative expenses		(915,343)	(637,615)
Other expenses	9	(70,450)	(139,591)
Gain on change in fair value of derivative financial instruments		1,521	8,443
Gain on change in fair value less costs to sell of biological assets		54,752	9,869
Impairment loss on property, plant and equipment	16	(22,480)	(4,506)
Reversal of allowance for inventories		3,027	22,677
Profit from operations		1,894,334	1,608,094
Finance costs	10	(282,657)	(384,023)
Share of results of associates		(13,863)	(15,689)
Profit before tax		1,597,814	1,208,382
Income tax expense	11	(260,696)	(219,011)
Profit for the year	12	1,337,118	989,371
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		(855)	(21)
Total comprehensive income for the year		1,336,263	989,350
Profit for the year attributable to:			
Owners of the Company		1,190,339	862,946
Non-controlling interests		146,779	126,425
		1,337,118	989,371
Total comprehensive income for the year attributable to:			
Owners of the Company		1,189,484	862,925
Non-controlling interests		146,779	126,425
		1,336,263	989,350
Earnings per share			
– Basic	15	RMB0.58	RMB0.42

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	16	20,815,777	15,514,870
Prepaid lease payments	17	1,559,033	1,275,915
Investment properties	18	24,688	26,427
Interests in associates	20	43,270	57,133
Available-for-sale investments	21	23,932	23,851
Goodwill	22	20,284	20,284
Biological assets	23	726,743	496,725
Deferred tax assets	32	147,510	131,426
		23,361,237	17,546,631
Current assets			
Inventories	24	3,047,078	2,226,579
Trade and other receivables	25	6,584,712	5,380,105
Prepaid lease payments	17	49,701	38,571
Derivative financial instruments	26	—	14,900
Current tax assets		6,549	26,425
Pledged bank deposits	27	96,619	525,589
Bank and cash balances	27	1,855,236	2,367,334
		11,639,895	10,579,503
Current liabilities			
Trade and other payables	28	4,165,091	3,570,370
Borrowings	29	5,026,999	3,448,507
Debentures	30	3,404,884	—
Income tax payable		63,216	39,410
Dividend payable		—	79
Deferred income	31	26,069	24,349
Derivative financial instruments	26	—	6,450
		12,686,259	7,089,165
Net current (liabilities)/assets		(1,046,364)	3,490,338
Total assets less current liabilities		22,314,873	21,036,969

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Borrowings	29	4,725,629	5,087,424
Debentures	30	2,285,483	1,189,484
Deferred income	31	336,109	339,938
Deferred tax liabilities	32	1,340	12,409
		7,348,561	6,629,255
NET ASSETS		14,966,312	14,407,714
Capital and reserves			
Share capital	33	2,062,046	2,062,046
Reserves		11,180,848	10,609,969
Equity attributable to owners of the Company		13,242,894	12,672,015
Non-controlling interests		1,723,418	1,735,699
TOTAL EQUITY		14,966,312	14,407,714

Approved by the Board of Directors on 30 March 2011

Yin Tongyuan
Director

Li Feng
Director

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company						Total	Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserves	Discretionary surplus reserve	Translation reserve	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	2,062,046	5,765,795	825,360	117	880	3,257,994	11,912,192	1,744,777	13,656,969
Total comprehensive income for the year	—	—	—	—	(21)	862,946	862,925	126,425	989,350
Dividends recognised as distribution	—	—	—	—	—	(103,102)	(103,102)	—	(103,102)
Transfer of reserves	—	—	81,452	—	—	(81,452)	—	—	—
Transfer of reserve upon recognition of deferred income (note a)	—	18,061	—	—	—	(18,061)	—	—	—
Distributions made by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(141,002)	(141,002)
Acquisition of subsidiaries	—	—	—	—	—	—	—	5,499	5,499
Change in equity for the year	—	18,061	81,452	—	(21)	660,331	759,823	(9,078)	750,745
At 31 December 2009	2,062,046	5,783,856	906,812	117	859	3,918,325	12,672,015	1,735,699	14,407,714
Total comprehensive income for the year	—	—	—	—	(855)	1,190,339	1,189,484	146,779	1,336,263
Dividends recognised as distribution	—	—	—	—	—	(618,614)	(618,614)	—	(618,614)
Transfer of reserves	—	—	139,582	—	—	(139,582)	—	—	—
Transfer of reserve upon recognition of deferred income (note a)	—	18,061	—	—	—	(18,061)	—	—	—
Distributions made by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(159,041)	(159,041)
Purchase of non-controlling interests (note b)	—	9	—	—	—	—	9	(19)	(10)
Change in equity for the year	—	18,070	139,582	—	(855)	414,082	570,879	(12,281)	558,598
At 31 December 2010	2,062,046	5,801,926	1,046,394	117	4	4,332,407	13,242,894	1,723,418	14,966,312

Notes:

- (a) The Group obtained government grants in relation to the construction of property, plant and equipment of the Group from the local municipal governments. The grants were recorded as deferred income in the consolidated statement of financial position and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets. In accordance with the terms of the grants, the relevant amounts were transferred from retained earnings to capital reserve during the year as it cannot be distributed before winding up.
- (b) During the year, the Group acquired 2% interests in a 98% subsidiary from the non-controlling shareholders at a cash consideration of RMB10,000. The gain on acquisition was recognised directly in equity.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,597,814	1,208,382
Adjustments for:		
Share of results of associates	13,863	15,689
Interest income	(21,817)	(85,355)
Finance costs	282,657	384,023
Depreciation of property, plant and equipment	1,159,032	1,212,428
Depreciation of investment properties	1,739	1,738
Release of lease payment charge	36,557	29,657
Release of government grants	(37,446)	(34,119)
Loss/(gain) on disposal/write off of property, plant and equipment	5,496	(1,848)
Impairment loss on property, plant and equipment	22,480	4,506
Allowances for bad and doubtful debts	90,967	35,448
Reversal of allowances for inventories	(3,027)	(22,677)
Gain on change in fair value of derivative financial instruments	(1,521)	(8,443)
Gain on change in fair value less costs to sell of biological assets	(54,752)	(9,869)
Net exchange loss	—	791
Gain on disposal of available-for-sale investment	(101)	—
Discount on acquisition of interests in subsidiaries	—	(10,490)
Operating cash flows before movements in working capital	3,091,941	2,719,861
Proceeds on disposal of derivatives	9,971	—
(Increase)/decrease in inventories	(817,472)	1,120,253
Increase in biological assets	(166,316)	(168,077)
Increase in trade and other receivables	(1,282,374)	(1,941,563)
Increase in trade and other payables	236,929	10,434
Cash generated from operations	1,072,679	1,740,908
Income tax paid	(244,167)	(187,231)
Interest received	21,817	85,355
Net cash generated from operating activities	850,329	1,639,032

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,148,890)	(1,993,032)
Increase in prepaid lease payments	(358,760)	(239,637)
Investment in associates	—	(6,000)
Proceeds on disposal of available-for-sale investments	1,020	2,000
Decrease/(increase) in pledged bank deposits	428,970	(359,750)
Proceeds on disposal of property, plant and equipment	68,619	34,083
Proceeds on disposal of prepaid lease payment	19,005	6,335
Government grants received	35,337	68,939
Purchase of available-for-sale investments	(1,000)	—
Net cash outflow arising from acquisition of subsidiaries	—	(7,132)
Net cash used in investing activities	(5,955,699)	(2,494,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of additional interests in subsidiaries from non-controlling shareholders of subsidiaries	(10)	—
New borrowings raised	6,322,267	11,232,280
Borrowings repaid	(5,104,911)	(9,335,174)
Proceeds from issuance of debentures	4,400,000	1,200,000
Expense incurred in connection with the issuance of debentures	(23,100)	(10,800)
Repayment of debentures	—	(1,900,000)
Interest paid	(225,507)	(440,086)
Dividends paid to owners of the Company	(618,614)	(103,059)
Dividends paid to non-controlling shareholders of subsidiaries	(147,259)	(105,780)
Net cash generated from financing activities	4,602,866	537,381
NET DECREASE IN CASH AND CASH EQUIVALENTS	(502,504)	(317,781)
Effect of foreign exchange rate changes	(9,594)	(2,464)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,367,334	2,687,579
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,855,236	2,367,334
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	1,855,236	2,367,334

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL

Shandong Chenming Paper Holdings Limited (the "Company") is a joint stock company established in the People's Republic of China (the "PRC") in May 1993. The Company's B Shares and A Shares have been listed on the Shenzhen Stock Exchange since 1997 and 2000 respectively, and its H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since June 2008. Its registered office is located at No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC.

The ultimate holding company of the Company is State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產管理局) and the parent company of the Company is Shouguang Chenming Holdings Co., Ltd., which is also established in the PRC.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in manufacture and sale of paper products, construction materials, chemical products, arboriculture of tree and sale of electricity and steam. The activities of principal subsidiaries are set out in note 19.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

In the current year, the Group has early adopted the partial exemption of disclosing related party transactions for government-related entities in IAS 24 (Revised) "Related Party Disclosures". IAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

- a government that has control, joint control or significant influence over the entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the followings:

- the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and
- the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - i. the nature and amount of each individually significant transaction; and
 - ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

The partial exemption in IAS 24 (Revised) has been applied retrospectively.

The Group has not applied other new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The Group had net current liabilities of approximately RMB1,046 million as at 31 December 2010 mainly because of maturity of certain bank borrowings and debentures in coming year. As disclosed in note 36 to the financial statements, the Group has capital commitments of approximately RMB9,985 million as at 31 December 2010. The directors are of the opinion that, taking into account the Group's presently available credit facilities and internal financial resources, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from 31 December 2010. Hence, the financial statements have been prepared on a going concern basis.

These financial statements have been prepared under the historical cost convention, as modified by biological assets, investments and derivatives which are carried at their fair values less costs to sell or fair values as appropriate.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Consolidation (Cont'd)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (z) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the major operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Property, plant and equipment

Buildings comprise mainly factories and offices. All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The useful lives are as follows:

Buildings	20 - 40 years
Plant and machinery	8 - 20 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 - 8 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 20 years.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(k) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out in notes 3(o) - 3(q) below.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(r) Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value.

Changes in the fair value of derivatives are recognised in profit or loss as they arise.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from sale of electricity are recognised when electricity are generated and transmitted to the power grid operated by the local electric power company.

Revenue from sale of steam is based upon output delivered at rates specified under contract terms.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution state-managed retirement benefit schemes which are available to all eligible employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) Biological assets

The Group is involved in the agricultural activities of the transformation of biological assets (trees) into agricultural produce (felled trees). The trees are measured at fair value less costs to sell at initial recognition and at the end of each reporting period. The fair value of the trees is determined based on the present value of expected net cash flows from the trees with reference to their growing conditions. Gain or loss on initial recognition and from subsequent changes in fair value less costs to sell is included in profit or loss for the period in which it arises.

The felled trees are initially measured at their fair value less costs to sell at the time of harvest. The fair value of the felled trees is determined based on market prices in the local area. Gain on initial recognition at fair value less costs to sell is included in profit or loss for the period in which it arises.

The fair value less costs to sell at the time of harvest of the felled trees becomes their cost for the measurement of inventories. Such inventories are subsequently stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(w) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(w) Government grants (Cont'd)

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately in profit or loss. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant is recognised immediately in profit or loss.

(x) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(y) Related parties

A party is related to the Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(z) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(ab) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGMENTS AND KEY ESTIMATION

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

(b) Income taxes

The Group is subject to income taxes in different regions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

4. CRITICAL JUDGMENTS AND KEY ESTIMATION (Cont'd)

Key sources of estimation uncertainty (Cont'd)

(c) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of judgment and estimates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 22.

(e) Allowance for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate has been changed.

(f) Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

(g) Biological assets

The Group has appointed an independent professional valuer to assess the fair values of the biological assets. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(h) Deferred tax assets

The Group assesses annually whether to recognise the deferred tax assets. Where it is probable that there are sufficient taxable profits or temporary differences available in the future, a deferred tax asset will be recognised. Where the expectation is different from the original estimate, such difference will impact carrying value of deferred tax assets in the year in which such estimate has been changed.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currency of the Company and its major subsidiaries is RMB as the primary economic environment in which the Company and majority of other group entities operate is the PRC. However, certain borrowings, bank balances, trade receivables and payables of the Group are denominated in foreign currencies and the Group also entered into certain foreign exchange forward contracts involving USD, therefore, the Group is exposed to foreign currency risk.

The major amounts denominated in a currency other than the functional currency of the Group entities is USD and the monetary assets and liabilities of the Group denominated in USD as at the end of the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Trade and other receivables	352,735	301,348
Bank balances	304,501	434,454
Pledged bank deposits	816	1,215
Trade and other payables	(660,010)	(674,123)
Borrowings	(4,714,196)	(2,217,581)

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the RMB spot exchange rate against USD, with all other variables being held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for the change in foreign currency rates:

	Possible change in exchange rate of 5%	
	2010 RMB'000	2009 RMB'000
Increase (decrease) in profit after tax		
– if RMB weaken against foreign currency	(183,881)	(75,943)
– if RMB strengthen against foreign currency	183,881	75,943

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Interest rate risk

Fair value interest rate risk

The fair value interest rate risk of the Group relates primarily to fixed-rate bank deposits, borrowings and debentures. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Cash flow interest rate risk

The cash flow interest rate risk of the Group relates primarily to variable-rate bank borrowings and borrowings from International Finance Corporation ("IFC"), a non-controlling shareholder of a subsidiary.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the interest rate of the variable-rate bank borrowings and borrowings from IFC, with all other variables in particular foreign currency rates, remain constant and assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. 100 basis points ("bp") is the sensitivity rate used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	100 bp increase		100 bp decrease	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
(Decrease)/increase in profit for the year	(53,026)	(47,369)	53,026	47,369

(c) Price risk

The Group is exposed to equity price risk through its investment in equity securities with carrying value of RMB23,932,000 (2009: RMB23,851,000) as at 31 December 2010 which was classified as available-for-sale investments at the end of the reporting period. Sensitivity analysis for price risk is not presented as the available-for-sale financial assets as at 31 December 2010 and 2009 are made up of unlisted equity securities which are measured at cost less impairment.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Credit risk

The credit risk of the Group is primarily attributable to its trade and other receivables. At the end of the reporting period, the maximum exposure to credit risk of which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors is the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debts at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the credit risk of the Group is significantly reduced.

No single customer accounted for more than 10% of the total revenue and trade receivable balance of the Group during the year, in this regard, the directors consider that the Group have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rating assigned by international credit-rating agencies.

(e) Liquidity risk

The Group relies on bank borrowings and issuance of debentures as a significant source of liquidity. For the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the loan covenant throughout the year.

The following tables detail the contractual maturity for financial liabilities of the Group. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2010							
Borrowings							
– fixed-rate	4.21	2,096,493	–	–	–	2,096,493	2,090,983
– variable-rate (note)	3.35	3,175,400	1,374,935	1,141,820	3,071,661	8,763,816	7,661,645
Debentures	4.23	3,515,790	1,311,090	1,150,490	–	5,977,370	5,690,367
Trade and other payables	–	3,754,847	–	–	–	3,754,847	3,754,847
Total		12,542,530	2,686,025	2,292,310	3,071,661	20,592,526	19,197,842

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. FINANCIAL RISK MANAGEMENT (Cont'd)

(e) Liquidity risk (Cont'd)

	Weighted average effective interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2009							
Borrowings							
– fixed-rate	4.35	2,363,583	23,376	580,719	—	2,967,678	2,899,151
– variable-rate (note)	3.57	1,292,186	2,103,642	1,980,854	882,012	6,258,694	5,636,780
Debentures	5.38	60,600	60,600	1,260,600	—	1,381,800	1,189,484
Trade and other payables	—	3,286,042	—	—	—	3,286,042	3,286,042
Dividend payable	—	79	—	—	—	79	79
Derivative financial instruments		6,450	—	—	—	6,450	6,450
Total		7,008,940	2,187,618	3,822,173	882,012	13,900,743	13,017,986

Note: The contractual payments in respect of variable-rate bank and other loans are calculated based on the outstanding market rates as at the end of the reporting period.

(f) Categories of financial instruments at 31 December 2010

The carrying amounts of each of the following categories of financial assets and financial liabilities at the the end of the reporting period are set out as follows:

	2010 RMB'000	2009 RMB'000
Financial assets		
Available-for-sale financial assets	23,932	23,851
Loans and receivables	7,612,212	7,272,256
Derivative financial instruments	—	14,900
Financial liabilities		
Financial liabilities stated at amortised cost	19,197,842	13,011,536
Derivative financial instruments	—	6,450

The major financial instruments of the Group include available-for-sale investments, trade and other receivables, restricted bank deposits, bank balances and cash, derivative financial instruments, trade and other payables, borrowings, debentures and dividend payable. Details of these financial instruments are disclosed in respective notes. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. FINANCIAL RISK MANAGEMENT (Cont'd)

(g) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- The fair value of derivative financial instruments, are calculated using quoted prices. Where such prices are not available, the fair value of the non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve.

Fair value measurements recognised in the statement of financial position

The fair value measurement of the derivative financial instruments are derived from inputs other than quoted prices (unadjusted) in active market for identical assets or liabilities that are observable for assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). At 31 December 2010, the Group has no outstanding forward exchange contracts with financial institutions. The fair value of derivative financial assets and liabilities are RMB14,900,000 and RMB6,450,000 as at 31 December 2009 respectively.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	2010		2009	
	Carrying value RMB'000	Fair value RMB'000	Carrying value RMB'000	Fair value RMB'000
Borrowing - fixed rate	2,090,983	2,087,461	2,899,151	2,823,518
Debentures - fixed rate	5,690,367	5,652,898	1,189,484	1,067,880

6. REVENUE

	2010 RMB'000	2009 RMB'000
Sale of paper products	16,142,812	14,155,084
Sale of construction materials	386,555	337,518
Sale of electricity and steam	444,754	237,925
Sale of chemical products	74,269	31,390
Others	51,313	53,336
	17,099,703	14,815,253

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

7. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Government grants (note a)	96,530	140,290
Value-added tax refund (note b)	31,601	19,524
Interest income	21,817	85,355
Net exchange gain	41,852	2,037
Net gain from sales of scrap materials	25,459	13,995
Discount on acquisition of subsidiaries	—	10,490
Others	16,901	34,951
	234,160	306,642

Notes:

- (a) The Group received government grants from local municipal governments in relation to encouragement of development and advancement of business. According to the relevant government grant documents, the grants are general subsidies for the business operations of the Group.
- (b) Pursuant to various circulars issued by the State Administration of Taxation and local government authorities, the Group is entitled to receive various types of refund on value-added tax as it has used certain designated materials in its production. The Group also received value-added tax refund for waste paper recycling in certain subsidiaries.

8. SEGMENT INFORMATION

The Group has three reportable segments as follows:

Paper products	—	Produce different kinds of paper products (including light weight coated paper, duplex press paper, writing paper, copperplate paper, news press paper, paperboard and white paperboard) and sell these products to customers in the PRC and other countries
Construction materials	—	Produce and sell construction materials in the PRC
Electricity and steam	—	Produce electricity and steam and provide it to third party customers, inter-group companies and the State Grid.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include hotel business, transportation business and manufacturing and selling of paper making chemicals. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements, except for treatment of deferred income in relation to government grants and foreign exchange gains and losses on project loans.

The Group accounts for intersegment sales and transfers at prices determined by management.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. SEGMENT INFORMATION (Cont'd)

Information about reportable segment profit or loss

For the year ended 31 December 2010

	Paper products RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	16,142,812	386,555	444,754	125,582	—	17,099,703
Intersegment sales	—	62,871	266,106	201,189	(530,166)	—
Total	16,142,812	449,426	710,860	326,771	(530,166)	17,099,703
Segment profit/(loss)	2,180,372	(1,697)	39,954	7,356	—	2,225,985
Unallocated corporate expenses						(423,383)
Share of results of associates						(13,863)
Gain on change in fair value less costs to sell of biological assets						54,752
Gain on change in fair value of derivative financial instruments						1,521
Finance costs						(282,657)
Difference between financial statements prepared in accordance with IFRS and PRC GAAP						
– Treatment of deferred income in relation to government grants						32,492
– Capitalisation of foreign exchange gains and losses on project loans						2,967
Profit before tax						1,597,814
Income tax expense						(260,696)
Profit for the year						1,337,118

Segment profits or losses do not include unallocated corporate expenses, share of results of associates, gain on change in fair value less costs to sell of biological assets, gain on change in fair value of derivative financial instruments, finance costs and difference between financial statements prepared in accordance with IFRSs and PRC GAAP.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. SEGMENT INFORMATION (Cont'd)

Information about reportable segment profit or loss (Cont'd)

For the year ended 31 December 2009

	Paper products RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	14,155,084	337,518	237,925	84,726	—	14,815,253
Intersegment sales	—	46,458	229,301	347,017	(622,776)	—
Total	14,155,084	383,976	467,226	431,743	(622,776)	14,815,253
Segment profit/(loss)	1,737,819	(1,242)	85,063	(1,440)	—	1,820,200
Unallocated corporate expenses						(265,877)
Share of results of associates						(15,689)
Gain on change in fair value less costs to sell of biological assets						9,869
Gain on change in fair value of derivative financial instruments						8,443
Finance costs						(384,023)
Difference between financial statements prepared in accordance with IFRS and PRC GAAP						
– Treatment of deferred income in relation to government grants						32,492
– Capitalisation of foreign exchange gains and losses on project loans						2,967
Profit before tax						1,208,382
Income tax expense						(219,011)
Profit for the year						989,371

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. SEGMENT INFORMATION (Cont'd)

Information about reportable segment assets and liabilities

Segment assets

	2010	2009
	RMB'000	RMB'000
Paper products	32,037,693	25,076,473
Construction materials	584,953	640,860
Electricity and steam	2,337,904	2,673,685
Others	443,650	453,885
Eliminations	(327,067)	(631,820)
Difference between financial statements prepared in accordance with IFRSs and PRC GAAP		
– Treatment of deferred income in relation to government grants	(62,077)	(70,059)
– Capitalisation of foreign exchange gains and losses on project loans	(13,924)	(16,890)
Total segment assets	35,001,132	28,126,134

Segment liabilities

	2010	2009
	RMB'000	RMB'000
Paper products	19,155,395	13,114,012
Construction materials	423,273	397,773
Electricity and steam	214,828	242,000
Others	350,505	354,058
Eliminations	(327,067)	(631,820)
Difference between financial statements prepared in accordance with IFRSs and PRC GAAP		
– Treatment of deferred income in relation to government grants	217,886	242,397
Total segment liabilities	20,034,820	13,718,420

For the purposes of monitoring segment performances and allocating resources between segments, all assets and liabilities are allocated to reportable segments. The assets and liabilities between segments are eliminated for the purposes of resource allocation and assessment of segment performance.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. SEGMENT INFORMATION (Cont'd)

Other segment information

For the year ended 31 December 2010

	Paper products RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
Additions to property, plant and equipment	6,523,903	2,423	26,013	7,992	6,560,331
Additions to prepaid lease payment	358,708	—	—	52	358,760
Depreciation of property, plant and equipment	1,075,319	35,637	23,455	24,621	1,159,032
Depreciation of investment properties	1,739	—	—	—	1,739
Release of lease payment charge	36,557	—	—	—	36,557
Impairment loss on property, plant and equipment	—	22,480	—	—	22,480
Interest income	17,801	1,017	2,900	99	21,817
(Reversal of)/allowance for receivables and inventories	89,643	(1,989)	86	200	87,940
Government grants and value-added tax refund	89,673	24,040	5,194	9,224	128,131
Research and development costs	199,625	41	—	—	199,666

For the year ended 31 December 2009

	Paper products RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Others RMB'000	Total RMB'000
Additions to property, plant and equipment	2,073,333	1,067	12,904	24,718	2,112,022
Additions to prepaid lease payment	75,174	—	—	8,030	83,204
Depreciation of property, plant and equipment	1,099,788	51,183	32,733	28,724	1,212,428
Depreciation of investment properties	1,738	—	—	—	1,738
Release of lease payment charge	29,657	—	—	—	29,657
Impairment loss on property, plant and equipment	—	4,506	—	—	4,506
Interest income	80,458	643	4,220	34	85,355
Allowance for receivables and inventories	7,897	3,936	477	461	12,771
Government grants and value-added tax refund	136,305	11,437	5,006	7,066	159,814
Research and development costs	205,035	62	—	—	205,097

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. SEGMENT INFORMATION (Cont'd)

Geographical and other information

The Group's operations are mainly located in the PRC and sales are made to customers in the PRC and overseas. All the non-current assets of the Group are held in the PRC.

The following table provides an analysis of the Group's revenue by geographical market that are based on location of customers.

	2010 RMB'000	2009 RMB'000
PRC	15,102,027	13,028,552
South Africa	67,502	128,115
Hong Kong	160,884	374,478
Japan	187,538	308,298
United States	167,762	157,118
Others	1,413,990	818,692
	17,099,703	14,815,253

There is no revenue from single customer contributing over 10% of the Group's revenue for years ended 31 December 2009 and 2010.

9. OTHER EXPENSES

Other expenses mainly includes the loss on suspension of production in certain production units. The loss on suspension of production for the year ended 31 December 2010 amounted to RMB55,219,000 (2009: RMB110,928,000) represents depreciation of suspended production facilities and related staff costs.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

10. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on:		
Bank loans		
– wholly repayable within five years	176,321	301,683
– not wholly repayable within five years	30,644	9,286
Debentures		
– wholly repayable within five years	160,434	61,976
Other loans		
– wholly repayable within five years	4,057	30,601
	371,456	403,546
Less: Amount capitalised under construction in progress	(73,445)	(8,583)
Amount capitalised under biological assets	(15,354)	(10,940)
	282,657	384,023

Borrowing costs capitalised during the year arose on the general borrowing pool and specific borrowings. Borrowing costs capitalised for general borrowing pool are calculated by using a capitalisation rate of 4.0% (2009: 6.0%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current tax		
– provision for the year	288,203	224,133
– Over-provision in prior years	(354)	(6,203)
	287,849	217,930
Deferred tax (note 32)	(27,153)	1,081
	260,696	219,011

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are calculated at rates applicable to the relevant companies for the year.

Pursuant to the notification document from the relevant government authorities in Shandong Province issued on 6 July 2009, the Company has been recognised as one of the advanced technology enterprises in Shandong Province in 2009 for a period of three years. According to the applicable laws and regulations in the PRC, the Company will be entitled to pay the enterprise income tax at a reduced tax rate of 15% for three years from 2009.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

11. INCOME TAX EXPENSE (Cont'd)

Pursuant to the approval of State Administration of Taxation and according to the related regulations in respect of preferential tax benefit for west development (西部大開發) issued by PRC Ministry of Foreign Trade and Economic Cooperation, the applicable income tax rate is 15% from 2001 to 2010 for Hailaer Chenming Paper Co., Ltd. and Yanbian Chenming Paper Co., Ltd., subsidiaries of the Company.

Pursuant to the approval of the local government in 2002 and according to regulations issued by State of Council and State Administration of Taxation, which is applicable to foreign investment enterprise, the applicable income tax rate of Shandong Chenming Xinli Power Co., Ltd., a subsidiary of the Company, was 15% prior to 1 January 2008. On 26 December 2007, the State Council of the PRC issued Circular of the State Council on the Implementation of Transitional Preferential Policies for the New Law and the applicable tax rate for foreign investment enterprise is gradually phased into the new tax rate of 25% during the five-year transitional period at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively. Therefore, the applicable income tax rate for 2010 is 22% (2009: 20%).

Pursuant to the approval of the Wuhan State Tax Bureau, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a subsidiary of the Company, was changed to a foreign investment enterprise in April 2005, and is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the following three years. The year 2005 is the first profit-making year of the subsidiary. On 26 December 2007, the State Council of the PRC issued Circular of the State Council on the Implementation of Transitional Preferential Policies for the New Law and the applicable tax rate for foreign investment enterprise is gradually phased into the new tax rate of 25% during the five-year transitional period. The applicable income tax rates for the subsidiary are 9%, 10%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively. Therefore, the applicable income tax rate for 2010 is 22% (2009: 10%).

Jiangxi Chenming Paper Co., Ltd. ("Jiangxi Chenming") is a foreign investment enterprise established in the PRC. Pursuant to the enterprise income tax laws applicable to foreign investment enterprise, Jiangxi Chenming is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the following three years. The year 2010 is the fourth profit-making year of Jiangxi Chenming under the PRC income tax rule and accordingly, 50% of the income tax has been exempted for 2010, and the applicable income tax rate is 12.5% (2009: 12.5%).

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of estimated assessable profit for the year.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

11. INCOME TAX EXPENSE (Cont'd)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate of the Company is as follow:

	2010 RMB'000	2009 RMB'000
Profit before tax	1,597,814	1,208,382
Tax at the applicable income tax rate of 15% (2009: 15%)	239,672	181,257
Effect of tax incentives and exemptions granted to certain subsidiaries	(22,314)	(25,086)
Tax effect of income not taxable	(25,471)	(7,637)
Tax effect of expenses not deductible	21,841	21,482
Tax effect of tax losses not recognised	18,287	16,964
Effect of different tax rates of certain subsidiaries	31,410	36,691
Tax effect of utilisation of tax losses previously not recognised	(1,404)	(8,528)
Over-provision in prior years	(354)	(6,203)
(Increase)/decrease in opening deferred tax assets resulting from a change in applicable tax rate	(1,433)	9,395
Tax effect of deductible temporary differences not recognised	462	676
Income tax expense	260,696	219,011

12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2010 RMB'000	2009 RMB'000
Wages and salaries	599,894	446,082
Staff welfare	144,333	120,702
Retirement benefit scheme contribution	98,931	72,376
Total staff costs (including directors' emoluments)	843,158	639,160
Net rental income from investment properties	(835)	(2,038)
Allowance for bad and doubtful debts	90,967	35,448
Auditors' remuneration	2,000	4,896
Cost of inventories recognised in cost of sales	13,601,912	11,981,093
Depreciation of property, plant and equipment	1,159,032	1,212,428
Depreciation of investment properties	1,739	1,738
Impairment loss on property, plant and equipment	22,480	4,506
Loss/(gain) on disposal/write off of property, plant and equipment	5,496	(1,848)
Operating lease payment in respect of land and building and property, plant and equipment	58,058	49,310
Reversal of allowance for inventories	(3,027)	(22,677)
Research and development costs	199,666	205,097

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

13. REMUNERATION OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

Directors' emoluments paid to the directors of the Company for the year were as follows:

	2010 RMB'000	2009 RMB'000
Independent non-executive directors		
– Fees	325	260
Non-executive directors		
– Fees	150	120
Executive directors		
– Fees	—	—
– Salaries and performance related incentive payments (note)	14,003	10,580
– Retirement benefits scheme contributions	115	96
	14,593	11,056

Note: The performance related incentive payments are determined by reference to the performance of the Group and individual performance of directors, and approved by the Remuneration Committee.

	2010 RMB'000	2009 RMB'000
Independent non-executive directors		
Diao Yuntao (note i)	—	40
Wang Zhihua (note i)	—	40
Zhou Chengjuan (note i)	—	40
Lau Yingkit (note i)	—	100
Wang Yumei (note i and ii)	50	40
Wang Aiguo (note ii)	50	—
Wang Xiangfei (note ii)	125	—
Zhang Zhiyuan (note ii)	50	—
Zhang Hong (note ii)	50	—
	325	260
Non-executive directors		
Gan Zhihe (note i)	—	40
Zhao Wei (note i)	—	40
Cao Chunyu (note i)	—	40
Cui Youping (note ii)	50	—
Wang Fengrong (note ii)	50	—
Wang Xiaoqun (note ii)	50	—
	150	120

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

13. REMUNERATION OF DIRECTORS AND EMPLOYEES (Cont'd)

(a) Directors' emoluments (Cont'd)

	2010 RMB'000	2009 RMB'000
Executive directors		
Chen Hongguo (note i and ii)	4,996	2,994
Yin Tongyuan (note i and ii)	2,996	2,014
Li Feng (note i and ii)	1,444	1,213
Hou Huancai (note i and ii)	1,171	1,113
Zhou Shaohua (note i and ii)	1,320	1,116
Geng Guanglin (note i and ii)	1,095	1,013
Tan Daocheng (note i and ii)	1,096	1,213
	14,118	10,676

Notes:

- (i) Retired on 11 April 2010
- (ii) Appointed on 12 April 2010

(b) Employees

All of the five highest paid individuals of the Group during the year are directors of the Company.

During the year, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

14. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividend declared and paid during the year for:		
– 2009 (RMB0.30 per share)	618,614	—
– 2008 (RMB0.05 per share)	—	103,102
	618,614	103,102

The final dividend in respect of the year ended 31 December 2010 of RMB0.30 (2009: RMB0.30) per share (equivalent to approximately RMB618,614,000 (2009: RMB618,614,000)) on 2,062,045,941 shares (2009: 2,062,045,941 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Pursuant to the PRC Enterprise Income Tax Law, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

Earnings

	2010 RMB'000	2009 RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	1,190,339	862,946

Number of shares

	2010 '000	2009 '000
Number of shares for the purpose of calculating basic earnings per share	2,062,046	2,062,046

The basic earnings per share are computed by dividing the profit for the year attributable to the owners of the Company by the number of shares in issue during the year.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2010.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2009	3,340,319	15,656,888	525,290	136,285	238,356	19,897,138
Value-added tax refund (note a)	—	(17,544)	—	—	—	(17,544)
Acquisition of businesses	10,401	11,281	199	5,594	611	28,086
Additions	12,511	63,350	8,882	20,814	2,006,465	2,112,022
Transfers	96,225	410,183	10,407	462	(517,277)	—
Transfers (note b)	—	(96,963)	(60)	—	77,616	(19,407)
Disposals/write offs	(20,084)	(24,229)	(7,804)	(9,450)	—	(61,567)
At 31 December 2009	3,439,372	16,002,966	536,914	153,705	1,805,771	21,938,728
Additions	36,061	86,587	18,023	25,938	6,393,722	6,560,331
Transfers	79,854	349,446	17,074	229	(446,603)	—
Disposals/write off	(34,017)	(152,062)	(11,975)	(8,246)	—	(206,300)
At 31 December 2010	3,521,270	16,286,937	560,036	171,626	7,752,890	28,292,759
Depreciation and impairment						
At 1 January 2009	554,120	4,421,774	224,421	55,348	—	5,255,663
Charge for the year	112,181	1,028,766	55,960	15,521	—	1,212,428
Transfers (note b)	—	(19,398)	(9)	—	—	(19,407)
Disposal/write off	(8,870)	(11,373)	(4,073)	(5,016)	—	(29,332)
Impairment for the year (note c)	—	4,506	—	—	—	4,506
At 31 December 2009	657,431	5,424,275	276,299	65,853	—	6,423,858
Charge for the year	117,502	978,968	45,924	16,638	—	1,159,032
Disposal/write off	(12,750)	(100,182)	(10,255)	(5,201)	—	(128,388)
Impairment for the year (note c)	—	22,480	—	—	—	22,480
At 31 December 2010	762,183	6,325,541	311,968	77,290	—	7,476,982
Carrying amounts						
At 31 December 2010	2,759,087	9,961,396	248,068	94,336	7,752,890	20,815,777
At 31 December 2009	2,781,941	10,578,691	260,615	87,852	1,805,771	15,514,870

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Notes:

- (a) According to the No. [2006] 111 Regulation in respect of preferential VAT benefit for foreign-investment entities issued by State Administration of Taxation (國稅發 [2006]111 號《國家稅務總局國家發展和改革委員會關於印發《外商投資項目採購國產設備退稅管理試行辦法》的通知》), the Group received approximately RMB17,544,000 value-added tax refund for purchasing machinery manufactured in the PRC during the year ended 31 December 2009.
- (b) During the year ended 31 December 2009, certain paper production lines are transferred to construction in progress for alternation of production purpose, the depreciation of the relevant production lines is suspended since the date of transfer.
- (c) During the year ended 31 December 2010, the directors identified that certain production lines of the Group will not be used in future as its product quality is not up to standard, an impairment of approximately RMB22,480,000 (2009: RMB4,506,000) was recognised for two production lines based on recoverable amount determined using replacement cost at discount less estimated costs to sell.

At the end of the reporting period, the Group has pledged plant and machinery and buildings having a carrying amount of approximately RMB1,023 million (2009: RMB1,083 million) to secure the loan facilities granted to the Group by certain banks and IFC.

The Group has certain buildings in the PRC with carrying amounts of approximately RMB257,864,000 (2009: RMB321,504,000), the title certificates of which have not yet been obtained as at 31 December 2010. The directors are of the opinion that the Group is not required to incur additional cost in obtaining the title certificates for these buildings.

17. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Prepaid lease payments	1,608,734	1,314,486
Analysed for reporting purposes as:		
Non-current portion	1,559,033	1,275,915
Current portion	49,701	38,571
	1,608,734	1,314,486

At the end of the reporting period, the Group has pledged land use rights having carrying value of approximately RMB71,448,000 (2009: RMB73,051,000) to secure the loan facilities granted to the Group.

The Group has certain land use rights with carrying amount of approximately RMB80,539,000 (2009: RMB152,021,000), the land use rights certificates of which have not yet been obtained as at the date of this report. The directors are of the opinion that the Group is not required to incur additional cost in obtaining the land use rights certificates for these land use rights in the PRC.

The lease terms of the land use rights related to factory premises held by the Group are mostly 50 years.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

18. INVESTMENT PROPERTIES

	RMB'000
Cost	
At 1 January 2009, 31 December 2009 and 31 December 2010	38,292
<hr/>	
Depreciation	
At 1 January 2009	10,127
Charge for the year	1,738
<hr/>	
At 31 December 2009	11,865
Charge for the year	1,739
<hr/>	
At 31 December 2010	13,604
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Carrying amounts	
At 31 December 2010	24,688
<hr/>	
At 31 December 2009	26,427
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The fair value of the Group's investment properties at 31 December 2010 was RMB39,110,000 (2009: RMB39,140,000). The fair value has been determined by the directors and no valuation has been performed by independent qualified professional valuers. The valuation performed by the directors was arrived at by reference to recent market prices for similar properties in the same locations and conditions.

The above investment properties are situated in the PRC, held under medium-term lease and were leased out to independent third parties since 2007.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

19. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and fully paid/ paid-up capital	Attributable equity interest held by the Company at 31 December 2010				Principal activity
			Directly held		Indirectly held		
			2010	2009	2010	2009	
山東晨鳴熱電股份有限公司 (Shandong Chenming Power Supply Holdings Co., Ltd.)	PRC	RMB99,553,061	86.71%	86.71%	—	—	Investment holding
武漢晨鳴漢陽紙業股份 有限公司(note) (Wuhan Chenming Hanyang Paper Co., Ltd.)	PRC	RMB211,367,000	50.93%	50.93%	—	—	Manufacture of paper
海拉爾晨鳴紙業有限責任公司 (Hailaer Chenming Paper Co., Ltd.)	PRC	RMB16,000,000	75.00%	75.00%	—	—	Manufacture of paper
山東晨鳴紙業集團齊河板紙 有限責任公司 (Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.)	PRC	RMB376,200,000	100.00%	100.00%	—	—	Manufacture of paper
赤壁晨鳴紙業有限公司 (Chibi Chenming Paper Co., Ltd.)	PRC	RMB177,419,400	20.00%	20.00%	31.00%	31.00%	Manufacture of paper
延邊晨鳴紙業有限公司 (Yanbian Chenming Paper Co., Ltd.)	PRC	RMB81,633,000	76.73%	76.73%	—	—	Manufacture of paper pulp and chemical products
壽光市晨鳴天園林業有限公司 (Shouguang Chenming Tianyuan Arboriculture Co., Ltd.)	PRC	RMB10,586,700	68.00%	68.00%	—	—	Arboriculture of tree
江西晨鳴紙業有限責任公司(note) (Jiangxi Chenming Paper Co., Ltd.)	PRC	USD172,000,000	51.00%	51.00%	—	—	Manufacture of paper
鄆城晨鳴板材有限公司 (Juancheng Chenming Panels Co., Ltd.)	PRC	RMB15,000,000	100.00%	100.00%	—	—	Manufacture of paper
山東御景大酒店有限公司(note) (Shandong Grand View Hotel Co., Ltd.)	PRC	USD13,905,700	70.00%	70.00%	—	—	Development of a hotel project
吉林晨鳴紙業有限責任公司 (Jilin Chenming Paper Co., Ltd.)	PRC	RMB1,500,000,000	100.00%	100.00%	—	—	Manufacture of paper

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

19. PRINCIPAL SUBSIDIARIES (Cont'd)

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows: (Cont'd)

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and fully paid/ paid-up capital	Attributable equity interest held by the Company at 31 December 2010				Principal activity
			Directly held		Indirectly held		
			2010	2009	2010	2009	
湛江晨鳴紙漿有限公司 (Zhanjiang Chenming Paper & Pulp Co., Ltd.)	PRC	RMB800,000,000	100.00%	100.00%	—	—	Production of paper and pulp (under construction)
晨鳴(香港)有限公司 (Chenming (HK) Limited)	Hong Kong	USD100,000	100.00%	100.00%	—	—	Trading of paper
壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.)	PRC	RMB10,000,000	100.00%	100.00%	—	—	Goods transportation
富裕晨鳴紙業有限責任公司 (Fuyu Chenming Paper Co., Ltd.)	PRC	RMB208,000,000	100.00%	100.00%	—	—	Manufacture of paper
壽光晨鳴美術紙有限公司(note) (Shouguang Chenming Art Paper Co., Ltd.)	PRC	USD 20,000,000	75.00%	75.00%	—	—	Manufacture of paper
黃岡晨鳴林業發展有限責任公司 (Huanggang Chenming Arboriculture Co., Ltd.)	PRC	RMB10,000,000	100.00%	100.00%	—	—	Arboriculture of tree
黃岡晨鳴漿紙有限公司 (Huanggang Chenming Paper Pulp Co., Ltd.)	PRC	RMB20,000,000	100.00%	100.00%	—	—	Production of pulp (under construction)
咸寧晨鳴林業發展有限責任公司 (Xianning Chenming Arboriculture Co., Ltd.)	PRC	RMB10,000,000	100.00%	100.00%	—	—	Arboriculture of tree
壽光美倫紙業有限責任公司 (Shouguang Meilun Paper Co., Ltd.)	PRC	RMB1,500,000,000	100.00%	100.00%	—	—	Manufacture of paper (under construction)
壽光順達報關有限責任公司 (Shouguang Shun Da Customs Declaration Co., Ltd.)	PRC	RMB1,500,000	100.00%	100.00%	—	—	Not yet commenced business
山東晨鳴銷售有限公司 (Shandong Chenming Selling Co., Ltd.)	PRC	RMB100,000,000	100.00%	—	—	—	Trading of paper

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

19. PRINCIPAL SUBSIDIARIES (Cont'd)

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows: (Cont'd)

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and fully paid/ paid-up capital	Attributable equity interest held by the Company at 31 December 2010				Principal activity
			Directly held		Indirectly held		
			2010	2009	2010	2009	
山東晨鳴新力熱電有限公司 (note) (Shandong Chenming Xinli Power Co., Ltd.)	PRC	USD11,800,000	—	—	51.00%	51.00%	Electricity generation
武漢晨鳴乾能熱電有限責任公司 (Wuhan Chenming Qianneng Electric Power Co., Ltd.)	PRC	RMB88,235,000	—	—	51.00%	51.00%	Electricity generation
壽光市晨鳴水泥有限公司 (Shouguan Chenming Cement Co., Ltd.)	PRC	RMB7,000,000	—	—	100.00%	100.00%	Manufacture of cement
山東晨鳴板材有限責任公司 (Shandong Chenming Panels Co., Ltd.)	PRC	RMB30,000,000	—	—	100.00%	100.00%	Manufacture of decorating materials
武漢晨建新型牆體材料有限責任公司 (Wuhan Chenjian New-style Wall Materials Co., Ltd.)	PRC	RMB10,000,000	—	—	51.00%	51.00%	Manufacture of construction materials
齊河晨鳴廢舊物資收購有限公司 (Qihe Chenming Waste Collection Co., Ltd.)	PRC	RMB500,000	—	—	100.00%	98.00%	Collection, processing and sale of waste paper and paper products
菏澤晨鳴板材有限責任公司 (Heze Chenming Panels Co., Ltd.)	PRC	RMB30,000,000	—	—	67.00%	67.00%	Inactive
齊河晨鳴板材有限公司 (Qihe Chenming Panels Co., Ltd.)	PRC	RMB40,820,000	—	—	100.00%	100.00%	Inactive
壽光晨鳴地板有限責任公司 (Shouguang Chenming Floor Board Co., Ltd.)	PRC	RMB500,000	—	—	100.00%	100.00%	Manufacture of floor board
吉林晨鳴廢舊物資回收有限公司 (Jilin Chenming Waste Collection Co., Ltd.)	PRC	RMB1,000,000	—	—	100.00%	100.00%	Collection of waste paper and paper products
湛江晨鳴林業發展有限公司 (Zhanjiang Chenming Arboriculture Co., Ltd.)	PRC	RMB1,000,000	—	—	100.00%	100.00%	Arboriculture of tree

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

19. PRINCIPAL SUBSIDIARIES (Cont'd)

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows: (Cont'd)

Name of subsidiaries	Place of incorporation/ registration and operation	Issued and fully paid/ paid-up capital	Attributable equity interest held by the Company at 31 December 2010				Principal activity
			Directly held		Indirectly held		
			2010	2009	2010	2009	
陽江晨鳴林業發展有限公司 (Yangjiang Chenming Arboriculture Co., Ltd.)	PRC	RMB1,000,000	—	—	100.00%	100.00%	Arboriculture of tree
吉林市晨鳴機械制造有限公司 (Jilin Chenming Machinery Manufacturing Co., Ltd.)	PRC	RMB600,000	—	—	100.00%	100.00%	Machine maintenance
南昌晨鳴林業發展有限公司 (Nanchang Chenming Arboriculture Co., Ltd.)	PRC	RMB10,000,000	—	—	100.00%	100.00%	Arboriculture of tree
無錫松嶺紙業有限公司 (Wuxi Songling Paper Co., Ltd.)	PRC	RMB5,010,000	—	—	100.00%	100.00%	Manufacture of paper
壽光市潤生廢紙回收有限責任公司 (Shouguang City Runsheng Wasted Paper Recycle Co., Ltd.)	PRC	RMB1,000,000	—	—	100.00%	100.00%	Reclamation of waste paper
壽光虹宜包裝裝飾有限公司 (Shouguang Hongyi Decorative Packaging Co., Ltd.)	PRC	RMB1,550,000	—	—	100.00%	100.00%	Packaging
壽光維遠物流有限公司 (Shouguang Wei Yuan Logistics Company Limited.)	PRC	RMB3,930,000	—	—	100.00%	100.00%	Transportation
壽光市新源煤炭有限公司 (Shougang Xinyuan Coal Co., Ltd.)	PRC	RMB3,000,000	—	—	100.00%	100.00%	Trading of coal
山東林盾木業股份有限公司 (Shandong Lin Dun Wood Industry Co., Ltd.)	PRC	RMB13,844,100	—	—	67.00%	67.00%	Manufacture of decorating materials
武漢晨鳴萬興置業有限公司 (Wuhan Chenming Wan Xing Real Estate Co., Ltd.)	PRC	RMB20,000,000	—	—	100.00%	100.00%	Not yet commenced business

Note: Except for these subsidiaries, which are Sino-foreign equity joint venture companies, all subsidiaries of the Company established in the PRC are PRC limited liability companies.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

20. INTERESTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Cost of unlisted investment	106,190	106,190
Share of post-acquisition losses, net of dividend received	(62,380)	(48,517)
	43,810	57,673
Less: Impairment	(540)	(540)
	43,270	57,133

Details of the Group's associates as at the end of the reporting period are as follows:

Name of company	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2010	2009	
壽光麗奔制紙有限公司 (Shouguang Liben Paper Making Co., Ltd.)	PRC	26.40%	26.40%	Manufacture of paper
青州市晨鳴變性澱粉有限責任公司 (Qingzhou Chenming Denaturation Amylum Co., Ltd.)	PRC	30.00%	30.00%	Production of denaturated amyllum
阿爾諾維根斯晨鳴特種紙有限公司 (Arjo Wiggins Chenming Specialty Paper Co., Ltd.)	PRC	30.00%	30.00%	Manufacture of paper
江西江報傳媒彩印有限公司 (Jiangxi Jiangbao Media Colour Printing Co. Ltd.)	PRC	21.15%	21.15%	Printing

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

20. INTERESTS IN ASSOCIATES (Cont'd)

The summarised financial information in respect of the Group's associates is set out below:

	2010 RMB'000	2009 RMB'000
Total assets	481,685	503,191
Total liabilities	(322,981)	(296,246)
Net assets	158,704	206,945
Group's share of net assets of associates	43,270	57,133
Year ended 31 December		
Total revenue	113,112	127,165
Total loss for the year	(43,371)	(52,502)
Group's share of loss of associates for the year	(13,863)	(15,689)

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

21. AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted equity securities, at cost	25,850	25,850
Less: Impairment	(1,918)	(1,999)
Carrying value at the end of the reporting period	23,932	23,851

Available-for-sale investments comprise unlisted equity investments in certain companies established in the PRC, in which the Group holds less than 20% of their paid-up capital. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

22. GOODWILL

	Jilin Chenming Paper Co., Limited RMB'000	Shandong Chenming Panels Co., Limited RMB'000	Total RMB'000
Cost			
At 1 January 2009, 31 December 2009 and 31 December 2010	14,314	5,970	20,284
Accumulated impairment losses			
Impairment loss recognised in the year ended 31 December 2009 and balance at 31 December 2009	—	—	—
Impairment loss recognised in the current year	—	—	—
At 31 December 2010	—	—	—
Carrying amount			
At 31 December 2010	14,314	5,970	20,284
At 31 December 2009	14,314	5,970	20,284

The goodwill of the Group arose from the acquisition of the remaining equity interests held by non-controlling shareholders of subsidiaries. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination.

During the year ended 31 December 2010, the management of the Group assessed the recoverable amounts of goodwill to determine if there was any impairment of goodwill of the CGUs by reference to the CGUs' value in use.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

22. GOODWILL (Cont'd)

The recoverable amounts of the CGUs are determined based on value in use calculations which uses cash flow projections derived from the financial budgets for the next five years prepared by the management using the discount rate of 8.32% (2009: 5.33%) per annum which reflect the current market assessment of the time value of money and the risks specific to the CGUs and using steady growth rates of 5% (2009: 5%) per annum for the residual period after five years projection. The growth rates do not exceed the average long-term growth rate for the relevant industry.

23. BIOLOGICAL ASSETS

	2010 RMB'000	2009 RMB'000
At beginning of the year	496,725	301,213
Plantation expenditure incurred	175,266	185,643
Gain on change in fair value less costs to sell of biological assets	54,752	9,869
At end of the year	726,743	496,725

The biological assets of the Group represent immature trees located in Zhanjiang, Yangjiang, Huizhou, Huanggang, Xianning and Nanchang. The Group manages the establishment, maintenance and harvesting of trees separately in each physical location and all the biological assets of the Group will be used as raw material in production when mature. It is expected that the eucalyptus and pines will mature in year 2011 and year 2020, respectively.

Included in the plantation expenditure incurred for the year ended 31 December 2010 is minimum lease payment in respect of rented lands for plantation amounting to RMB8,950,000 (2009:RMB6,626,000). The commitment in respect of the rental of lands for future plantation purpose is set out in note 37.

The biological assets are stated at their fair values less costs to sell. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Sallmanns. The valuation is determined using the discounted value of the expected market price for estimated timber volumes delivered less cost of delivery and maintenance costs up to when the timber becomes usable. The discount rates used are 12.67% for eucalyptuses and 12.16% for pines. Gain on change in fair value less costs to sell of biological assets amounted to RMB54,752,000 (2009: RMB9,869,000) has been recognised and credited to the consolidated statement of comprehensive income for the year ended 31 December 2010.

24. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	1,831,560	1,465,013
Work in progress	118,807	54,431
Finished goods	1,096,711	707,135
	3,047,078	2,226,579

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

25. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	2,357,934	1,718,798
Less: Impairment	(235,355)	(189,807)
	2,122,579	1,528,991
Other receivables	880,208	209,070
Less: Impairment	(104,820)	(63,527)
	775,388	145,543
Bills receivable	2,762,390	2,704,799
Deposits and prepayments	924,355	1,000,772
Total trade and other receivables	6,584,712	5,380,105

Trade receivables

The Group allows an average credit period of 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables based on invoice date, net of impairment, at the reporting date:

	2010 RMB'000	2009 RMB'000
Under 1 year	2,102,828	1,434,531
1 - 2 years	15,885	87,634
2 - 3 years	3,866	6,826
	2,122,579	1,528,991

Before accepting any new customer, the Group goes through internal credit assessment procedure to assess the potential customer's credit quality and defines credit limits by customer.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

25. TRADE AND OTHER RECEIVABLES (Cont'd)

Trade receivables (Cont'd)

Aging of amounts past due but not impaired trade receivables:

	2010 RMB'000	2009 RMB'000
Under 1 year	600,910	243,969
1 - 2 years	15,885	87,634
2 - 3 years	3,866	6,826
	620,661	338,429

The Group has provided full impairment on certain receivables past due over 3 years based on past experience of which receivables that are past due beyond 3 years are generally not recoverable. Other than the recognised impairment losses, no allowance has been made to the remaining past due trade receivables as the Group is satisfied with the subsequent settlement from and the credit quality of these customers and the Group considers that these balances are not impaired.

Movement in the impairment on trade receivables:

	2010 RMB'000	2009 RMB'000
At 1 January	189,807	167,228
Impairment losses recognised on receivables	142,479	55,115
Amounts recovered during the year	(93,443)	(31,819)
Write off	(3,488)	(717)
At 31 December	235,355	189,807

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

25. TRADE AND OTHER RECEIVABLES (Cont'd)

Other receivables

Other receivables are non-trade nature balances due from independent third parties and they are unsecured, interest-free and repayable on demand. In the opinion of the directors, the amounts are recoverable in the next twelve months from the reporting date.

Movement in the impairment on other receivables:

	2010 RMB'000	2009 RMB'000
At 1 January	63,527	51,546
Impairment losses recognised on receivables	45,414	26,639
Amounts recovered during the year	(3,483)	(14,487)
Write off	(638)	(171)
At 31 December	104,820	63,527

Bills receivable

At 31 December 2010, the Group has discounted bills with recourse with an aggregate amount of RMB1,583,925,000 (2009: RMB2,091,068,000). The Group continues to recognise the full carrying amount of such bills receivable and has recognised the cash received on such discount as secured bank loans as set out in note 29.

The following is an aged analysis of bills receivable at the report date:

	2010 RMB'000	2009 RMB'000
0 - 90 days	1,545,724	1,658,656
91 - 180 days	1,216,666	1,046,143
	2,762,390	2,704,799

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

26. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency forward contracts

	2010 RMB'000	2009 RMB'000
Assets	—	14,900
Liabilities	—	(6,450)

At 31 December 2009, the Group had certain outstanding forward exchange contracts with financial institutions and the total notional amounts and details of these contracts committed by the Group are as follows:

Notional amount	Maturity date	Exchange rates	
		RMB/USD	RMB'000
Buy US\$50,000,000	20 October 2010	6.5780	328,900
Buy US\$100,000,000	26 May 2010	6.6990	669,900
Sell US\$50,000,000	20 October 2010	6.6440	(332,200)
Sell US\$100,000,000	26 May 2010	6.7640	(676,400)

The total fair value of the Group's currency derivatives financial assets and liabilities as at 31 December 2009 were estimated to be approximately RMB14,900,000 and RMB6,450,000 respectively, which were based on fair value provided by counter parties which are financial institutions. The currency derivatives were not designated as cash flow hedges and the change in fair values amounting to RMB1,521,000 (2009: RMB8,443,000) has been credited to the consolidated statement of comprehensive income for the year ended 31 December 2010.

The above forward contracts were required to be settled net in cash on maturity date and were measured at fair value at each reporting date.

27. PLEDGED BANK DEPOSITS/BANK AND CASH BALANCES

Pledged bank deposits are used to secure certain bills facilities granted to the Group by certain banks. The pledged bank deposits carry fixed interest rate of 1.98% (2009: 1.98%) per annum as at 31 December 2010. The pledged bank deposits will be released upon the settlement of relevant bills facilities.

Bank and cash balances held by the Group include bank balances and short-term deposits with an original maturity of three months to six months, which carry interests at market rates which ranging from 0.36% to 1.98% (2009: 0.36% to 1.98%) per annum as at 31 December 2010.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

28. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables aged:		
Under 1 year	2,516,619	1,885,379
1 - 2 years	71,824	155,634
2 - 3 years	64,607	52,666
Over 3 years	55,015	29,182
Trade payables	2,708,065	2,122,861
Bills payable aged:		
0 - 90 days	204,757	428,218
91 - 180 days	14,000	116,314
Bills payable	218,757	544,532
Other payables and accrued charges	828,025	669,853
Advances received from customers	410,244	233,124
	4,165,091	3,570,370

The average credit period on purchases of goods is 90 days.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

29. BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans		
Secured	5,560,131	3,742,349
Unsecured	4,053,945	4,516,320
	9,614,076	8,258,669
Other loans		
Secured, from IFC	138,552	178,442
Unsecured	—	98,820
	138,552	277,262
	9,752,628	8,535,931
Bank and other loans are repayable:		
Within one year	5,026,999	3,448,507
In the second year	1,337,820	1,969,032
In the third to fifth year, inclusive	801,394	2,435,124
More than five years	2,586,415	683,268
	9,752,628	8,535,931
Less: Amount due within one year shown under current liabilities	(5,026,999)	(3,448,507)
Amount due after one year	4,725,629	5,087,424

Details of the terms of the Group's borrowings are set out below:

	Effective interest rate per annum		Carrying amount	
	2010 %	2009 %	2010 RMB'000	2009 RMB'000
Fixed-rate borrowings	4.21	4.35	2,090,983	2,899,151
Floating-rate borrowings (note)	3.35	3.57	7,661,645	5,636,780
Total borrowings			9,752,628	8,535,931

Note: The interest rates of floating-rate borrowings are linked to the interest rate announced by the People's Bank of China or London Interbank Offered Rate.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

30. DEBENTURES

Pursuant to “Notice of acceptance of registration” [2010] No. CP22 issued by the National Association of Financial Market Institutional Investors, the Company issued debentures with face value of RMB1,500,000,000 and RMB 1,800,000,000 to independent third party debenture holders on 8 March 2010 and 8 September 2010 respectively. The debentures are unsecured, repayable one year after respective issue dates and coupon interest bearing at 3.26% and 3.10% per annum respectively. The effective interest rate of the debentures are 3.67% and 3.51% respectively.

Pursuant to “Notice of acceptance of registration” [2009] No. MTN102 issued by the National Association of Financial Market Institutional Investors, the Company issued debentures with face value of RMB1,200,000,000 and RMB1,100,000,000 to independent third party debenture holders on 2 December 2009 and 18 March 2010 respectively. The debentures are unsecured, repayable three years after respective issue dates and coupon interest bearing at 5.05% and 4.59% per annum respectively. The effective interest rate of the debentures are 5.38% and 4.92% respectively.

31. DEFERRED INCOME

	2010 RMB'000	2009 RMB'000
At 1 January	364,287	329,467
Government grants obtained	35,337	68,939
Released to profit or loss	(37,446)	(34,119)
At 31 December	362,178	364,287
Analysed for the reporting purpose as:		
Current portion	26,069	24,349
Non-current portion	336,109	339,938
Total	362,178	364,287

Government grants obtained during the year are in relation to the construction of property, plant and equipment of the Group from the local municipal governments.

The grants are recorded as deferred income in the consolidated statement of financial position and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

32. DEFERRED TAXATION

The following are the major deferred tax assets/(liabilities) recognised by the Group.

	Impairment loss on assets RMB'000	Deferred income RMB'000	Salaries and wages accruals RMB'000	Tax losses RMB'000	Biological assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	73,033	8,522	22,755	11,047	(6,432)	12,559	121,484
Acquisition of subsidiaries	—	—	—	—	—	(1,386)	(1,386)
Credit/(charge) to profit or loss for the year (note 11)							
- origination and reversal of temporary differences	(15,493)	6,547	8,082	(923)	(2,467)	12,568	8,314
- changes in tax rates	(3,662)	498	(3,668)	—	—	(2,563)	(9,395)
At 31 December 2009	53,878	15,567	27,169	10,124	(8,899)	21,178	119,017
Credit/(charge) to profit or loss for the year (note 11)							
- origination and reversal of temporary differences	20,617	5,275	(13,584)	(106)	8,899	4,619	25,720
- changes in tax rates	471	225	736	1	—	—	1,433
At 31 December 2010	74,966	21,067	14,321	10,019	—	25,797	146,170

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	147,510	131,426
Deferred tax liabilities	(1,340)	(12,409)
	146,170	119,017

At the end of the reporting period, the Group has unused tax losses of RMB333,104,000(2009: RMB249,391,000) available for offset against future profits.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. A deferred tax asset of the Group has been recognised in respect of RMB40,076,000 (2009: RMB40,494,000) of tax losses arising from PRC Enterprise Income Tax.

The Group did not recognise deferred income tax assets in respect of the remaining tax losses amounting to RMB293,028,000 (2009: RMB208,897,000) as the future profit stream of the subsidiaries are uncertain. The tax losses arising from PRC Enterprise Income Tax can be carried forward to offset against future taxable income in year 2011 to 2015.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

33. SHARE CAPITAL

	Number of shares '000	Restricted A Shares '000	Type of shares			Total RMB'000
			A Shares '000	B Shares '000	H Shares '000	
At 1 January 2009	2,062,046	303,988	809,291	557,497	391,270	2,062,046
Transfer of A shares held by directors, supervisors and senior management to restricted A Shares (note a)	—	139	(139)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note b)	—	(827)	827	—	—	—
At 31 December 2009	2,062,046	303,300	809,979	557,497	391,270	2,062,046
Transfer of A shares held by directors, supervisors and senior management to restricted A Shares (note a)	—	445	(445)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note b)	—	(732)	732	—	—	—
At 31 December 2010	2,062,046	303,013	810,266	557,497	391,270	2,062,046

Notes:

- (a) During the years ended 31 December 2009 and 2010, the directors have acquired 139,275 and 444,918 A Shares from the public. As the transfer of entity's shares held by the directors and key management of an entity are restricted under the relevant requirement of the Shenzhen Stock Exchange, these shares were reclassified from A Shares to Restricted A shares accordingly.
- (b) Lock-up period for certain restricted A Shares held by certain directors and key management of the Company was expired during the year, 827,596 and 731,751 Restricted A Shares were reclassified from Restricted A Shares to A Shares during 2009 and 2010 respectively.
- (c) Except for the difference in reporting obligations as set out in the Articles of Association of the Company, A, B and H Shares rank pari passu with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared or paid.
- (d) As at 31 December 2010, the total authorised number of ordinary shares is 2,062,045,941 shares (2009: 2,062,045,941 shares) with a par value of RMB1 per share (2009: RMB1 per share). All issued shares are fully paid.

In order to maintain a strong credit rating and healthy capital ratios, the Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders and supporting its business through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 29, debentures in note 30 and equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings.

The management of the Group reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new borrowings, new share issues and the issue of debentures.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

34. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	6,132,046	813,170	117	2,129,067	9,074,400
Profit for the year	—	—	—	833,372	833,372
Dividends recognised as distribution	—	—	—	(103,102)	(103,102)
Transfer of reserves	—	81,452	—	(81,452)	—
Transfer of reserves upon recognition of deferred income	15,883	—	—	(15,883)	—
Change in equity for the year	15,883	81,452	—	632,935	730,270
At 31 December 2009	6,147,929	894,622	117	2,762,002	9,804,670
At 1 January 2010	6,147,929	894,622	117	2,762,002	9,804,670
Profit for the year	—	—	—	1,414,666	1,414,666
Dividends recognised as distribution	—	—	—	(618,614)	(618,614)
Transfer of reserves	—	139,582	—	(139,582)	—
Transfer of reserves upon recognition of deferred income	15,883	—	—	(15,883)	—
Change in equity for the year	15,883	139,582	—	640,587	796,052
At 31 December 2010	6,163,812	1,034,204	117	3,402,589	10,600,722

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

34. RESERVES (Cont'd)

(c) Nature and purpose of reserves

(i) Capital reserve

Capital reserve mainly includes surplus between the fair value of the net assets and the nominal value of shares issued when the Company was converted from a state-owned enterprise to a joint stock limited company, premium of shares issued, transfers from convertible loan notes, equity reserve upon exercise and redemption of convertible loan notes, transfers from accumulated profits for those government grants recognised in the consolidated statement of comprehensive income under International Financial Reporting Standards but are not distributable in accordance with the legal requirement in the PRC. The capital reserve can only be used for conversion into share capital.

(ii) Statutory surplus reserve

In accordance with the relevant PRC Companies Law and regulations and the Articles of Association of the Company and other PRC group entities, the Company and other PRC group entities are required to appropriate 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC General Accepted Accounting Principle to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the Company and other PRC group entities.

Both surplus reserves can be used to make up prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the Company and other group entities into share capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC entity.

35. CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities (2009: Nil).

36. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Authorised but not contracted for acquisition of property, plant and equipment	5,350,490	12,610,839
Contracted but not provided for acquisition of property, plant and equipment	4,634,896	5,553,398
	9,985,386	18,164,237

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

37. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Rented premises RMB'000	Rented lands for plantation RMB'000	Total RMB'000
At 31 December 2010			
Within one year	9,178	51,011	60,189
In the second to fifth years inclusive	13,781	86,071	99,852
Over five years	—	895,199	895,199
	22,959	1,032,281	1,055,240
At 31 December 2009			
Within one year	8,180	35,169	43,349
In the second to fifth years inclusive	19,308	98,363	117,671
Over five years	—	1,025,842	1,025,842
	27,488	1,159,374	1,186,862

The minimum lease payment paid under operating lease in respect of rented premises and rented lands for plantation for the year ended 2009 and 2010 are set out in notes 12 and 23 respectively.

The average term for leases of premises is less than 10 years and the leases for lands for plantation are generally fixed for 50 years. Rentals are fixed at the date of signing of lease agreements.

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields (based on cost) of 6.7% (2009: 6.5%) on an ongoing basis. All of the properties held have committed tenants for terms under 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2010 RMB'000	2009 RMB'000
Within one year	2,573	1,388
In the second to fifth year inclusive	141	1,538
	2,714	2,926

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

38. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2010	2009
	RMB'000	RMB'000
<i>Associates:</i>		
Sales	20,300	—
Electricity charges received	7,906	7,944
Miscellaneous service charges received	180	268
Others	470	—

Other than the above transactions, the Group also made or received payments on behalf of certain related parties during the year and the unsettled balance is included in the balance with the respective related parties as at the end of the reporting period.

- (b) Balances with related parties (included in respective items on the consolidated statement of financial position)

	2010	2009
	RMB'000	RMB'000
<i>Associates:</i>		
Other receivables	1,291	1,291
Trade receivables	11,358	—

All the amounts due from/(to) associates are unsecured, interest-free and expected to be recovered/repaid within one year from the end of the reporting period.

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

38. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Material transactions and balances with other stated-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "State-owned Enterprises"). During the year, the Group had material transactions with some of these State-owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products, the Group does not differentiate whether the counter-party is a State-owned Enterprise or not. While the directors of the Company consider the State-owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its significant transactions with State-owned Enterprises during the year as follows:

(i) Material transactions

	2010 RMB'000	2009 RMB'000
Sales	6,368,647	5,068,821
Purchases	1,094,727	871,052
Construction works expenses	589,739	102,224

(ii) Material balances

	2010 RMB'000	2009 RMB'000
Bank balances and deposits	512,738	2,054,053
Trade and other receivables	911,982	1,244,943
Trade and other payables	67,651	469,813
Borrowings	6,469,948	6,170,348

(d) Compensation of key management personnel

The remunerations of directors and other members of senior management during the year are as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits		
- Directors	14,478	10,960
- Other senior management	10,778	4,728
Subtotal	25,256	15,688
Post-employment benefits		
- Directors	115	96
- Other senior management	168	158
Subtotal	283	254
Total	25,539	15,942

XII. Independent Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

39. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The summarised statements of financial position of the Company as at 31 December 2010 and 2009 are as follows:

	2010 RMB'000	2009 RMB'000
Assets		
Property, plant and equipment	5,551,599	5,878,032
Investments in subsidiaries	5,880,909	4,010,686
Other non-current assets	970,749	911,093
Trade and other receivables	8,853,297	6,399,086
Other current assets	3,316,997	4,633,487
	24,573,551	21,832,384
Liabilities		
Borrowings - current	3,538,134	2,890,338
Debentures - current	3,404,885	—
Other current liabilities	1,798,244	2,433,008
Borrowings - non-current	852,224	3,418,358
Debentures - non-current	2,285,483	1,189,484
Other non-current liabilities	31,813	34,480
	11,910,783	9,965,668
NET ASSETS	12,662,768	11,866,716
Capital and reserves		
Share capital	2,062,046	2,062,046
Reserves	10,600,722	9,804,670
TOTAL EQUITY	12,662,768	11,866,716

Profit for the year of the Company amounted to approximately RMB1,414,666,000 (2009: RMB833,372,000).

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2011.

XIII Documents Available for Inspection

- I. They include the financial statements which is signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
- II. They include the original copy of the auditors' report which is sealed by the accounting firm and signed by the certified public accountant.
- III. They include the original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

Shandong Chenming Paper Holdings Limited
30 March 2011



山東晨鳴紙業集團股份有限公司
SHANDONG CHENMING PAPER HOLDINGS LIMITED*