



# 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

2011 ANNUAL  
REPORT



\* For identification purposes only

### **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 in the interpretation of the Chinese and English versions, 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 except Mr. Zhang Zhiyuan, an independent director, who was on business trip and had appointed Mr. Wang Aiguo, another independent director, to be present on his behalf, were present at the Board meeting which considered and approved the annual report.

Chen Hongguo, the chairman of the Company, Wang Chunfang, the financial controller of the Company, and Liu Jun, the head of the finance department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements of the 2011 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.

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## 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: chenmmingpaper@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. Auditors Retained by the Company  
Auditors: RSM China Certified Public Accountants  
Office Address: 8-9/F, Block A, Corporation Building, No. 35 Finance Street, Xicheng District, Beijing  
Certified Public accountant: Wang Chuanshun and Jing Chuanxuan
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
12. Company History  
(I) Establishment and Legal Compliance Status of the Company
1. As approved by the document "Lu Ti Gai Sheng Zi [1992] No. 98" of Economic System Reform Commission of Shandong and the Shandong Branch of the People's Bank of China on 20 September 1992, and as approved by the document "Wei Gai Fa [1993] No. 17" of Shandong Weifang Economic System Reform Commission on 18 March 1993, Shandong Shouguang Paper Making, Printing and Packaging Group Company Limited was established under the sole sponsorship of State-owned Assets Supervision and Administration Commission of Shouguang City, Shandong through "offering to specific investors" on 5 May 1993, with registered capital of RMB66,647,400 and total share capital of 66,647,400 shares. Its shareholding structure is as follows: 46,497,400 sponsor's state-owned shares (accounting for 69.76% of total share capital), 1,558,500 domestic legal person shares (accounting for 2.34% of total share capital) and 18,591,500 staff shares (accounting for 27.90% of total share capital). The registration Number of the Business License for Enterprise Legal Person was 16568230-2.

## I Company Information

2. On 21 August 1993, replied by the Reply on Changing Shandong Shouguang Papermaking, Printing and Packaging (Group) Incorporated Company as Shandong Shouguang Papermaking (Group) Incorporated Company (Shou Gai Fa [1993] No. 23) verified and issued by the Shandong Shouguang Office for Restructuring Economic System, Shandong Shouguang Papermaking, Printing and Packaging (Group) Incorporated Company was changed as Shandong Shouguang Papermaking (Group) Incorporated Company, with the relevant industrial and commercial alteration registration procedures completed on 8 October 1993.
3. On 4 December 1996, according to the Letter on Agreeing to Determine Shandong Shouguang Papermaking Group Incorporated Company (Lu Ti Gai Han Zi [1996] No. 123) verified and issued by the Shandong Commission for Restructuring Economic System and the Shandong Incorporated Company Approval Certificate (Lu Zheng Gu Zi [1996] No. 98) verified and issued by the People's Government of Shandong Province, it was agreed to change Shandong Shouguang Papermaking Group Incorporated Company as Shandong Chenming Paper Holdings Limited (present name of the Company). On December 13 1996, the Company replaced its Business License for Enterprise Legal Person, thereby holding the registration number of 16309985-0.

### (II) Company History

1. On 27 October 1996, at the third general meeting of the Company, the Company passed the profit distribution plan to deliver 3.5 bonus shares per 10 shares for the year of 1995, and the proposal of converting such above shares into state-owned shares as well. After such bonus share issue and conversion into capital, the Company's share capital was changed from 66,647,400 shares into 99,840,990 shares.
2. In December 1996, with approval by the Letter on Recommending Shandong Shouguang Papermaking Group Incorporated Company to Issue B Shares (Lu Zheng Zi [1996] No. 270) verified and issued by the People's Government of Shandong Province and Zheng Wei [1996] No. 59 of the Securities Committee of the State Council, the Company was changed as the incorporated company established by share offer.
3. On 4 February 1997, the Company held the fourth general meeting, which passed the proposal that the Company absorbed and merged Shouguang Yongli Paper Co., Ltd. and the profit distribution plan to deliver 4 bonus shares per 10 shares for 1996. After bonus shares distribution, the Company's share capital was changed from 99,840,990 shares into 158,855,665 shares.
4. On 30 April 1997, according to approval by the Letter on Recommending Shandong Shouguang Papermaking Group Incorporated Company to Issue B Shares (Lu Zheng Zi [1996] No. 270) verified and issued by the People's Government of Shandong Province, the Reply on Shandong Chenming Paper Co., Ltd. to Issue Foreign Shares Listed in China (Zheng Wei Fa [1997] No. 26) verified and issued by the Securities Committee of the State Council, and Shen Zheng Fa [1997] No. 188 of the Shenzhen Stock Exchange, the Company issued 115,000,000 domestic listed foreign shares (B shares) and listed on the Shenzhen Stock Exchange on 26 May 1997. After issuance, the Company's total share capital was increased from 158,855,665 shares to 273,855,665 shares. The Company was changed as the foreign-invested incorporated company by the Reply on Changing Shandong Chenming Paper Group Incorporated Company as the Foreign-invested Incorporated Company ([1997] Wai Jing Mao Zi Er Han Zi No. 415) verified and issued by the original Ministry of Foreign Trade and Economic Cooperation.
5. On 22 November 1997, the Company held the extraordinary general meeting in 1997 and passed the Proposal of Converting Capital Reserve into Share Capital by discussion, to convert capital reserve into share capital of 109,542,266 at the ratio of 10:4 according to the Company's share capital of 273,855,665 on 30 June 1997. Upon conversion, the Company's total share capital was changed as 383,397,931 shares.

## I Company Information

6. With approval by the Notice about Approving Application of Shandong Chenming Paper Group Incorporated Company to Issue Shares (Zheng Jian Gong Si Zi [2000] No. 151) verified and issued by the China Securities Regulatory Commission on 30 September 2000 and the Notice of Listing (Sheng Zheng Shang [2000] No. 151) verified and issued by the Shenzhen Stock Exchange on 15 November 2000, the Company issued 70 million RMB ordinary shares (A shares) and listed for trading on the Shenzhen Stock Exchange on 20 November 2000. After issuance, the Company's total share capital was increased from 383,397,931 shares to 453,397,931 shares.
7. In May 2001, with approval by the Notice on Approving Non-listed Foreign Shares of Shandong Chenming Paper Group Incorporated Company for Circulation (Zheng Jian Gong Si Zi [2001] No. 44) verified and issued by the China Securities Regulatory Commission on 19 April 2001, 26,709,591 original non-tradable foreign legal person shares held by Guanghai Company were converted into B shares and listed on the Shenzhen Stock Exchange. Listed tradable B shares of the Company were increased to 187,709,591 shares.
8. On 28 June 2001, the Company held 2000 general meeting and passed the year 2000 profit distribution plan by discussion. It presented 1 bonus share per 10 shares to all shareholders based on the total share capital of 453,397,931 shares at the end of 2000, to increase 45,339,793 shares in total. After bonus shares distribution, the Company's total share capital was increased to 498,737,724 shares.
9. In May 2003, the Company implemented the 2002 profit distribution to present 2 bonus shares per 10 shares, and converted into 6 share capitals per 10 capital reserves to increase 398,990,179 shares in total. After bonus shares distribution and converting, the Company's total share capital was increased from 498,737,724 shares to 897,727,903 shares.
10. On 15 September 2004, with approval by the Notice on Approving Shandong Chenming Paper Group Incorporated Company to Publicly Issue Convertible Bonds ([2004] No. 147) verified and issued by the China Securities Regulatory Commission, the Company publicly issued 20 million convertible bonds with face value of RMB100, total issuance of RMB2 billion and term of five years, and listed for trading on the Shenzhen Stock Exchange on 30 September 2004. The conversion period lasted from 15 March 2005 to 15 September 2009. The bond was called Chenming Convertible Bond as its short name, with the convertible bond code of 125488.
11. On 29 April 2005, the Company held 2004 general meeting and passed the 2004 profit distribution plan by discussion. It presented 2 bonus shares per 10 shares to all shareholders and converted into 3 share capitals per 10 capital reserves based on the total share capital of 897,727,903 shares at the end of 2004. The Company's change of share capital was replied by the Reply on Agreeing Capital Increase of Shandong Chenming Paper Group Incorporated Company (Shang Zi Pi [2005] No. 1364) verified and issued by the Ministry of Commerce of the People's Republic of China. According to the above resolution and reply, the Company implemented the distribution plan to deliver 2 bonus shares per 10 shares to all shareholders and converting into 3 capital shares per 10 capital reserves based on the total share capital of 897,728,913 shares on 19 May 2005, the date of record (as of 19 May 2005, the Company converted into share capital of 1,010 shares from convertible bonds). After bonus shares distribution and conversion, the Company's total share capital was increased to 1,346,593,369 shares.

## I Company Information

12. On 6 April 2007, the Company's 21st meeting of the fourth session of the board of directors discussed to pass the Proposal on Exercising Redemption Right for Convertible Bonds under Redemptive Condition but Not Converted. It decided that the Company could redeem the Chenming convertible bonds which were not converted before the date of redemption according to procedures agreed in the Prospectuses and 105% of face value (including the current interests) after actually meeting relevant redemptive condition of the Prospectuses of convertible bonds. As of 14 May 2007, the Company converted the Chenming Convertible Bonds, and total shares were increased to 1,706,345,941 shares.
13. Replied by Zheng Jian Xu Ke [2008] No. 290 document of the Reply on Approving Shandong Chenming Paper Group Incorporated Company to Issue Foreign Shares by the China Securities Regulatory Commission, and with reply by the Stock Exchange of Hong Kong Ltd. (hereinafter referred to as the Stock Exchange of Hong Kong), the Company was approved to publicly issue the overseas listed foreign shares (H shares). The Company publicly offered 355,700,000 H shares all over the world and listed for trading on the main board of Stock Exchange of Hong Kong. The share was called Chenming Paper as its short name with the stock code of HK1812. After offering, the Company's total shares were increased to 2,062,045,941 shares. The Registration No. of the Business License for Enterprise Legal Person was 370000400001170.



## 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	376,046,838.92
2	Total profit	698,989,896.70
3	Net profit attributable to equity holders of the Company	608,271,256.29
4	Net profit after extraordinary gains or losses attributable to equity holders of the Company	285,121,911.63
5	Net cash flows from operating activities	-437,463,010.89

		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	
	Reversal of impairment provision on receivables tested for impairment on individual basis	
	Net gain or loss on disposal of non-current assets	26,249,093.41
	Government grants received	236,198,625.29
	Net gains or losses attributable to debt restructuring	-18,179,889.32
	Gains or losses on change in fair value of consumable biological assets	48,173,926.26
	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	44,188,866.15
	Non-operating net gain or loss other than the above	31,840,643.86
	Effect of extraordinary gains or losses on income tax	-32,413,333.65
	Effect of minority interests	-12,908,587.34
	<b>Total</b>	<b>323,149,344.66</b>

### II. Difference between Chinese accounting standards and international accounting standards

		Unit: RMB	
	Net profit attributable to shareholders of the Company 31 December 2011	Owners' equity attributable to shareholders of the Company 31 December 2011	
Under international accounting standards	608,271,256.29	13,528,622,319.91	
Under Chinese accounting standards	608,271,256.29	13,528,622,319.91	
Adjustments under international accounting standards: Under international accounting standards	-	-	-
Explanation of the difference		Nil	

## 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	2011	2010	Increase / decrease (%)	2009
Revenue from operations	17,747,489,900.87	17,203,123,029.49	3.16%	14,884,629,349.50
Profit from operations	376,046,838.92	1,433,750,743.06	-73.77%	982,565,828.49
Total profit	698,989,896.70	1,562,354,564.20	-55.26%	1,172,922,631.23
Net profit attributable to equity holders of the Company	608,271,256.29	1,163,341,066.21	-47.71%	835,947,981.16
Net profit after extraordinary gains or losses attributable to equity holders of the Company	285,121,911.63	1,034,233,761.46	-72.43%	715,103,042.84
Net cash flows from operating activities	-437,463,010.89	850,328,927.00	-151.45%	1,639,034,259.99
Basic earnings per share	0.29	0.56	-48.21%	0.41
Diluted earnings per share	N/A	N/A	N/A	N/A
Basic earnings per share after extraordinary gains or losses	0.14	0.50	-72.00%	0.35
Fully diluted return on net assets	4.50%	8.59%	-4.09%	6.43%
Weighted average return on net assets	4.50%	8.80%	-4.30%	6.63%
Fully diluted return on net assets after extraordinary gains or losses	2.11%	7.64%	-5.53%	5.50%
Weighted average return on net assets after extraordinary gains or losses	2.11%	7.87%	-5.76%	5.67%
Net cash flows per share from operating activities	-0.21	0.41	-151.22%	0.79
	As at 31 December 2011	As at 31 December 2010	Increase / decrease (%)	As at 31 December 2009
Total assets	45,630,828,967.03	35,077,132,129.98	30.09%	28,213,084,875.02
Total liabilities	30,643,054,107.64	19,816,933,123.48	54.63%	13,476,024,052.87
Gearing ratio	67.15%	56.50%	10.65%	47.77%
Total share capital	2,062,045,941.00	2,062,045,941.00	0	2,062,045,941.00
Owners' equity (or shareholders' equity)	14,987,774,859.39	15,260,199,006.50	-1.79%	14,737,060,822.15
Shareholders' equity attributable to the Company	13,528,622,319.91	13,535,785,794.54	-0.05%	12,991,904,321.68
Net assets per share attributable to equity holders of the Company	6.56	6.56	0	6.30

## 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	4.50%	4.50%	0.29	0.29
Net profit after extraordinary gains or losses attributable to equity holders of the Company	2.11%	2.11%	0.14	0.14

### 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	303,011,972	14.69%	52,300	-852,715	—	—	-800,415	302,211,557	14.66%
of which: State-owned legal person shares	293,003,657	14.21%	—	—	—	—	—	293,003,657	14.21%
Shares held by Senior Management	10,008,315	0.48%	52,300	-852,715	—	—	-800,415	9,207,900	0.45%
II. Non-restricted shares	1,759,033,969	85.31%	-52,300	852,715	—	—	800,415	1,759,834,384	85.34%
of which: Renminbi ordinary shares (A shares)	810,266,484	39.30%	-52,300	852,715	—	—	800,415	811,066,899	39.33%
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 800,415 shares from 10,008,315 shares to 9,207,900 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.
- 2 During the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by former Senior Management of the Company leaving office less than six months changed to restricted shares, i.e. 52,300 shares; during the reporting period, the sales restriction on the shares held by former Directors and Senior Management of the Company leaving office more than six months expired and was released. Therefore, the nature of the 209,200 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).

## III Changes in Share Capital and Shareholders

### 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”.
- In July 2011, the Company issued a total of 20 million corporate bonds totalling RMB2.0 billion with a face value of RMB100 each at an issue price of RMB100, raising a total of RMB2.0 billion. After deducting RMB18 million of expenses, the net proceeds raised amounted to RMB1.982 billion. As of 31 December 2011, RMB1.982 billion of the funds raised were used, among which about RMB382 million for providing additional liquidity and about RMB1.6 billion for repaying bank loans, mainly of which were loans from financial institutions.
- 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 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	10,008,315	852,715	52,300	9,207,900	Lock-up of shares held by senior management of the Company	Released under the relevant requirements of Shenzhen Stock Exchange
<b>Total</b>	<b>303,011,972</b>	<b>852,715</b>	<b>52,300</b>	<b>302,211,557</b>	—	—

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 as at the end of 2011      The total number of shareholders was 166,389, of which 135,425 were holders of A shares, 30,353 were holders of B shares and 611 were holders of H shares.

Total number of shareholders as at the end of the month before the publication date of this annual report      The total number of shareholders was 165,909, of which 134,316 were holders of A shares, 30,984 were holders of B shares and 609 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)	18.89%	389,619,000	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	2.11%	43,480,377	0	Unknown
BILL & MELINDA GATES FOUNDATION TRUST	Overseas legal person	1.14%	23,460,302	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
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen	Domestic non-state-owned legal person	0.86%	17,819,798	0	Unknown
BBH BOS S/A FIDELITY FD – CHINA FOCUS FD	Overseas legal person	0.78%	16,068,072	0	Unknown
VALUE PARTNERS CLASSIC FUND	Overseas legal person	0.39%	8,143,633	0	Unknown
DRAGON BILLION CHINA MASTER FUND	Overseas legal person	0.34%	7,078,618	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	389,619,000	H share
PLATINUM ASIA FUND	43,480,377	B share
BILL & MELINDA GATES FOUNDATION TRUST	23,460,302	A share
HTHK-MANULIFE CHINA VALUE FUND	22,892,182	B share
MANULIFE GLOBAL FUND	20,324,321	B share
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen	17,819,798	A share
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	16,068,072	B share
VALUE PARTNERS CCASSLC FUND	8,143,633	B share
DRAGON BILLION CHINA MASTER FUND	7,078,618	B share
Chen Honggou	6,334,527	A share

Connected relationship or concert-party relationship among the above shareholders

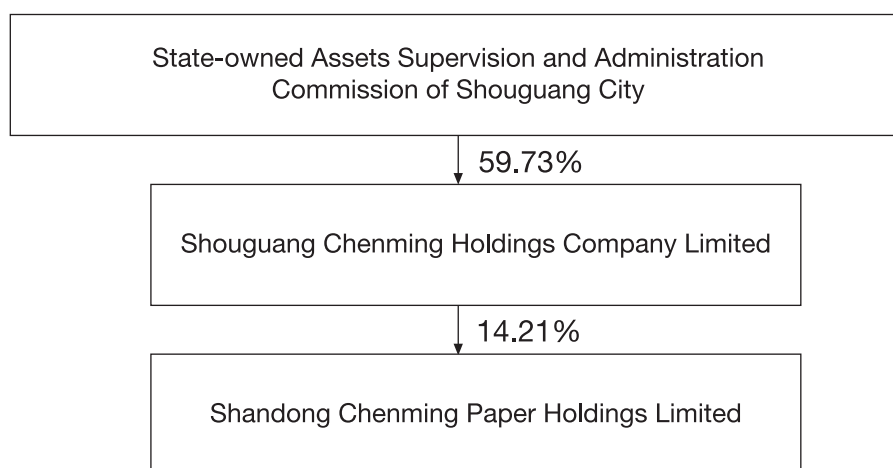
Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the other shareholders. Save for the above, the Company is not aware whether any other shareholders of outstanding shares as aforesaid are connected with one another, or persons acting in concert.

## 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. As 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 59.73% 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 2011, 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
Ceah Capital Management Limited	50,977,500 H shares (L)	2.47	13.02
Ceah Cheng Hye	50,977,500 H shares (L)	2.47	13.02
Ceah Company Limited	50,977,500 H shares (L)	2.47	13.02
Hang Seng Bank Trustee International Limited	50,977,500 H shares (L)	2.47	13.02
To Hau Yin	50,977,500 H shares (L)	2.47	13.02
Value Partners Group Limited	50,977,500 H shares (L)	2.47	13.02
Value Partners Limited	53,333,500 H shares (L)	2.59	13.63
The National Social Security Fund Council	35,570,000 H shares (L)	1.72	9.09
FIL Limited	23,474,000 H shares (L)	1.14	5.99

(L) – Long position

(S) – Short position

(P) – Lending pool

Save as disclosed above, as at 31 December 2011, 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
<b>I. Executive Directors</b>										
Chen Hongguo	Chairman	M	47	April 2010 - April 2013	6,334,527	6,334,527	0	—	499	No
Yin Tongyuan	Vice-chairman	M	54	April 2010 - April 2013	2,423,640	2,423,640	0	—	298	No
Li Feng	Director, deputy general manager, deputy chief marketing officer	M	39	April 2010 - April 2013	471,818	471,818	0	—	105.45	No
Geng Guanglin	Director and deputy general manager	M	38	April 2010 - April 2013	437,433	437,433	0	—	127.85	No
Tan Daocheng	Director	M	45	April 2010 - April 2013	185,700	185,700	0	—	41.49	No
Hou Huancai	Director	M	50	April 2010 - April 2013	628,915	628,915	0	—	78.61	No
Zhou Shaohua	Director	M	50	April 2010 - April 2013	123,007	123,007	0	—	126.20	No
<b>II. Non-executive Directors</b>										
Cui Youping	Director	M	48	April 2010 - April 2013	0	0	0	—	5	No
Wang Xiaogun	Director	M	56	April 2010 - April 2013	0	0	0	—	5	No
Wang Fengrong	Director	F	43	April 2010 - April 2013	0	0	0	—	5	No
<b>III. Independent non-executive Directors</b>										
Zhang Zhiyuan	Independent Director	M	49	April 2010 - April 2013	0	0	0	—	5	No
Wang Aiguo	Independent Director	M	48	April 2010 - April 2013	0	0	0	—	5	No
Zhang Hong	Independent Director	F	47	April 2010 - April 2013	0	0	0	—	5	No
Wang Yumei	Independent Director	F	49	April 2010 - April 2013	0	0	0	—	5	No
Wang Xiangfei	Independent Director	M	61	April 2010 - April 2013	0	0	0	—	12.50	No
<b>IV. Supervisors</b>										
Gao Junjie	Chairman of Supervisory Committee	M	41	April 2010 - April 2013	39,606	39,606	0	—	40	No
Wang Ju	Supervisor	F	46	April 2010 - April 2013	0	0	0	—	19.43	No
Yang Hongqin	Supervisor	F	44	April 2010 - April 2013	0	0	0	—	16.69	No
Yin Qixiang	Supervisor	M	74	April 2010 - April 2013	0	0	0	—	2.5	No
Guo Guangyao	Supervisor	M	69	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 of the Company or any other related parties
<b>V. Senior Management</b>										
Li Xueqin	Deputy general manager	F	46	April 2010 - April 2013	429,348	429,348	0	—	109.96	No
Hao Yun	Deputy general manager, secretary to the Board of Directors	M	49	April 2010 - April 2013	708,441	708,441	0	—	71.09	No
Wang Shihong	Deputy general manager	M	48	April 2010 - April 2013	0	0	0	—	40	No
Zhang Yanjun	Deputy general manager	M	46	August 2010 - April 2013	102,393	102,393	0	—	61.81	No
Hu Changqing	Deputy general manager	M	46	April 2010 - April 2013	1,238	1,238	0	—	183.49	No
Zhang Chunlin	Deputy general manager	M	43	April 2010 - April 2013	245,674	245,674	0	—	96.98	No
Chang Liting	Deputy general manager	M	58	March 2011 - April 2013	0	0	0	—	91.68	No
Li Zhenzhong	Deputy general manager	M	38	March 2011 - April 2013	0	0	0	—	95.62	No
Xia Jigang	Deputy general manager	M	36	March 2011 - April 2013	0	0	0	—	95.35	No
Wang Chunfang	Financial controller	M	36	April 2010 - April 2013	0	0	0	—	92.17	No
Poon Shiu Cheong	Company secretary	M	42	April 2010 - April 2013	0	0	0	—	12.26	No
<b>Total</b>	—	—	—	—	12,131,740	12,131,740	0	—	2,355.63	—

**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, deputy general manager of the Company and deputy chief marketing officer in charge of the coated paper product sales companies. 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, and chairman of Zhanjiang Chenming Paper Pulp Co., Ltd. and a director of Shouguang Chenming Holdings Company Limited.

Mr. Tan Daocheng, who joined the Company in 1984, had held different positions including chairman and 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. and Chibi Chenming Paper Co., Ltd. He is currently a Director of the Company in charge of duties in Shouguang 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 in charge of the production section of the Group.

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, professor and doctor of economics, 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 associate Dean of the Shandong Economic University. He currently holds positions as vice president of Shangong University of Finance and Economics, 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, doctor of economics, was previously a lecturer at the Department of Finance of Shandong Economic University and an associate professor at the Economic Research Center of Shandong University. She currently holds positions as professor and assistant to Dean of the Center of Economic Research of Shandong University, 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 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, professor and post doctorate in accounting, 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 and chief of Department of Accounting of Shandong Economic University. He currently holds positions as the Dean of the School of Accounting of Shandong University of Finance and Economics, a director of the Accounting Society of China and the China appraisal Society, vice-chairman and secretary-general of Shandong Province Accounting Education Committee and member of the Shandong Province Enterprise Credit Rating Experts Commission. He also serves as an independent non-executive director of Shandong Laiwu Steel Corporation, China Corn Oil Company Limited, Hisense Kelon Electrical Holdings Co. Ltd. and independent director of Shangdong Zhanqiu Blower 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, the Dean of the School of Finance of Shandong Economic University, and Dean of Shandong Regional Economic Research School. He currently holds positions as Dean of the Centre for Regional Economic Research and executive vice-dean, professor, doctor of management and postdoctoral in finance of the School of Finance of the Shangdong University of Finance and Economics, as well as vice-president and secretary-general of Shandong Regional Economics Institute, standing director and member of the academic committee of Shandong Province Finance Association and 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 as 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. After graduation, Ms. Wang has been working at the Central University of Finance until now. She had held teaching posts at the Department of Economics and Management, and served as director of teaching and research office and vice-dean at the Insurance (Department) College. She is currently deputy librarian of the Central University of Finance and Economics and associate professor of College of Insurance. She also served as executive director of the Labour Science and Education Branch of the Labour Institute, member of Beijing Economic Committee of China Democratic National Association and sub-group deputy head, and supervisor of the Haidian urban management and monitoring unit. 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, director of Shandong Province External Trade Association, director of Shandong Province Commerce Association and director of Shandong Province Japanese Association. 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 listed 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 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 (a Hong Kong-listed company) and an executive director of Nan Nan Resources Enterprise Limited (a Hong Kong-listed company) and external supervisor of Shenzhen Rural Commercial Bank. 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 and 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

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 deputy 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. Hu Changqing joined the Company in 1988 and had held positions as 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 in charge of the Zhanjiang Chenming Paper Pulp project.

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 positions as 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. and the general manager of Jiangxi Chenming Paper Co., Ltd. He is currently serving as the deputy general manager of the Company and the chairman of Yanlian Chenming Paper Co., Ltd. in charge of Hailaer Chenming Paper Co., Ltd. and Fuyu Chengming 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 general manager of Jilin Chenming Paper Co., Ltd..

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. Chang Liting joined the Company in 1985. He had served as chairman of the workers' union of the Company and product general manager of a sales company. He is currently chairman of the workers' union and deputy general manager of the Company in charge of sales of newspaper paper products.

Mr. Xia Jigang served as commissioner I of the production unit of Ningbo Zhonghua Paper Company Limited from 1996 to May 2009. He joined the Company in May 2009, responsible for the production work of the Group. He is currently deputy general manager of the Company in charge of white cardboard project.

Mr. Li Zhenzhong joined the Company in 1995. He had served as principal representative of the shanghai management region of a sales company, sales manager of cultural paper products. He is currently deputy general manager and deputy sales director of the Company.

Mr. Poon Shiu Cheong is a Fellow Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and CPA Australia. 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 2011, 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)
<b>Directors</b>		
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	125,307
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	—
<b>Supervisors</b>		
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	Chairman	Shouguang Chenming Holdings Company Limited (Note 2)	231,000,000	—	231,000,000
		Shouguang Chenming Guangyuan Real Property Company Limited (Note 3)	1,371,000	—	1,371,000

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 interest in Shouguang Chenming Guangyuan Real Property Company Limited (hereinafter referred to as "Guangyuan Real Property") which is a wholly owned subsidiary of Chenming Holdings.

Note 3: According to the Capital Increase Agreement entered into in June 2011, Shouguang Hengtai Enterprise Investment Company Limited (hereinafter referred to as "Shouguang Hengtai", a limited company incorporated in the People's Republic of China on 15 September 2010 with current registered capital of RMB100.00 million and 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 engage in fund raising, financing and securities businesses and a total of 54% equity interest was held by Mr. Chen Hongguo and his spouse Ms. Li Xueqin) holds 60% equity interest in Guangyuan Real Property, and Chenming Holdings' equity interest in Guangyuan Real Property will change from 100% to 40%. As a result, Guangyuan Real Property will no longer be an associated corporation of the Company.

Save as disclosed above, as at 31 December 2011, 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 2011, 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 2011.

### 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 shares in or debentures of the Company or any other body corporate and obtain benefits.

### 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 2011, please refer to Part I of this section.

## IV Directors, Supervisors and Senior Management

### IX. Change of Directors, Supervisors and Senior Management

1. On 30 March 2011, as considered and approved by the sixth session of the Board of the Company at its fifth meeting, Mr. Wang Baoliang no longer served as deputy general manager of the Company due to changes in work arrangements; Mr. Chen Hongguo, Chairman and General Manager of the Company, having regard to work requirements, nominated Mr. Chang Liting, Mr. Xia Jigang and Mr. Li Zhenzhong respectively as deputy general managers of the Company for a term of 3 years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINFO (<http://www.cninfo.com.cn>) on 31 April 2011, and the website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") ([www.hkex.com.hk](http://www.hkex.com.hk)) on 30 April 2011.

2. On 10 October 2011, Mr. Wang Zaiguo and Mr. Zhao Liqun resigned as deputy general managers of the Company respectively for personal reasons.

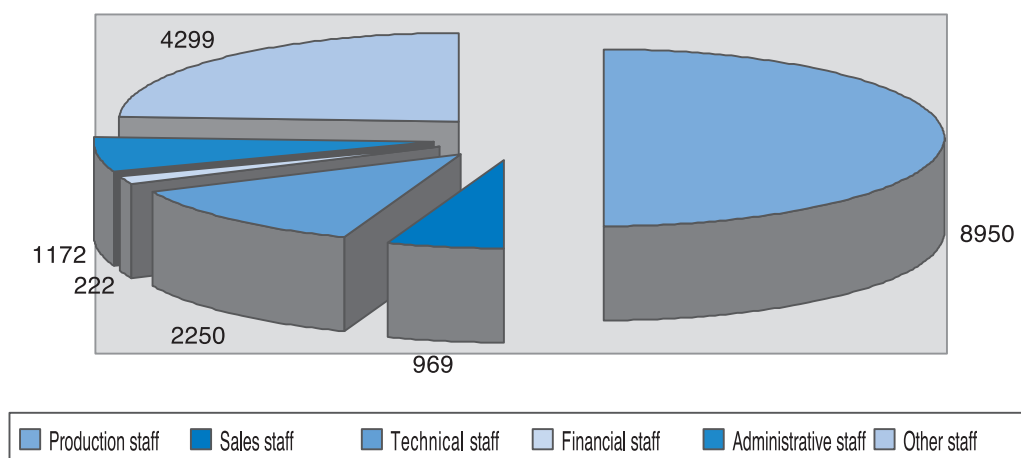
For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINFO (<http://www.cninfo.com.cn>) on 11 October 2011, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 10 October 2011.

## IV Directors, Supervisors and Senior Management

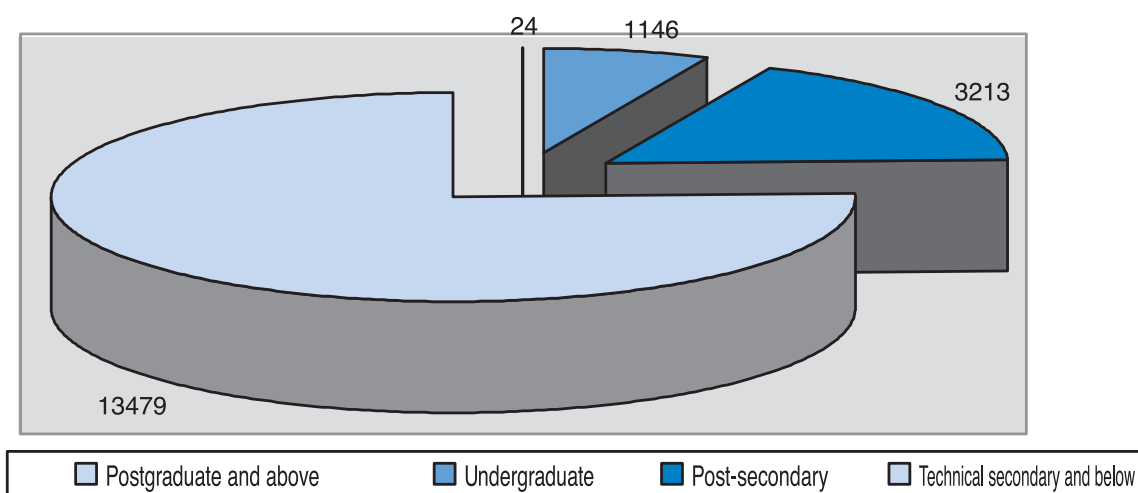
### X. Personnel of the Company

At the end of the reporting period, the Group had 17,862 employees in aggregate.

#### (1) Speciality composition



#### (2) Education level



The Company had obligations for 5 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 2011 are set out in Note 25 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

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 in Note 25 of the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

## 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
Zhang Zhiyuan	5	5	0	0
Wang Aiguo	5	5	0	0
Zhang Hong	5	5	0	0
Wang Yumei	5	4	0	0
Wang Xiangfei	5	5	0	0

Note: 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) 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; (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 5 meetings, 4 of which were regular meetings and 1 was an extraordinary meeting. Except Ms. Wang Yumei who was indisposed and thus absent from the fifth meeting of the sixth session of the Board, the other 14 Directors of the Company attended 5 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	
<b>I. Executive Directors</b>					
Chen Hongguo	Chairman, general manager	5/5	N/A	1/1	1/1
Yin Tongyuan	Vice chairman	5/5	N/A	1/1	1/1
Li Feng	Director, deputy general manager, Deputy chief marketing officer	5/5	N/A	N/A	N/A
Geng Guanglin	Director, deputy general manager	5/5	N/A	N/A	N/A
Tan Daocheng	Director	5/5	N/A	N/A	N/A
Hou Huancai	Director	5/5	N/A	N/A	N/A
Zhou Shaohua	Director	5/5	N/A	N/A	N/A
<b>II. Non-executive Directors</b>					
Cui Youping	Director	5/5	5/5	N/A	N/A
Wang Xiaoqun	Director	5/5	N/A	N/A	N/A
Wang Fengrong	Director	5/5	5/5	N/A	N/A
<b>III. Independent non-executive Directors</b>					
Zhang Zhiyuan	Independent Director	5/5	5/5	1/1	1/1
Wang Aiguo	Independent Director	5/5	5/5	N/A	1/1
Zhang Hong	Independent Director	5/5	5/5	N/A	N/A
Wang Yumei	Independent Director	5/4	N/A	1/1	1/1
Wang Xiangfei	Independent Director	5/5	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.

### 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 2011 prepared in accordance with China Accounting Standards for Business Enterprises.

The tasks performed by the audit committee in the reporting period are detailed in the Directors' Report of the 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 tasks 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 tasks performed by the nomination committee in the reporting period are detailed in the Directors' Report of this 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) Auditors

On 26 May 2009, the 2008 annual general meeting of the Company considered and approved the proposal for the Company to engage Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2009. In accordance with the agreed terms of engagement, their engagement came to an end after the publication of the auditors' report for 2009.

The Board of the Company and the 2010 Second Extraordinary General Meeting of the Company considered and approved on 28 October 2010 and 16 December 2010 respectively to engage RSM China Certified Public Accountants and RSM Nelson Wheeler to be responsible for domestic and international auditing of the Company for 2010 respectively.

On 18 May 2011, the 2010 annual general meeting of the Company agreed to continue to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2011 to be responsible for domestic auditing of the Company for 2011.

#### (XIII) Remuneration for the auditors

The financial statements for 2011 prepared in accordance with Accounting Standards for Business Enterprises by the Group were audited by RSM China Certified Public Accountants. In 2011, the Company paid a total of RMB2,000,000 of financial statements auditing and review fee to the auditors.

The Company passed a resolution to engage RSM China Certified Public Accountants as the auditors of the Company for 2011 at the 2010 General Meeting held on 18 May 2011,.

RSM China Certified Public Accountants have stated their reporting responsibilities in the PRC auditors' report on the financial statements of the Group on page 57 of this annual report.

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

### **(XV) 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 tasks performed by the Supervisory Committee in the reporting period are detailed in the Supervisory Committee' Report of this Annual Report.

### **(XVI) Adoption of China Accounting Standards for Business Enterprises**

According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2010, Mainland incorporated companies listed in Hong Kong are allowed to prepare financial statements in accordance with the China Accounting Standards for Business Enterprises to fulfill the financial reporting requirements of the Stock Exchange. At the 2010 Annual General Meeting held on 18 May 2011, the Company considered and approved a proposal on the appointment of auditors for 2011 to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2011. In auditing the financial statements of the 2011 financial year prepared by the Company in accordance with the China Accounting Standards for Business Enterprises, RSM China Certified Public Accountants adopted the Chinese Auditing Standards only and published the auditors' report.

## VI Internal Control

### 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.

### 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.



## VI Internal Control

### (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.

### (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.

## VI Internal Control

### (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 CNINFO ([www.cninfo.com.cn](http://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.

## (9) Shareholding structure of the subsidiaries of the Company



## VI Internal Control

### 3. Establishment and implementation of the accountability system

The Company had clearly stipulated in the Information Disclosure Management System matters such as identifying the relevant parties responsible for breaches and errors in information disclosure and how these parties should be held responsible. During the reporting period, there were no incidents such as amendments to material accounting errors, supplementary information to material omissions and rectification of results forecast.

### 4. 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.

### 5. Overall assessment on the internal control system by the Board of the Company

The Board was of opinion that the internal control system of the Company and its measures were comprehensive and reasonable and practically effective. As at 31 December 2011, the Company had in all material aspects maintained effective internal control with respect to regulatory standards relating to financial statements in accordance with the Internal Accounting Control Criteria - Basic Criteria (Trial) promulgated by Ministry of Finance.

After the implementation of the internal control regulatory work according to the requirements of the five national bureaux and commissions, 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 enhancement in the standard of corporate governance.

### 6. Supervisors and independent non-executive Directors of the Company made the following self assessment comments on the internal control 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.

## VI Internal Control

### 7. 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 2011 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.

### 8. Auditors' opinion

The internal control audit opinion provided by the auditors revealed that as of 31 December 2011, the Company had in all material aspects maintained effective internal control with respect to regulatory standards relating to financial statements in accordance with the Internal Accounting Control Criteria - Basic Criteria (Trial) promulgated by Ministry of Finance.

## VII Particulars about the General Meeting

### I ANNUAL GENERAL MEETING

The 2010 annual general meeting of the Company was held on 18 May 2011. Ten proposals were considered at the meeting: inducting the Directors' report of the Company for 2010, the Supervisory Committee's report of the Company for 2010, the report of the independent Directors of the Company for 2010, the financial statements of the Company for 2010 and the profit distribution plan of the Company for 2010. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 19 May 2011, and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 18 May 2011.

### II EXTRAORDINARY GENERAL MEETING

The 2011 first extraordinary general meeting of the Company was held on 19 October 2011. One proposal was considered at the meeting: issuance of the dedicated private debt financing instruments by the Company. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 20 October 2011, and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 19 October 2011.

## VIII Chairman's Statement

Dear shareholders,

It is my pleasure to present the financial report for the year ended 31 December 2011 to all shareholders and express my gratitude, on behalf of the board of directors, for all shareholders' concern and support to Chenming Paper.

In 2011, the previously planned projects of the Company such as the Zhanjiang forestry-pulp-paper 700,000-tonne pulp project and its ancillary 450,000-tonne high-end cultural paper and 800,000-tonne low weight coated paper projects commenced operation successively on schedule. The 600,000-tonne white coated linerboard project was under construction as planned. The Company's production capacity achieved leapfrog growth.

Due to the industry downturn caused by the macro-economic recession since the last year and the weakness in macro-demand, it was difficult for the Company's increased production capacity to improve the Company's results in the near term. Therefore, its profit declined significantly.

### Operating results

During the reporting period, the Company completed machine-made paper production of 3.4 million tonnes, representing a growth of 50,000 tonnes or 1.49% as compared to 2010. Revenue from principal operations amounted to RMB17,747.4899 million, up RMB544.3669 million or 3.16% from 2010. Costs of principal operations were RMB14,931.1532 million, up RMB1,248.1517 million or 9.12% from 2010. Operating profit and net profit attributable to equity holders of the Company were RMB376.0468 million and RMB608.2713 million respectively, down 73.77% and 47.71%.

### 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 2011. 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.

After the implementation of the internal control regulatory work according to the requirements of the five national bureaux and commissions, 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 enhancement in the standard of corporate governance.

### 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 2011 and after considering the financial position and cash flow conditions of the Group as a whole, the Board recommended a profit distribution budget for 2011 as follows: based on the total share capital of 2,062,045,941 shares as at the end of 2011, a dividend of RMB1.50 (tax inclusive) per 10 shares was to be distributed to all shareholders, aggregating to RMB309,306,891.15 (tax inclusive) of dividend in this distribution, which accounted for 59.18% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2011 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.

## VIII Chairman's Statement

### Future Development

The Twelfth Five-year Plan for the papermaking industry requires making it strong and big on the base of total volume control, to improve industry concentration, expand self-sufficient ability of raw materials and decrease dependence on macro-economy. In recent years, the Company is committed to the integrated development of pulp and paper with a longer industry chain and more comprehensive types of paper. In 2011, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development is in line with the requirements of the development plan of entire paper making industry. Although the industry has some short-term downturns, the Company will have an exponential growth in performance once the industry recovers, and the Company's future performance is still much awaited.

1. **Adhering to regulated operation, continuing to enhance the standard of corporate governance, and promoting the healthy development of Company.**

The Company strictly adheres to domestic and international regulatory requirements for listing, regulates and perfects the management and operation systems of the Company, enhances the standard of regulated operation, avoids operation risks in listing; implements the Basic Criteria for Internal Control, strengthens the internal control systems of the Company and subsidiaries, enhances the organisational management structure and internal control management system of subsidiaries, regulates operating and management behaviour, strengthens the Company's ability to withstand risk; strengthens information disclosure, endeavours to perfect investor relations management and safeguards the interests of shareholders and investors.

2. **Intensifying capital operation and reducing the operating costs of the Company.**

In 2012, the Company fully takes advantage of its role as a listed companies in providing a platform for setting up finance companies as soon as possible, strengthening financial management, increasing efforts in centralised management of funds and managing the use of funds by all subsidiaries and sales companies through a quota system. The company broadens financing sources through methods such as issuance of corporate bonds and non-dedicated debt financing instruments to achieve direct financing at a low cost.

3. **Strengthening the management of production, sales and procurement.**

**Strengthening production management.** Firstly, the Company adjusts the product structure. The Company strengthens the development of new products, adjusts the product structure as an important measure to respond to market changes, adheres to the two directions of high-end high value-added and low cost to optimise the structure of product varieties and enhance market competitiveness. The Company keeps a close watch of the market, steps up efforts in new product development and explores new market opportunities. Secondly, the Company strengthens brand building, improves quality management with the utmost efforts, improves product quality with a view to being on an equal footing with world-class enterprises, creates renowned brandnames, enhances enterprise competitiveness and value-added products. Thirdly, the Company improves the level of equipment automation and information management to achieve a staff configuration according to international advanced enterprise standards.

**Strengthening sales.** Firstly, the Company forms and leads teams to strengthen the execution ability of the sales teams and improve the ability to manage and control the market. Secondly, the Company changes the sales model, engages large agents, increases the business with manufacturers, merchants and banks, uses social resources to strengthen sales to make up for deficiencies of its own strength. Thirdly, the Company strengthens the overseas market. Through the introduction of talents, the Company speeds up the exploration of the international market and strives to export 800,000 tonnes in the year.



## VIII Chairman's Statement

**Strengthening procurement management.** The Company establishes import and export trading companies, implements market-oriented operation and optimises resource allocation, established professional companies such as waste paper and coal companies, improves the waste paper recycling system to stable the supplies and reduce costs.

4. **Further strengthening enterprise culture.** Through creating a “learning, happy and strict management” corporate culture as a goal, the Company enhances the standard of people-oriented management. Firstly, the departments effect their departmental funtions, and actively carry out the corporate culture work and creative activities, promote the building of an enterprise culture, and make efforts to achieve a high degree of integration of corporate governance and corporate culture. Secondly, the Company enriches the cultural life of its staff, provides comprehensive ancillary facilities and venues for staff activities, regularly organises sports activities and a variety of cultural and leisure activities so that employees can relax in their spare time, enhance their friendship and strengthen team cohesiveness.

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*

28 March 2012

# IX Directors' Report

## I. Management discussion and analysis

### (I) General overview during the reporting period

In 2011, the Board strived to regulate the operation of the Company in terms of corporate governance. According to the regulatory requirements, the corporate governance system was improved in a timely manner. The management systems such as Behaviour Regulation and Information Enquiry System for Substantial Shareholders and Actual Controllers and the Derivative Products Investment Internal Control and Information Disclosure System were formulated and improved. The legal person governance structure was improved to enable the special committees of the Board to fully play their role. The Board facilitated the Company's general meeting, the Board, the supervisory committee and the management in exercising their power in accordance with their respective statutory authorities and the rules of procedures. The Board also strengthened the establishment of the Company's management and control system, and actively promoted the implementation of internal control in the Company to further improve and perfect the relevant systems concerning internal control of the Company. In particular, the Board strengthened financial control and financial management. Having evaluated the Company's internal system, the Board of the Company considered that during the reporting period, the Company's internal control system was sound and effectively implemented, and no significant deficiencies in internal control design or implementation was identified in the Company.

For management, first, the internal control management system was enhanced. The Company implemented the Internal Control Basic Criteria to strengthen the establishment of internal control systems of the Company and its subsidiaries, enhance the organisational management structure and internal control management system of the subsidiaries, regulate the operating and management behaviour, and strengthen the Company's ability to withstand risk. Second, an appraisal system was set up for all staff, thus achieving efficiency and fairness. Through positive incentives, all staff were guided to continue their improvement, thus raising self-expectation and achieving self-enhancement. Third, purchase management was strengthened through implementing a model combining centralised purchasing at the group level 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 at the group level. Fourth, the Company strengthened financial management and expanded its finance channels through issue of medium-term notes and short-term debentures, thereby lowering the finance expenses.

For marketing, first, 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. Second, the Company strengthened brand building by classifying existing product brands into different classes with repositioning, and building up the image of high end brands with improvement in quality and service. Third, 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. Under the extremely difficult market situation in 2011, the significant improvement in the marketing efforts of the Company brought about significant achievements in market expansion.

For projects, in face of the global financial crisis, the Company turned challenges into opportunities, and made more investments with a view to long term development. After two years of project construction, the Company reached a climax in project construction and operation in 2011, with various large-scale new construction projects such as the 800,000-tonne coated paper project, Zhanjiang Chenming 700,000-tonne chemical pulp project and the 450,000-tonne cultural paper project coming into operation one after another as scheduled. The Company achieved substantial enhancement in production capacity. At the same time, the Company continued to develop the raw materials bases to speed up the development of "forestry-pulp-paper integration", thereby optimising the raw materials structure and securing the leapfrogging development of the Company.

## IX Directors' Report

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

#### (I) General overview during the reporting period (Cont'd)

##### 1. Overview of production and operation

During the reporting period, the Company completed machine-made paper production of 3.40 million tonnes, representing an increase of 50,000 tonnes or 1.49% as compared to 2010. Revenue from principal operations amounted to RMB17,747.4899 million, up by RMB544.3669 million or 3.16% from 2010. Costs of principal operations were RMB14,931.1532 million, up by RMB1,248.1517 million or 9.12% from 2010. Operating profit and net profit attributable to equity holders of the Company were RMB376.0468 million and RMB608.2713 million respectively, down by 73.77% and 47.71% respectively.

##### 2. Progress of the Zhanjiang Pulp Project

- (1) As undertaken in the prospectus, 91% of the proceeds from H share issue were used in the Zhanjiang pulp project. As of 31 December 2011, approximately RMB2,483 million were invested into the project. All proceeds have been utilised according to the use of proceeds. The Zhanjiang pulp project successfully came into operation on 29 August 2011. The Company published the Indicative Announcement on Operation of the Zhanjiang Chenming Pulp Project on 2 September 2011.
- (2) As of the end of 2011, the Group had acquired 1.80 million mu of woodlands for raw materials and obtained legal forestry rights certificates for 1.68 million mu of woodlands, among which, the construction areas of the woodlands for paper making materials in Zhanjiang and its peripheral regions reached 820,000 mu already.

## IX 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	Operating costs	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	1,634,009.71	1,387,458.59	15.09%	1.09%	7.66%	-5.18%
Sales of electricity and steam	66,017.74	60,112.72	8.94%	48.36%	53.26%	-2.91%
Sales of construction materials	37,699.53	28,569.27	24.22%	-3.08%	-6.86%	3.08%
Sales of chemical products	9,921.04	7,083.67	28.60%	33.58%	39.28%	-2.92%
Hotel business	4,905.22	1,290.84	73.68%	3.93%	4.50%	-0.15%
Others	22,195.75	8,600.23	61.25%	164.81%	153.49%	1.73%
<b>Total</b>	<b>1,774,748.99</b>	<b>1,493,115.32</b>	<b>15.87%</b>	<b>3.16%</b>	<b>9.12%</b>	<b>-4.59%</b>

Principal operations by product						
Light weight coated paper	129,616.94	116,051.60	10.47%	-4.00%	0.94%	-4.37%
Duplex press paper	231,813.19	205,353.98	11.41%	18.25%	26.24%	-5.61%
Writing paper	35,548.99	32,218.97	9.37%	-34.72%	-30.45%	-5.55%
Coated paper	374,238.75	320,225.82	14.43%	-11.30%	-1.12%	-8.81%
News press paper	165,454.88	141,132.52	14.70%	4.40%	4.93%	-0.43%
Paperboard	63,148.51	60,285.60	4.53%	-15.02%	-7.69%	-7.59%
White paper board	227,440.03	178,891.22	21.35%	-2.82%	4.46%	-5.47%

## IX 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	1,371,962.00	83.96	-3.15
Hong Kong	65,424.73	4.00	306.66
United States	22,814.21	1.40	35.99
Japan	23,871.57	1.46	27.29
Southeast Asia	27,162.84	1.66	29.97
Middle East	44,220.94	2.71	42.06
Europe	28,241.01	1.73	54.6
South Africa	9,920.96	0.61	46.97
Other overseas areas	40,391.45	2.47	-43.19
<b>Total</b>	<b>1,634,009.71</b>	<b>100.00</b>	<b>1.09</b>

#### 3. Five Year Financial Summary

The Summary of the published results and assets, liabilities and minority interests for the past five years (extracted from published audited financial statements) are set out as below. This summary does not constitute part of the audited financial statements. The financial summary was prepared in accordance with the Hong Kong Accounting Standards (from 2007 to 2010, the figures were prepared in accordance with the International Accounting Standards; starting from 2011, the figures were prepared with the China Accounting Standards for Business Enterprises):

## IX 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)

##### 3. Five Year Financial Summary (Cont'd)

###### Consolidated results

Unit: RMB'0000

	2011	Year ended 31 December				
		2010 (China Accounting Standards for Business Enterprises)	2010 (International Accounting Standards)	2009	2008	2007
Turnover	1,774,749	1,720,312	1,709,970	1,481,525	1,543,091	1,487,888
Profit/(loss) before tax	69,899	156,235	159,781	120,838	159,080	152,338
Taxation	11,026	26,070	26,070	21,901	29,580	27,080
Profit/(loss) for the period	60,827	116,334	119,034	86,295	110,229	99,401
Minority interests	-1,954	13,832	14,678	12,643	19,271	25,857

###### Consolidated assets, liabilities and minority interests

Unit: RMB'0000

	2011	Year ended 31 December				
		2010 (China Accounting Standards for Business Enterprises)	2010 (International Accounting Standards)	2009	2008	2007
Total assets	4,563,083	3,507,713	3,500,113	2,812,613	2,620,733	2,191,373
Total liabilities	3,064,305	1,981,693	2,003,482	1,371,842	1,255,036	1,173,343
Minority interests	145,915	172,441	172,342	173,570	174,478	180,915
Total equity attributable to owners of the patent company	1,352,862	1,353,579	1,324,289	1,267,202	1,191,219	837,115

## IX 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

Unit: RMB

Items	2011		2010		Difference in the percentage of total assets
	Closing balance	As a percentage of total assets in 2011	Closing balance	As a percentage of total assets in 2010	
Monetary capital	3,529,938,211.47	7.74%	1,951,854,940.72	5.56%	2.18%
Bills receivable	2,444,508,997.74	5.36%	2,762,389,909.89	7.88%	-2.52%
Accounts receivable	2,886,437,754.69	6.33%	2,122,578,824.27	6.05%	0.28%
Inventories	5,586,472,121.37	12.24%	3,047,078,215.01	8.69%	3.55%
Other current assets	1,698,362,261.63	3.72%	658,572,125.34	1.88%	1.84%
Fixed assets	22,740,904,031.02	49.84%	12,882,358,381.56	36.73%	13.11%
Construction in progress	2,618,039,624.85	5.74%	7,871,512,563.84	22.44%	-16.70%
Consumable biological assets	959,061,500.85	2.10%	726,742,568.44	2.07%	0.03%

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

- (1) Monetary funds: demand for liquidity increased mainly due to new construction projects of the Company being gradually brought into operation and the greater expansion in the scale of production and operation as compared to the prior period.
- (2) Bills receivable: Bills receivable decreased mainly due to the higher proportion of payment by bank acceptance.
- (3) Accounts receivable: the sales revenue of the Company increased mainly due to the expanded scale of the Company arising from new construction projects being brought into operation.
- (4) Inventory: the closing balance of finished goods and raw materials in stock increased mainly due to the effects of market conditions and the expanded scale of the Company upon operation of its projects.
- (5) Other current assets: input tax of non-credited value added tax increased mainly due to investments in new construction projects.
- (6) Fixed assets: construction in progress was transferred to fixed assets mainly due to gradual completion of new projects of the Company.
- (7) Construction in progress: construction in progress was transferred to fixed assets mainly due to gradual completion of the Zhanjiang pulp project, the 800,000-tonne coated paper project and other expansion and improvement projects.
- (8) Consumable biological assets: Consumable biological assets increased mainly due to the purchase and growing of timber assets by the Company and the change in their fair value.

## IX 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:

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)
- (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 2011	Balance as at 31 December 2010	Effect on profit or loss for the year
Held-for-trading financial assets	Derivative financial instruments	Quotes from financial institutions			
Held-for-trading financial liabilities	Derivative financial instruments	Quotes from financial institutions			
Consumable biological assets	Consumable timber assets	Note	959,061,500.85	726,742,568.44	48,173,926.26

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:

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).



## IX 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 (-)
Business taxes and surcharges	75,717,528.59	30,117,480.19	151.41%
General and administrative expenses	1,014,494,608.50	871,138,204.71	16.46%
Finance expenses	432,022,027.84	233,455,658.10	85.06%
Loss on impairment of assets	41,216,449.59	110,419,785.04	-62.67%
Gain on investments	7,871,420.17	-13,762,755.60	-157.19%
Non-operating revenue	364,826,920.31	179,418,037.60	103.34%
Total profit	698,989,896.70	1,562,354,564.20	-55.26%
Tax expenses	110,263,113.88	260,696,445.13	-57.70%
Net profit attributable to equity holders of the Company	608,271,256.29	1,163,341,066.21	-47.71%
Minority interest	-19,544,473.47	138,317,052.86	-114.13%

Major changes for the items are detailed as follows:

- (1) Business taxes and surcharges increased by 151.41% 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;
- (2) General and administrative expenses increased by 16.46% as compared to the prior year mainly due to a rise in investments in research and development by the Company;
- (3) Finance expenses increased by 85.06% as compared to the prior year mainly due to the increase of bank borrowings resulting from an expanded scale of production and operation and project investments, as well as the substantial increase of interest expenses resulting from a rise in interest rate during the current period;
- (4) Loss on impairment of assets decreased by 62.67% as compared to the prior year mainly due to (1) a change in the age of the amounts with customers arising from the efforts to collect amounts with customers of the prolonged credit period stepped up by the Company, which resulted in a decrease of RMB107 million bad debt provision in the current period as compared to the prior year; (2) RMB56 million inventory impairment provision made by the Company in the current period arising from changes in the market environment; (3) RMB22.48 million of impairment provision made in 2010 based on the balance between the recovery amount and the face value of the machinery and equipment related to the suspended production of subsidiaries, Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd;
- (5) Gain on investments decreased by 157.19% as compared to the prior year mainly due to gain on investments generated from disposal of subsidiaries;
- (6) Non-operating expenses increased by 103.34% as compared to the prior year mainly due to a substantial increase in government grant received during the year;

## IX Directors' Report

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

#### (V) Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period (Cont'd)

- (7) Total profit, tax expenses and net profit attributable to equity holders of the Company decreased by 55.26%, 57.70% and 47.71% respectively as compared to the prior year mainly due to a decrease in the gross profit margin of the products of the Company resulting from a rise in the cost of raw materials;
- (8) Minority interests decreased by 114.13% as compared to the prior year mainly due to a rise in the cost of raw materials, a decrease in the net profit of non-wholly-owned subsidiaries of the Company, as well as acquisition of the minority interests in Yanbian Chenming Paper Co., Ltd., a subsidiary, by the Company during the current period.

#### (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	-437,463,010.89	850,328,927.00	-151.45%
Net cash generated from investment activities	-4,275,171,214.54	-6,384,678,439.51	33.04%
Net cash flow generated from financing activities	5,185,051,006.32	5,031,845,309.63	3.04%

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 151.45% compared to the prior year mainly due to a significant increase in purchase payments for commodities purchased during the current period arising from the coming into operation of the coated paper project with 800,000 tonnes of production capacity, the Zhanjiang pulp project and the high-end culture paper project, which led to an expansion in the scale of the Company and an increase in the quantity of raw materials which were purchased at a higher price.
- (2) Net cash flow generated from investment activities increased by 33.04% compared to the corresponding period of the previous year, mainly due to (1) the receipt of a relocation compensation of RMB0.66 billion by Jilin Chenming Paper Co., Ltd., a subsidiary; (2) the completion of the coated paper project with 800,000 tonnes of production capacity by Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company as well as the completion of the Zhanjiang pulp project and the high-end culture paper project during the reporting period, resulting in a decrease in investments as compared to the prior year.
- (3) Net cash flow generated from financing activities increased by 3.04% as compared to the prior year mainly due to project investments and issue of debentures of RMB2 billion by the Company.

## IX 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	235,305.19	-8,989.05
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Papermaking	100.00%	Paperboard, corrugated paper	37,620.00	149,788.53	715.55
Shandong Chenming Power Supply Holdings Co., Ltd.	Electricity and steam	86.71%	Generation and sales of electricity and steam	9,955.31	48,250.18	5,204.83
Jilin Chenming Paper Co., Ltd.	Papermaking	100.00%	News press paper, light weight	150,000.00	277,604.49	-13,582.38
Jiangxi Chenming Paper Co., Ltd.	Papermaking	51.00%	Coated paper	USD172,000,000	333,355.02	3,000.21
Yanbian Chenming Paper Co., Ltd.	Pulp	76.73%	Pulp and chemical product	8,163.30	37,291.98	5,918.33

#### (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 %
Jilin Chenming Paper Co., Ltd.	100,944.26	6,526.58	-13,582.38	-13,582.38	-22.33
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	190,180.11	13,903.52	-8,989.05	-4,578.12	-7.53

## II. Prospect of the future developments of the Company

### 1. The development trend of the industry and the outlook of the Company's business

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 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. The government will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will keep steadily and rapidly developing. Recently, the National Development and Reform Commission, Ministry of Industry and Communication and State Forestry Administration jointly issued the Twelfth Five-Year Plan for the Development of the Paper Making Industry, which clearly states the general direction of "controlling total volume, promoting concentration, optimising raw materials and reducing energy consumption and emission", from which the Company is expected to benefit in the long run.

In recent years, the Company is committed to the integrated development of forestry, pulp and paper with a longer industry chain and more comprehensive paper types. In 2011, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development is in line with the requirements of the development plan of the entire paper making industry. Although the industry undergo some short-term downturns, the Company will have exponential growth in performance once the industry recovers, and the Company's future performance is still much awaited.

### 2. The work of the Company will focus on the following areas in 2012:

**Adhering to regulated operation, thereby continuing to enhance the standard of corporate governance and promoting the healthy development of Company.**

The Company strictly adheres to domestic and international regulatory requirements for listing, regulates and perfects the management and operation systems of the Company, enhances the standard of regulated operation, avoids operation risks in listing, implements the Basic Criteria for Internal Control, strengthens the internal control systems of the Company and its subsidiaries, enhances the organisational management structure and internal control management system of subsidiaries, regulates operating and management behaviour, strengthens the Company's ability to withstand risk; strengthens information disclosure, endeavours to perfect investor relations management and safeguards the interests of shareholders and investors.

**Intensifying capital operation to reduce the operating costs of the Company.**

In 2012, the Company fully takes advantage of its role as a listed company and sets up a finance company as soon as possible, strengthening financial management, increasing efforts in centralised management of funds and managing the use of funds by all subsidiaries and sales companies through a quota system. The company broadens financing sources through methods such as issuance of corporate bonds and non-dedicated debt financing instruments to achieve direct financing at a low cost.

### II. 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 2012: (Cont'd)

##### **Strengthening the management of production, sales and procurement.**

**Strengthening production management.** First, the Company adjusts the product structure. The Company strengthens the development of new products, adjusts the product structure as an important measure to respond to market changes, adheres to the two directions of high-end high value-added and low-end low cost to optimise the structure of product varieties and enhance market competitiveness. The Company keeps a close watch of the market, steps up efforts in new product development and explores new market opportunities. Second, the Company strengthens brand building, improves quality management with the utmost efforts, improves product quality with a view to being on an equal footing with world-class enterprises, creates renowned brand names, enhances enterprise competitiveness and value-added products. Third, the Company improves the level of equipment automation and information management to achieve a staff configuration according to international advanced enterprise standards. **Strengthening sales.** First, the Company forms and leads teams to strengthen the execution ability of the sales teams and improve the ability to manage and control the market. Second, the Company changes the sales model, engages large agents, increases the business with manufacturers, merchants and banks, uses social resources to strengthen sales to make up for deficiencies of its own strength. Third, the Company strengthens the overseas market. Through the introduction of talents, the Company speeds up the exploration of the international market and strives to export 800,000 tonnes in the year. **Strengthening procurement management.** The Company establishes import and export trading companies, implements market-oriented operation and optimises resource allocation. The Company establishes professional companies such as waste paper and coal companies to improve the waste paper recycling system, thereby stabilising the supplies and reducing costs.

**Further strengthening enterprise culture.** Through creating a “learning, happy and strict management” corporate culture as a goal, the Company enhances the standard of people-oriented management. First, the departments perform their departmental functions, and actively carry out the corporate culture work and creative activities, promote the building of an enterprise culture, and make efforts to achieve a high degree of integration of corporate governance and corporate culture. Second, the Company enriches the cultural life of its staff, provides comprehensive ancillary facilities and venues for staff activities, regularly organises sports activities and a variety of cultural and leisure activities so that employees can relax in their spare time, enhance their friendship and strengthen team cohesiveness.

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

The Company's new projects commence operation successively but they are unable to make profit on a timely basis due to market reasons. The company has higher leverage now. Fluctuation of the state deposit and lending interest rates will directly cause fluctuation of interests undertaken by the Company so as to affect the Company's profitability. Therefore, the Company specifies following measures: First, the Company will further improve its international marketing network, improve its organisation structure of its overseas companies, adjust its sales channels and make great efforts to expand its overseas market, especially for the coated paper products, high-end duplex press paper, electrostatic small paper and other high-end products, devote great efforts to exports and fund collection, and relieve domestic market pressure. Second, the Company will make full use of the financing platform of the Hong Kong market, seek the bonding point of Hong Kong and domestic businesses, increase Hong Kong Chenming's credit line and expand the business of Hong Kong Chenming. Third, the Company will actively apply for the establishment of the Group's finance company to enhance the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the Group's fund settlement, management, investment and financing ability, thereby reducing the financing cost.

### II. 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 listed company 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) The Company will reinforce its sales in the market. 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) The Company will apply for the establishment of the Group's finance company to enhance the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the Group's fund settlement, management, investment and financing ability, thereby reducing the financing cost. The Company also enhances its financial internal control and management to increase the fund utilisation rate;
- (3) The Company will endeavour to decrease its finance expenses by such financing methods as issue of medium-term notes and corporate bonds in 2012.

# IX Directors' Report

## IV. Investments during the reporting period

### 1. Use of proceeds during the reporting period

The Company issued RMB2.0 billion debentures in 2011 with a face value of RMB100 each, and 20 million debentures were issued in total at an issue price of RMB100 each. The total proceeds from the issue was RMB2 billion. The net proceeds less the expenses of RMB18 million were RMB1,982 million. As of 31 December 2011, RMB1,982 million of the proceeds from the issue was used, of which, approximately RMB382 million was used to fund the working capital and approximately RMB1,600 million was used for repaying bank loans, primarily for repaying borrowings from financial institutions. During the reporting period, the use of proceeds was as follows:

Unit: RMB'0000

Total proceeds	198,200
Total amount of proceeds used during the year	198,200
Total amount of proceeds involved in change of use during the reporting period	0
Cumulative total amount of proceeds involved in change of use	0
Cumulative total amount of proceeds used	198,200
Proportion of cumulative total amount of proceeds involved in change of use	0

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 (%) <sup>3</sup> =(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										
Repayment of bank borrowings	No	160,000	160,000	160,000	160,000	100	—	—	—	No
Subtotal of the investment projects undertaken	No	160,000	160,000	160,000	160,000	100	—	—	—	No
Use of the excess proceeds	Nil									
Banking loan repayment (if any)	—	—	—	—	—	—	—	—	—	—
Supplementary working capital (if any)	No	38,200	38,200	38,200	38,200	100	—	—	—	No
Subtotal of the use of the excess proceeds	—	—	—	—	—	—	—	—	—	—
Total	—	198,200.00	198,200.00	198,200.00	198,200.00	100	—	—	—	—

# IX 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 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 (%) <sup>3</sup> =(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									



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

### 2. Establishment of controlling subsidiaries during the reporting period

- (1) Shanghai Runchen Equity Investment Fund Co., Ltd.

Shanghai Runcheng Equity Investment Fund Co., Ltd. was jointly established by the Company and Western Development Investment Management (Shanghai) Co., Ltd. on 26 December 2011 with registered capital of RMB305,000,000. The Company contributed RMB300,000,000 and its shareholding ratio was 98.36%.

- (2) Shouguang Chenming Jiatai Property Management Co., Ltd.

On 30 December 2011, the Company contributed to establish Shouguang Chenming Jiatai Property Management Co., Ltd., which had registered capital of RMB1.00 million. The Company's shareholding ratio was 100%.

- (3) Shouguang Chenming Industrial Logistics Co., Ltd.

On 30 December 2011, the Company contributed to establish Shouguang Chenming Industrial Logistics Co., Ltd., which had registered capital of RMB10.00 million. The Company's shareholding ratio was 100%.

- (4) Shouguang Chenming Import and Export Trade Co., Ltd.

On 30 December 2011, the Company contributed to establish Shouguang Chenming Import and Export Trade Co., Ltd., which had registered capital of RMB10 million. The Company's shareholding ratio was 100%.

- (5) Shouguang Chenming Papermaking Machine Co., Ltd.

On 30 December 2011, the Company contributed to establish Shouguang Chenming Papermaking Machine Co., Ltd., which had registered capital of RMB2.00 million. The Company's shareholding ratio was 100%.

- (6) Shouguang Chenming Hongxin Packaging Co., Ltd.

On 30 December 2011, the Company contributed to establish Shouguang Chenming Hongxin Packaging Co., Ltd., which had registered capital of RMB1.00 million. The Company's shareholding ratio was 100%.

- (7) Shouguang Liben Paper Making Co., Ltd.

On 13 August 2011, Nippon Paper Industries Co., Ltd., and Japan Pulp and Paper Company Limited, the original shareholders of Shouguang Liben Paper Making Co., Ltd., transferred to the Company 61.55% and 12.1% respectively of the equity interest in Shouguang Liben Paper Making Co., Ltd. held by them at RMB0. On 13 August 2011, the Company held 100% of the equity interest in Shouguang Liben Paper Making Co., Ltd., was able to exercise control over it, and included it in the scope of consolidation since 13 August 2011.

- (8) Chenming International Co., Ltd.

The Company contributed to establish Chenming International Co., Ltd. with registered capital of USD3.00 million in Los Angeles, United States in 2011. The Company's shareholding ratio was 100%.

- (9) Yanbian Chenming Paper Co., Ltd.

On 7 September 2011, the Company acquired 23.27% minority interest in Yanbian Chenming Paper Co., Ltd., a subsidiary of the Company at an acquisition price of RMB56.64 million. Upon acquisition, the shareholding of the Company was 100%.

- (10) Shouguang Hengfeng Storage Co., Ltd.

The Company contributed to establish Shouguang Hengfeng Storage Co., Ltd. with registered capital of RMB0.50 million on 10 November 2011. The Company's shareholding ratio was 100%.

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

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

As of the end of the reporting period, the Company and its controlling subsidiaries injected a total of RMB13,904 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. 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 project successfully completed its trial run in June 2011 and became a new source of growth. Accumulated investment was RMB3,284 million as of the end of the reporting period.

##### (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. 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 project commenced trial production in the second half of August 2011, and completed the transfer of fixed assets on 31 December 2011. Accumulated investment was RMB2,390 million at the end of the reporting period.

##### (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. Upon operation, the project will increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, about 95% of the civil engineering works and about 80% of the installation works of the project were completed. Accumulated investment was RMB1,651 million as of the end of the reporting period. It was expected that the project will commence operation by May 2012.

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

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

##### (4) 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.

Currently, the project was fully completed and commenced operation in July 2011. Accumulated investment was RMB140 million at the end of the reporting period.

##### (5) 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.

Currently, the project commenced trial production in the second half of August 2011, and completed the transfer of assets to fixed assets on 31 December 2011. Accumulated investment was RMB6,439 million at the end of the reporting period.

## IX Directors' Report

### V. RSM China Certified Public Accountants, 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 five meetings.

- (1) On 30 March 2011, the sixth session of the Board of the Company held its fifth meeting, at which, 19 resolutions were considered and approved, including the resolutions in relation to the report of the Board for the year of 2010, the independent directors' report of the Company for 2010, the full text and summary of the 2010 Annual Report and the financial statements of the Company for the year of 2010, the proposed profit distribution plan of the Company for 2010, the remuneration of the Directors and senior management of the Company, the application for the banking credit line by the Company in 2011. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 31 March 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 31 March 2011.
- (2) On 27 April 2011, the sixth session of the Board of the Company held its sixth meeting, at which, the full text and summary of the 2011 First Quarterly Report of the Company and the increased resolutions at the 2010 Annual General Meeting 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 CNINFO (<http://www.cninfo.com.cn>) on 28 April 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 27 April 2011.
- (3) On 25 August 2011, the sixth session of the Board of the Company held its seventh meeting, at which, the full text and summary of the 2011 Interim Report of the Company and the resolutions in relation to the issue of non-directional debt financing instruments by the Company, the capital increase of Meilun Paper, the disposal of equity interests in Chibi Chenming, the disposal of equity interests in Xianning Chenming Arboriculture Company, the disposal of equity interests in Shouguang Liben Paper Making Co., Ltd., the convening of the 2011 Extraordinary General Meeting 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 CNINFO (<http://www.cninfo.com.cn>) on 26 August 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 25 August 2011.
- (4) On 27 October 2011, the sixth session of the Board of the Company held its eighth meeting, at which, resolutions in relation to the full text and main body of the 2011 Third Quarterly Report of the Company, the provision of guarantee for the financing of the Shandong Paper Sales Company Limited, a wholly-owned subsidiary of the Company, by the Company and the capital contribution to the establishment of Japan Chenming Paper Company Limited in Japan were considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 28 October 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 27 October 2011.
- (5) On 29 November 2011, the sixth session of the Board of the Company held its ninth meeting, at which, resolutions in relation to the establishment of a group finance company by the Company, the provision of guarantee for the integrated credit line in 2010 to Yanbian Chenming Paper Co., Ltd., a wholly-owned subsidiary of the Company, by the Company and the investment made to the Green Environmental Industry Fund by the Company were considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 30 November 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 29 November 2011.

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

#### 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 2010

The 2010 annual general meeting resolved the 2010 profit appropriation plan of the Company: based on the total share capital of 2,062,045,941 shares as at the end of 2010, a dividend of RMB3.00 (tax inclusive) per 10 shares was to be paid to all shareholders and the total dividend in this distribution was RMB618,613,782.30 (tax inclusive), which represented 60.43% of the net profit attributable to shareholders of the Company after deducting statutory reserves as set out in the 2010 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 2010 dividend payment announcement was published by the Company on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 14 June 2011 while the 2010 H shares dividend payment announcement was published by the Company on the website of Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 13 June 2011. The 2010 profit appropriation plan was implemented with 20 June 2011 as the book closure date of A shares and B shares.

#### 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 2011:

- (1) it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2010 financial report auditing on pre-auditing work, reviewed the 2010 auditing report and financial report and submitted such reports to the Board of the Company;
- (2) it reviewed the 2011 interim financial statements for the six months ended 30 June 2011, which were passed to the Board for approval.

##### (2) Auditing work conducted on the 2011 financial report of the Company was as follows:

- (1) it reviewed the 2011 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 2011 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 2011.

## IX Directors' Report

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

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

During the reporting period, the nomination committee held one meeting.

The business of the first meeting in 2011 mainly included the discussion of the respective resignation of Mr. Wang Baoliang as the deputy general manager, the discussion of appointing Mr. Chang Liting, Mr. Xia Jigang and Mr. Li Zhenzhong as deputy general managers of the Company. The resolutions were submitted to the fifth meeting of the sixth session of the Board of the Company for consideration and approval.

#### 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 2010 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 2010 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, and there were no regulatory penalty records.

## IX Directors' Report

### VII. The proposed profit distribution plan of 2011

Based on the total share capital of 2,062,045,941 shares as at the end of 2011, a dividend of RMB1.50 (tax inclusive) per 10 shares was to be paid to all shareholders and the total dividend in this distribution was RMB309,306,891.15 (tax inclusive), which accounted for 59.18% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2011 after deducting appropriation to statutory reserves. The undistributed profit would be rolled over for distribution in subsequent years.

In order to determine the holders of H shares who are eligible to attend and vote at the annual general meeting to be held on 29 May 2012, the register of members of the Company will be closed from 28 April 2012 to 29 May 2012, both days inclusive. To be eligible to attend and vote at the annual general meeting, unregistered holders of H shares of the Company shall lodge relevant share transfer documents with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 April 2012.

In order to determine the holders of H shares who are entitled to the receipt of the above-mentioned final dividend, the register of members of the Company will be closed from 5 June 2012 to 11 June 2012, both days inclusive. To be eligible to receive the final dividend for the year ended 31 December 2011 (subject to the approval of the Company's shareholders), unregistered holders of H shares of the Company shall lodge relevant share transfer documents with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 4 June 2012.

### VIII. The dividend of the Company in the last three years

Dividend year	Amount for profit for dividend	Dividend	Net profit attributable to equity holders of the Company for the dividend year	Ratio of dividend to net profit attributable to equity holders of the Company	Unit: RMB
					Distributable profit for the year
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
2010	618,613,782.30	RMB3.0 per 10 shares	1,163,341,066.21	53.18%	1,023,759,432.71
The accumulated amounts for dividend in the last three years as a percentage of distributable profit (%)					146.12%

## IX Directors' Report

### IX. Major suppliers and customers

The purchase from the largest supplier of the Group for 2011 was RMB1,407 million, which accounted for 6.29% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was RMB3,654 million, which accounted for 16.33% of the total purchases of the Group for the year (the above figures included project equipment suppliers). 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 2011 was RMB202 million, which accounted for 1.14% of the total sales of the Group for the year and the total sales from the five largest customers was RMB890 million, which accounted for 5.02% 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 Company was carried out, the result of which showed that the Company 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 Company'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 Company primarily implemented the following remedies:

- (1) The management for day-to-day operation of the Company 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 Company and the related management of the controlling subsidiaries of the Company actively reported to and communicated with the local government functional authorities to strive for the government's coordination in resolving the issue.
- (2) Currently, 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 Company 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 Company 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 Company'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 Company with regard to the related Properties with Title Defects issue. Furthermore, in our opinion, despite the Properties with Title Defects, the Company was unlikely liable to related administrative penalties.



## IX 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 Company and practically protect the legal interests of the shareholders of the Company, 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 Company, should the Company 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.
  - (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 Company 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 Company 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 Company 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.

### XI. Purchase, sale and redemption of shares

During the reporting period, the Company and any of its subsidiaries did not purchase, sell or redeem any listed outstanding securities.

### XII. Sufficiency of public float

As at the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed amount of public float as required under the Hong Kong Listing Rules.

# X 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 fifth meeting of the sixth session of the Supervisory Committee was held on 30 March 2011. Resolutions, inter alia, 5 resolutions regarding the report of the Supervisory Committee of the Company for the year of 2010, the financial statements of the Company for the year of 2010, the full text and summary of the 2010 Annual Report, the guarantee provided by the Company for the integrated credit line to its controlling subsidiaries 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 CNINFO (<http://www.cninfo.com.cn>) on 31 March 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 30 March 2011.
2. The sixth meeting of the sixth session of the Supervisory Committee was held on 27 April 2011. The full text and summary of the 2011 First Quarterly Report 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 CNINFO (<http://www.cninfo.com.cn>) on 28 April 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 27 April 2011.
3. The seventh meeting of the sixth session of the Supervisory Committee was held on 25 August 2011. The 2011 Interim Report 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 CNINFO (<http://www.cninfo.com.cn>) on 26 August 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 25 August 2011.
4. The eighth meeting of the sixth session of the Supervisory Committee was held on 27 October 2011. The full text and summary of the 2011 Third Quarterly Report 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 CNINFO (<http://www.cninfo.com.cn>) on 28 October 2011 and the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 27 October 2011.

# X 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, who issued a standard auditors' report 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.

## XI Material Matters

### I. There was no material litigation or arbitration of the Company during the reporting period

### II. Significant purchase or sales of assets and merger and acquisition during the reporting period

1. On 25 August 2011, the sixth session of the Board considered and approved the proposal on the sale of the equity interest of Chibi Chenming and Xianning Chenming at its seventh meeting. On 16 November 2011, the Company and Guangdong Huashen Investment Co., Ltd. (hereinafter referred to as “Guangdong Huashen”) entered into the Share Transfer Contract, under which the Company transferred 20% of the equity interest in Chibi Chenming Paper Co., Ltd. (hereinafter referred to as “Chibi Chenming”) and 100% of the equity interest in Xianning Chenming Aboriculture Co., Ltd. (hereinafter referred to as “Xianning Chenming”) held by the Company at RMB66,000,180 and RMB6,679,500 respectively to Guangdong Huashen; Wuhan Chenming Hanyang Paper Holding Co., Ltd. (a subsidiary of the Company, hereinafter referred to as “Wuhan Chenming”) and Guangdong Huashen entered into the Share Transfer Contract, under which Wuhan Chenming transferred 31% of the equity interest in Chibi Chenming it held to Guangdong Huashen at RMB102,300,279. After completion of the transfer of the above equity interest, the Company would no longer hold any equity interest in Chibi Chenming and Xianning Chenming, and Wuhan Chenming would no longer hold any equity interest in Chibi Chenming. The Company and Wuhan Chenming were not related with Guangdong Huashen, the sale of equity interest did not constitute related party transactions, nor did it constitute a substantial asset restructuring provided by the Management Method for Substantial Asset Reorganisation of Listed Companies. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO on 17 November 2011.
2. On 13 August 2011, Nippon Paper Industries Co., Ltd. and Japan Pulp and Paper Company Limited, the original shareholders of Shouguang Liben Paper Making Co., Ltd., transferred to the Company 61.55% and 12.1% respectively of the equity interest in Shouguang Liben Paper Making Co., Ltd. held by them at RMB0. On 13 August 2011, the Company held 100% of the equity interest in Shouguang Liben Paper Making Co., Ltd., was able to exercise complete control over it, and included it in the scope of consolidation since 13 August 2011.
3. On 7 September 2011, the Company acquired 23.27% minority interest in Yanbian Chenming Paper Co., Ltd., a subsidiary of the Company at an acquisition price of RMB56.64 million. Upon the acquisition, the Shareholding of the Company was 100%.

### 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 2011, 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.

## XI 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*)

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 RMB74 million, accounting for 0.41% 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.

**The auditors of the Company investigated the connected transactions of the Group and confirmed with the Board of the Company that:**

- the transactions were approved by the Board of the Company;
- the transactions were carried out in accordance with the pricing policy of the Company;
- the transactions were carried out on the terms of the related agreements; and
- the transactions did not exceed the related annual caps with the consent of the Hong Kong Stock Exchange.

The auditors had issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Main Board Listing Rule 14A.38 of the Stock Exchange of Hong Kong. A copy of the auditors’ letter had been provided by the Company to the Stock Exchange of Hong Kong.

## XI Material Matters

### 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 RMB3,824.8202 million; as at 31 December 2011, the balance of guarantee the Company provided to its subsidiaries amounted to RMB7,728.5402 million representing 57.13% 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

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	351,892.20	Credit	15	No	No
Zhanjiang Chenming Paper Pulp Co., Ltd.	2011-03-30 (2011-005)	200,000.00	19 July 2011	0.00	Credit	1	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	10	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

## XI 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
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.	2011-03-30 (2011-005)	20,000.00	19 September 2011	3,000.00	Credit	3	No	No
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	2011-03-30 (2011-005)	30,000.00		0.00	Credit		Contract not yet signed	No
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	2010-02-25(2010-003)	30,000.00	8 March 2010	0.00	Credit	1	Yes	No
Shouguang Meilun Paper Co., Ltd.	2010-08-24(2010-027)	79,473.00	10 September 2010	75,610.80	Credit	5	No	No
Shouguang Meilun Paper Co. Ltd.	2010-10-29 (2010-034)	600,000.00	14 January 2011	16,300.90	Credit	3	No	No
Shouguang Meilun Paper Co., Ltd.	2010-10-29(2010-034)	600,000.00	29 August 2011	54,486.31	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	Yes	No
Shouguang Chenming Art Paper Co., Ltd.	2011-03-30 (2011-005)	10,000.00		0.00	Credit		Contract not yet signed	No
Jilin Chenming Paper Co., Ltd.	2010-02-25(2010-003)	30,000.00	18 May 2010	0.00	Credit	1	Yes	No

## XI 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
Jilin Chenming Paper Co., Ltd.	2011-03-30 (2011-005)	30,000.00	25 May 2011	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	0.00	Credit	1	Yes	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2011-03-30 (2011-005)	20,000.00	1 November 2011	0.00	Credit	1	No	No
Chenming (HK) Limited	2010-02-25(2010-003)	102,423.00	—	0	Credit	1	Yes	No
Chenming (HK) Limited	2010-10-29 (2010-034)	50,000.00	13 April 2011	50,000.00	Credit	3	No	No
Chenming (HK) Limited	2011-03-30 (2011-005)	329,300.00		0.00	Credit		Contract not yet signed	No
Xianning Chenming Arboriculture Co., Ltd.	2010-02-25(2010-003)	10,000.00	—	—	Credit	1	Yes	No
Xianning Chenming Arboriculture Co., Ltd.	2011-03-30 (2011-005)	10,000.00		0.00	Credit		Yes	No
Shandong Chenming Paper Sales Company Limited	2010-10-29(2010-034)	200,000.00	11 August 2011	161,563.81	Credit	1	No	No
Shandong Chenming Paper Sales Company Limited	2011-10-27 (2011-038)	200,000.00			Credit		Contract not yet signed	No
Yanbian Chenming Paper Co., Ltd.	2011-11-29 (2011-043)	30,000.00			Credit		Contract not yet signed	No
Zhanjiang Chenming Paper Pulp Co.	2006-07-27 (2006-042)	564,020.00	25 March 2008	351,892.20	Credit	15	No	No



## XI 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.	2011-03-30 (2011-005)	200,000.00	19 July 2011	0.00	Credit	1	No	No
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)			879,300.00	Total amount of guarantee provided for subsidiaries during the reporting period (B2)				382,482.02
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)			2,537,393.00	Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)				772,854.02
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)			879,300.00	Total amount of guarantee provided during the reporting period (A2+B2)				382,482.02
Total amount of guarantee approved as at the end of the reporting period (A3+B3)			2,537,393.00	Total balance of guarantee provided as at the end of the reporting period (A4+B4)				772,854.02
Total amount of guarantee provided (A4+B4) as a percentage of the net assets of the Company			57.13%					
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)								772,854.02
Total amount of guarantee provided in excess of 50% of net assets (E)								50,000.00
Sum of the above three amount of guarantee (C+D+E)								772,854.02
Explanation on possible joint obligation on outstanding guarantees provided								Nil

## XI Material Matters

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

#### 1. External guarantees (Cont'd)

- (2) The 2010 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 2010, 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 2011, with the total value of RMB6.493 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 CNINFO (<http://www.cninfo.com.cn>) on 31 March 2011 and the website of the Hong Kong Stock Exchange ([www.hkex.com](http://www.hkex.com)) on 30 March 2011.

#### 2. Entrusted loans

As at 31 December 2011, the balance of entrusted loans the Company provided to its controlling subsidiaries amounted to RMB0.55 billion. For details of the entrusted loans, please refer to “Note 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

On 16 August 2011, the Company and Jilin Chenming Paper Co., Ltd. (hereinafter referred to as Jilin Chenming), a wholly-owned subsidiary, reached an agreement with the Jilin Municipal People’s Government and its China Development Jilin Investment Co., Ltd. on the demolition and relocation of the Jilin Chenming plant on a land lot in Changyi District, Jilin in accordance with the master layout plan of Jilin, and the four parties entered into the Cooperation Agreement for the Eco-relocation and Construction of Jilin Chenming Paper Co., Ltd., under which Jilin Chenming would receive a compensation of RMB2.2 billion by installment. Please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO (<http://www.cninfo.com.cn>) on 16 August 2011 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 15 August 2011 for details in relation to this matter.

## **XI Material Matters**

### **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 extraordinary general meeting of the Company considered and approved the resolution of appointment of RSM China Certified Public Accountants as the auditors for 2011. The audit fee for the audit work was RMB2 million (travel expenses, beverage and accommodation and related fees reimbursed by the Company as expensed).

### **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**

## XI 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 (2001-2010).

In 2011, the Company' headquarters handled 18 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
7 January 2011	Shouguang, Shandong	On-site research investigation	Zhu Jia and Li Lin of Qilu Securities together conducting joint Investigations at Zhangjiang	
12 January 2011	Shouguang, Shandong	On-site research investigation	China International Capital Corporation Limited PICC Asset Management Company Limited Guan Xue, 李紫瑞 and 于進 of 尚心投資管理有限公司	
12 January 2011	Shouguang, Shandong	Conference Call	方立寬 of Polaris International Securities Investment Trust	
27 January 2011	Shouguang, Shandong	Conference Call	藍宇 of First Shanghai Securities Limited	
17 February 2011	Shouguang, Shandong	On-site research investigation	萬友林 and 梁裕寧 of Sinolink Securities and E Fund Management	
24 February 2011	Shouguang, Shandong	On-site research investigation	21 individuals including 朱佳, 雒雅梅 of CITIC Securities, Industrial Securities and Guotai Junan Securities	
4 May 2011	Shouguang, Shandong	On-site research investigation	王峰, 張威 and 程悅 of Guotai Junan Securities, ChinaAMC and Union Life	
5 May 2011	Shouguang, Shandong	On-site research investigation	穆方舟 and 梁豔萍 of Huatai United Securities and HuaAn Fund Management	
9 May 2011	Shouguang, Shandong	Conference Call	李曉 of 保誠基金	
10 May 2011	Shouguang, Shandong	Conference Call	Fubon Financial of Taiwan	

## XI 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
11 May 2011	Shouguang, Shandong	On-site research investigation	胡蓓蓓 of Tebon Securities of Shanghai	
20 May 2011	Shouguang, Shandong	On-site research investigation	姜浩 and 程婷婷 of Everbright Securities and First-trust Fund Management	
30 August 2011	Shouguang, Shandong	Conference Call	Comaurum Capital	
1 September 2011	Shouguang, Shandong	On-site research investigation	徐林 and 吳哥凡 of Haitong Securities	Recent production and operation of the Company
14 September 2011	Shouguang, Shandong	Conference Call	Fidelity Funds	
21 September 2011	Shouguang, Shandong	On-site research investigation	游欣穎 and 羅君昱 of Fubon Financial and 香港高觀基金	
15 November 2011	Shouguang, Shandong	On-site research investigation	Lim Tay Her of CLSA Research Limited	
15 December 2011	Shouguang, Shandong	On-site research investigation	Hu Yun Yun of UBS Securities	

## XI 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
9 January 2012	Shouguang, Shandong	On-site research investigation	Jiang Hao, analyst of Everbright Securities	
8 February 2012	Shouguang, Shandong	On-site research investigation	Analysts such as 黃薇 of Galaxy AMC, Zheshang Securities and Huatai Securities	Recent production and operation of the Company

## XI 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 Financial Statements and Note IX 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 2011. 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).

## XI Material Matters

### XII. Index of Information Disclosure in 2011

Date of announcement	Subject matter	Media for publication
2011-1-25	Announcement on the Results Express for 2010	B009 of China Securities Journal, D5 of Securities Times, A18 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-3-19	Indicative announcement in respect of receiving incentive funds from the government  Announcement in respect of H shares	B012 of China Securities Journal, A15 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-3-31	2010 annual report (English version)  2010 annual report  Self assessment report on internal control  2010 social responsibility report  Special audit report on the use of funds of listed companies by related parties of the Company  Announcement on the Resolutions of the Fifth meeting of the Sixth session of the Supervisory Committee  Notice of 2010 Annual General Meeting  Announcement on the resolutions of the fifth meeting of the sixth session of the Board of Directors  2010 auditors' report  2010 annual report summary	B139 of China Securities Journal, A10 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>



## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
	Code of conduct for major shareholders and beneficial controller and information enquiry system (March 2011)	
	Internal control on derivatives investments and information disclosure system (March 2011)	
	Announcement on lock-up of LIBOR on Zhanjiang Chenming US dollar loans	
	Announcement on handling settlement of forward foreign exchange + NDF portfolio operations	
	Announcement in respect of provision of guarantee for the general banking facilities being applied by controlling subsidiaries	
	Special report on internal control	
	Assurance annual report on the use and deposit of capitals raised by the company	
	Independent opinion of independent directors on the self assessment report on internal control of the Company	
	Independent directors' report for 2010	
2011-4-14	Announcement in respect of H shares	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-4-15	Indicative announcement on issuing notes of RMB500 million by a wholly-owned subsidiary	A32 of Hong Kong Commercial Daily, A11 of China Securities Journal
	Announcement in respect of H shares	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
2011-4-28	Independent opinion of independent directors on reappointment of the accounting firm	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
	Notice in respect of the increased resolutions at the 2010 Annual General Meeting	
	Announcement on the Resolutions of the Sixth Meeting of the Sixth session of the Board of Directors	
	The full text of 2011 first quarterly report (English version)	
	The full text of 2011 first quarterly report	
	The main text of 2011 first quarterly report	
	Announcement in respect of H shares	
2011-5-19	Legal opinion on the 2010 Annual General Meeting by the attesting lawyer	B011 of China Securities Journal, B8 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
	Announcement on the resolution of 2010 Annual General Meeting	
2011-6-14	Announcement of dividend payment for 2010	B018 of China Securities Journal, A5 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-6-16	Announcement in respect of corporate bond issue approved by the Issuance Examination Committee of the China Securities Regulatory Commission	B004 of China Securities Journal, A5 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-6-30	Announcement on approval by China Securities Regulatory Commission of issue of corporate bonds	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
2011-7-4	Announcement on Online Road Show for Corporate Bonds of 2011  Credit Rating Report for Corporate Bonds of 2011  Announcement in respect of Corporate Bond Issue in 2011  Summary of the Prospectus regarding the Public Issuance of Corporate Bonds of 2011  Prospectus regarding the Public Issuance of Corporate Bonds of 2011	A23 of China Securities Journal, A18 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-7-5	Announcement in respect of H shares	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-7-6	Announcement of the Coupon Rate for Corporate Bonds of 2011	A38 of China Securities Journal, A6 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
2011-7-11	Announcement of the Result of the Issue for Corporate Bonds of 2011	A19 of China Securities Journal, A6 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-7-14	Announcement in respect of phasing out part of the backward production equipments	B013 of China Securities Journal, A14 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-8-4	Announcement of the Listing of the Corporate Bonds of 2011	A31 of China Securities Journal, A22 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-8-16	Announcement in respect of the signing of relocation and construction agreement by Jilin Chenming  Announcement in respect of H shares	B006 of China Securities Journal, A18 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-8-26	Independent opinions given by independent directors  Announcement in respect of capital injection into subsidiaries and external investment  2011 Interim Report (English version)  2011 Interim Report  Notice of the 2011 First Extraordinary General Meeting  Announcement in respect of Resolutions of the Seventh Meeting of the Sixth Session of the Board of Directors  2011 Interim Financial Report  2011 Interim Financial Report Summary	B267 of China Securities Journal, A22 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
2011-8-27	Revised Announcement in respect of the Notice of the Extraordinary General Meeting	B012 of China Securities Journal, A4 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-9-3	Indicative Announcement in respect of the official commencement of the Zhangjiang pulp project	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-10-10	Indicative Announcement in respect of the 2011 First Extraordinary General Meeting	B018 of China Securities Journal, A18 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-10-11	Announcement in respect of the resignation of the senior management	A28 of China Securities Journal, A19 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-10-15	Notice of Board Meeting	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-10-20	Announcement in respect of Resolutions of the 2011 First Extraordinary General Meeting	B004 of China Securities Journal, A19 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
	Legal opinion on the 2011 First Extraordinary General Meeting by the attesting lawyer	
2011-10-28	Independent opinion given by independent directors in respect of the provision of guarantee to a sales company	B052 of China Securities Journal, A21 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
	The full text of the Third Quarterly Report 2011 (English version)	
	The full text of the Third Quarterly Report 2011	
	Announcement in respect of Resolutions of the Eighth Meeting of the Sixth Session of the Board of Directors	
	The full text of the Third Quarterly Report 2010	

## XI Material Matters

### XII. Index of information disclosure in 2011 (Cont'd)

Date of announcement	Subject matter	Media for publication
	Announcement in respect of the external investment	
	Announcement in respect of the provision of guarantee to a wholly-owned subsidiary	
2011-11-17	Announcement in respect of the disposal of assets	B012 of China Securities Journal, A12 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
2011-11-30	Independent opinion by independent directors in respect of the provision of guarantee to Yanbian Chenming, the wholly-owned subsidiary	B010 of China Securities Journal, A29 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
	Announcement in respect of the provision of guarantee to Yanbian Chenming, the wholly-owned subsidiary	
	Announcement in respect of Resolutions of the Ninth Meeting of the Sixth Session of the Board of Directors	
	Notice of the 2012 First Extraordinary General Meeting	
	Announcement in respect of the external investment	
2011-12-30	Indicative announcement in respect of the 2012 First Extraordinary General Meeting	B027 of China Securities Journal, A7 of Hong Kong Commercial Daily <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

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

### Auditors' Report

Zhong Rui Yue Hua Shen Zi [2012] No. 1784

#### 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 2011, 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 2011 and notes to the financial statements.

#### I. Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes (1) preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises so that the financial statements provide a fair view of the actual situation; (2) designing, implementing and maintaining the necessary internal control so that the financial statements are free from material misstatement whether due to fraud or error.

#### II. Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on the audit we have conducted. We conduct 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 codes of Chinese certified public accountants 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. When conducting risk assessment, certified public accountants consider internal control relevant to the preparation and fair presentation of financial statements so as to design appropriate audit procedures. 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 financial statements give a true and fair view of the consolidated financial position of Shandong Chenming Paper Holdings Limited and its subsidiaries as at 31 December 2011, and of their consolidated operating results and consolidated cash flows for 2011 and, of the financial position of Shandong Chenming Paper Holdings Limited as at 31 December 2011, and of its operating results and cash flows for the year in all material aspects in accordance with Accounting Standards for Business Enterprises.

RSM China Certified Public Accountants Co., Ltd.

PRC Certified Public Accountant: Jing Chuanxuan

Beijing, China

PRC Certified Public Accountant: Wang Chuanshun

28 March 2012

## XII.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 2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Closing Balance	Opening balance
<b>CURRENT ASSETS:</b>			
Monetary funds	VII.1	3,529,938,211.47	1,951,854,940.72
Held-for-trading financial assets			
Bills receivable	VII.2	2,444,508,997.74	2,762,389,909.89
Accounts receivable	VII.3	2,886,437,754.69	2,122,578,824.27
Prepayments	VII.5	764,880,237.90	924,354,545.55
Interest receivable			
Dividend receivable			
Other receivables	VII.4	325,550,913.72	117,634,380.52
Inventory	VII.6	5,586,472,121.37	3,047,078,215.01
Current assets due within one year			
Other current assets	VII.7	1,698,362,261.63	658,572,125.34
<b>Total current assets</b>		<b>17,236,150,498.52</b>	<b>11,584,462,941.30</b>
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VII.8	77,434,005.49	67,201,931.89
Investment properties	VII.9	22,949,956.03	24,688,212.07
Fixed assets	VII.10	22,740,904,031.02	12,882,358,381.56
Construction in progress	VII.11	2,618,039,624.85	7,871,512,563.84
Construction materials	VII.12	61,924,581.85	116,481,086.12
Disposal of fixed assets			
Consumable biological assets	VII.13	959,061,500.85	726,742,568.44
Oil and gas assets			
Intangible assets	VII.14	1,517,137,201.36	1,459,453,227.94
Development expenditure			
Goodwill	VII.15	20,283,787.17	20,283,787.17
Long-term prepaid expenses	VII.16	192,917,245.62	176,436,950.42
Deferred income tax assets	VII.17	174,026,534.27	147,510,479.23
Other non-current assets	VII.19	10,000,000.00	
<b>Total non-current assets</b>		<b>28,394,678,468.51</b>	<b>23,492,669,188.68</b>
<b>TOTAL ASSETS</b>		<b>45,630,828,967.03</b>	<b>35,077,132,129.98</b>



## XII. 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

Item	Note	Closing Balance	Opening balance
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings	VII.21	12,086,984,606.69	3,594,157,220.47
Held-for-trading financial liabilities		—	—
Bills payable	VII.22	615,327,402.85	218,757,186.75
Accounts payable	VII.23	4,685,585,997.60	2,708,064,676.44
Advance receipts	VII.24	231,428,013.45	410,243,554.75
Staff remuneration payables	VII.25	147,063,891.65	169,426,660.41
Taxes payable	VII.26	68,240,005.91	134,029,387.82
Interest payable	VII.27	106,854,702.74	46,115,333.31
Dividend payable		—	—
Other payables	VII.28	763,621,538.95	582,052,511.43
Non-current liabilities due within one year	VII.29	1,203,616,858.22	1,432,841,463.15
Other current liabilities	VII.30	10,227,001.60	3,366,378,582.57
<b>Total current liabilities</b>		<b>19,918,950,019.66</b>	<b>12,662,066,577.10</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings	VII.31	5,143,067,496.05	4,725,628,719.05
Bonds payable	VII.32	2,476,942,694.79	
Long-term payables		—	—
Special accounts payable	VII.33	660,000,000.00	—
Estimated liabilities		—	—
Deferred income tax liabilities		—	1,340,281.66
Other non-current liabilities	VII.34	2,444,093,897.14	2,427,897,545.67
<b>Total non-current liabilities</b>		<b>10,724,104,087.98</b>	<b>7,154,866,546.38</b>
<b>TOTAL LIABILITIES</b>		<b>30,643,054,107.64</b>	<b>19,816,933,123.48</b>
<b>OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):</b>			
Paid-up capital(or share capital)	VII.35	2,062,045,941.00	2,062,045,941.00
Capital reserves		6,098,264,836.00	6,093,493,004.71
Less: Treasury shares		—	—
Special reserves		—	—
Surplus reserves	VII.37	1,132,116,106.40	1,046,510,680.99
General risk provisions		—	—
Retained profit	VII.38	4,237,783,996.54	4,333,731,947.96
Foreign currency translation differences		-1,588,560.03	4,219.88
Total equity attributable to equity holders of the company		13,528,622,319.91	13,535,785,794.54
Minority interests		1,459,152,539.48	1,724,413,211.96
<b>Total owners' equity</b>		<b>14,987,774,859.39</b>	<b>15,260,199,006.50</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>45,630,828,967.03</b>	<b>35,077,132,129.98</b>

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

### Consolidated Income Statement

2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Amounts during the year	Amounts during the prior year
<b>I. Total operating revenue</b>		17,747,489,900.87	17,203,123,029.49
Including: operating revenue	VII.39	17,747,489,900.87	17,203,123,029.49
<b>II. Total operating costs</b>		17,427,488,408.38	15,801,911,781.41
Including: operating costs	VII.39	14,931,153,175.89	13,683,001,460.32
business taxes and surcharges	VII.40	75,717,528.59	30,117,480.19
selling and distribution expenses	VII.41	932,884,617.97	873,779,193.05
general and administrative expenses	VII.42	1,014,494,608.50	871,138,204.71
finance expenses	VII.43	432,022,027.84	233,455,658.10
loss on impairment of assets	VII.46	41,216,449.59	110,419,785.04
Plus: gain on change in fair value (“-” denotes loss)	VII.44	48,173,926.26	46,302,250.58
investment income (“-” denotes loss)	VII.45	7,871,420.17	-13,762,755.60
Including: investment income from associates and joint ventures		-3,246,150.00	-13,863,141.44
<b>III. Operating profit (“-” denotes loss)</b>		376,046,838.92	1,433,750,743.06
Plus: non-operating income	VII.47	364,826,920.31	179,418,037.60
Less: non-operating expenses	VII.48	41,883,862.53	50,814,216.46
Including: loss on disposal of non-current assets		5,791,866.58	42,128,862.46
<b>IV. Total profit (“-” denotes total loss)</b>		698,989,896.70	1,562,354,564.20
Less: income tax expenses	VII.49	110,263,113.88	260,696,445.13
<b>V. Net profit (“-” denotes net loss)</b>		588,726,782.82	1,301,658,119.07
Net profit attributable to equity holders of the Company		608,271,256.29	1,163,341,066.21
Minority interests		-19,544,473.47	138,317,052.86
<b>VI. Earnings per share:</b>			
(I) Basic earnings per share	VII.50	0.29	0.56
(II) Diluted earnings per share	VII.50	0.29	0.56
<b>VII. Other comprehensive income</b>	VII.51	-1,592,779.91	-855,013.84
<b>VIII. Total comprehensive income</b>		587,134,002.91	1,300,803,105.23
Total comprehensive income attributable to equity holders of the Company		606,678,476.38	1,162,486,052.37
Total comprehensive income attributable to minority interests		-19,544,473.47	138,317,052.86

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

### Consolidated Cash Flow Statements

2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Amounts during the year	Amounts during the prior year
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		18,171,618,384.23	16,628,774,985.06
Tax rebates received		25,768,916.35	35,934,217.79
Cash received relating to other operating activities	VII.52(1)	460,889,042.22	389,651,056.52
<b>Subtotal of cash inflows from operating activities</b>		<b>18,658,276,342.80</b>	<b>17,054,360,259.37</b>
Cash paid for goods and services		15,868,791,276.57	13,330,679,721.31
Cash paid to and for employees		858,514,134.68	858,757,675.05
Payments of taxes and surcharges		1,353,466,742.90	1,375,083,198.75
Cash paid relating to other operating activities	VII.52(2)	1,014,967,199.54	639,510,737.26
<b>Subtotal of cash outflows from operating activities</b>		<b>19,095,739,353.69</b>	<b>16,204,031,332.37</b>
<b>Net cash flows from operating activities</b>		<b>-437,463,010.89</b>	<b>850,328,927.00</b>

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

Item	Note	Amounts during the year	Amounts during the prior year
<b>II. Cash flows from investing activities:</b>			
Cash received from investments			1,000,000.00
Cash received from investment income			20,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		25,503,242.42	87,624,212.19
Net cash received from disposal of subsidiaries and other business units		85,833,861.65	—
Cash received relating to other investing activities	VII.52(3)	789,995,907.49	35,337,000.00
Subtotal of cash inflows from investing activities		901,333,011.56	123,981,212.19
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		5,079,862,426.10	6,507,649,651.70
Cash paid on investments		96,641,800.00	1,010,000.00
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		5,176,504,226.10	6,508,659,651.70
Net cash flows from investing activities		-4,275,171,214.54	-6,384,678,439.51
<b>III. Cash flows from financing activities:</b>			
Cash received from capital contribution		5,000,000.00	—
Including: Cash received from minority interest contribution to subsidiaries		5,000,000.00	—
Cash received from borrowings		17,871,971,078.39	6,322,265,778.15
Cash received from bond issue		2,473,750,000.00	4,376,900,000.00
Cash received relating to other financing activities	VII.52(4)	—	428,970,082.51
Subtotal of cash inflows from financing activities		20,350,721,078.39	11,128,135,860.66
Cash repayments of amounts borrowed		12,449,904,961.19	5,104,910,592.34
Cash paid for dividend and profit distribution or interest payment		1,599,494,479.86	991,379,958.69
Including: Dividend and profit paid to minority interests to subsidiaries		78,991,189.35	147,258,509.55
Cash paid relating to other financing activities	VII.52(5)	1,116,270,631.02	—
Subtotal of cash outflows from financing activities		15,165,670,072.07	6,096,290,551.03
Net cash flows from financing activities		5,185,051,006.32	5,031,845,309.63
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		-10,604,141.16	-9,594,019.82
<b>V. Net increase in cash and cash equivalents</b>		461,812,639.73	-512,098,222.70
Add: Balance of cash and cash equivalents as at the beginning of the period	VII.53(1) VII.53(2)	1,855,235,979.80	2,367,334,202.50
<b>VI. Balance of cash and cash equivalents as at the end of the period</b>		2,317,048,619.53	1,855,235,979.80

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

## Consolidated Statement of Changes in Owners' Equity

2011

Prepared by:  
Shandong Chenming  
Paper Holdings Limited

Unit: RMB

Item	Amounts for the year					Amounts for the prior year					Total owners' equity		
	Paid-up capital (or share capital)	Capital reserves	Special reserves	Surplus reserves	General risk provisions	Retained profit	Others	Minority interests	Total owners' equity				
I. Balance at the end of the prior year	2,082,045,841.00	6,086,483,004.71	1,046,510,880.89	4,330,731,947.96	4,218.88	1,724,413,211.96	15,260,199,006.50	2,082,045,841.00	6,086,483,004.71	3,828,588,297.55	869,233.72	-1,461,168,500.47	14,327,069,822.15
Plus: accounting policy change													
Corrections of prior period errors													
Others													
II. Balance at the beginning of the year	2,082,045,841.00	6,086,483,004.71	1,046,510,880.89	4,330,731,947.96	4,218.88	1,724,413,211.96	15,260,199,006.50	2,082,045,841.00	6,086,483,004.71	3,828,588,297.55	869,233.72	-1,461,168,500.47	14,327,069,822.15
III. Changes in the year ("+" denotes increase)													
(I) Net profit	4,771,831.29		66,605,425.41	-95,947,951.42	-1,582,778.91	-656,260,672.46	-272,424,147.11	9,202.78		139,591,633.50	-655,013.84	-201,142,238.51	523,138,184.35
(II) Other comprehensive income				688,271,252.29	-1,582,778.91	-19,544,473.47	588,726,782.92	-1,592,778.91		1,788,341,068.21	-655,013.84	1,301,653,150.07	-855,013.84
Subtotal of (I) and (II) above				688,271,252.29	-1,582,778.91	-19,544,473.47	316,302,635.81	-1,592,778.91		1,788,341,068.21	-1,310,027.68	1,100,510,911.56	1,300,283,166.51
(III) Capital paid in and reduced by owners	4,771,831.29							9,202.78					-10,000.00
1. Capital paid in by owners								9,202.78					-10,000.00
2. Amounts of share-based payments recognized in owners' equity													
3. Others	4,771,831.29												
(IV) Profit distribution			66,605,425.41	-704,219,207.71	-65,605,425.41					139,591,633.50		-159,041,138.39	-777,654,920.88
1. Transfer to surplus reserves			66,605,425.41							139,591,633.50			
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 made up for losses													
4. Others													
(VI) Special reserves													
1. Appropriated in the period													
2. Used in the period													
(VII) Others													
1. Others													
IV. Balance at the end of the period	2,082,045,841.00	6,086,483,004.71	1,113,116,306.30	4,237,783,995.54	-1,588,560.03	1,465,163,538.49	14,987,774,669.39	2,082,045,841.00	6,086,483,004.71	4,008,179,931.05	4,219.86	-1,724,413,211.96	15,260,199,006.50

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

### Balance Sheet

As at 31 December 2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Closing Balance	Opening balance
<b>CURRENT ASSETS:</b>			
Monetary funds		1,747,384,563.57	704,109,173.25
Held-for-trading financial assets		—	—
Bills receivable		1,432,408,267.82	1,527,349,378.06
Accounts receivable	XV.1	1,743,034,281.97	1,621,939,553.18
Prepayments		664,693,619.26	919,638,465.71
Interest receivable		—	—
Dividend receivable			25,500,000.00
Other receivables	XV.2	6,928,079,845.18	4,773,074,610.91
Inventory		1,173,839,484.91	798,447,611.57
Non-current assets due within one year		50,000,000.00	1,799,625,759.18
Other current assets		15,216,230.82	
<b>Total current assets</b>		<b>13,754,656,293.53</b>	<b>12,169,684,551.86</b>
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets		—	—
Entrusted loans		500,000,000.00	500,000,000.00
Long-term receivables		—	—
Long-term equity investments	XV.3	8,748,703,461.63	5,957,887,739.77
Investment properties		22,949,956.03	24,688,212.07
Fixed assets		5,264,187,852.03	5,162,505,904.23
Construction in progress		422,232,622.40	377,881,973.00
Construction materials		3,589,906.68	18,789,838.50
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		322,623,412.83	329,934,823.01
Development expenditure		—	—
Goodwill		—	—
Long-term prepaid expenses		—	—
Deferred income tax assets		41,388,325.93	60,305,230.74
Other non-current assets		10,000,000.00	—
<b>Total non-current assets</b>		<b>15,335,675,537.53</b>	<b>12,431,993,721.32</b>
<b>TOTAL ASSETS</b>		<b>29,090,331,831.06</b>	<b>24,601,678,273.18</b>

## XII. 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

Item	Note	Closing Balance	Opening balance
<b>CURRENT LIABILITIES:</b>			
Short-term loans		8,080,716,020.88	2,177,183,475.78
Held-for-trading financial liabilities		—	—
Bills payable		346,418,281.23	124,145,654.66
Accounts payable		1,698,958,458.63	995,425,830.59
Advance receipt		119,723,590.83	284,808,123.90
Staff remuneration payables		79,433,205.74	106,040,498.15
Taxes payable		21,270,847.19	36,899,207.08
Interest payable		103,910,194.44	46,115,333.31
Dividend payable		—	—
Other payables		211,491,763.93	248,170,250.32
Non-current liabilities due within one year		543,009,000.00	1,360,951,000.00
Other current liabilities		1,345,288.40	3,359,843,205.08
<b>Total current liabilities</b>		<b>11,206,276,651.27</b>	<b>8,739,582,578.87</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings		648,055,935.94	852,222,735.94
Bonds payable		1,983,425,123.62	—
Long-term payables		—	—
Special accounts payable		—	—
Estimated liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		2,314,615,977.46	2,309,355,287.42
<b>Total non-current liabilities</b>		<b>4,946,097,037.02</b>	<b>3,161,578,023.36</b>
<b>TOTAL LIABILITIES</b>		<b>16,152,373,688.29</b>	<b>11,901,160,602.23</b>
<b>OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):</b>			
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		1,119,926,524.49	1,034,321,099.08
General risk provisions		—	—
Retained profit		3,571,769,688.51	3,419,934,642.10
<b>Total owners' equity (shareholders' equity)</b>		<b>12,937,958,142.77</b>	<b>12,700,517,670.95</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY (SHAREHOLDERS' EQUITY)</b>		<b>29,090,331,831.06</b>	<b>24,601,678,273.18</b>

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

### Income Statement

2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Amounts during the year	Amounts during the prior year
<b>I. Operating revenue</b>	XV.4	8,997,521,699.60	13,959,645,213.34
Less: cost of operations	XV.4	7,477,073,368.37	11,757,986,411.67
business tax and surcharges		38,828,780.64	8,499,517.79
selling and distribution expenses		284,936,730.61	437,724,161.64
general and administrative expenses		478,414,289.42	435,746,707.79
finance expenses		251,663,081.97	208,958,371.56
loss on impairment of assets		-67,463,391.85	14,020,913.64
Plus: gain on change in fair value (“-” denotes loss)		—	6,450,000.00
investment income (“-” denotes loss)	XV.5	263,319,140.54	483,889,430.92
Including: investment income from associates and joint ventures		-3,246,150.00	-13,863,141.44
<b>II. Operating profit (“-” denotes loss)</b>		797,387,980.98	1,587,048,560.17
Plus: non-operating income		179,866,219.03	51,522,683.19
Less: non-operating expenses		26,502,320.95	37,188,877.94
Including: loss on disposal of non-current assets		4,147,861.71	36,786,877.94
<b>III. Total profit (“-” denotes total loss)</b>		950,751,879.06	1,601,382,365.42
Less: income tax expenses		94,697,624.94	205,566,030.42
<b>IV. Net profit (“-” denotes net loss)</b>		856,054,254.12	1,395,816,335.00
<b>V. Earnings per share:</b>		—	—
(I) Basic earning per share		—	—
(II) Diluted earning per share		—	—
<b>VI. Other comprehensive income</b>		—	—
<b>VII. Total comprehensive income</b>		856,054,254.12	1,395,816,335.00



## XII.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

2011

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Note	Amounts during the year	Amounts during the prior year
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		10,591,768,302.84	13,164,182,753.49
Tax rebates received		—	—
Cash received relating to other operating activities		186,090,658.90	56,990,439.95
Subtotal of cash inflows from operating activities		10,777,858,961.74	13,221,173,193.44
Cash paid for goods and services		7,405,120,325.58	10,928,633,742.88
Cash paid to and for employees		290,407,296.36	344,541,075.37
Payments of taxes and surcharges		639,922,431.42	659,896,421.73
Cash paid relating to other operating activities		2,333,136,686.35	2,458,298,291.23
Subtotal of cash outflows from operating activities		10,668,586,739.71	14,391,369,531.21
Net cash flows from operating activities		109,272,222.03	-1,170,196,337.77
<b>II. Cash flows from investing activities:</b>			
Cash received from investments		1,785,965,599.18	419,394,240.82
Cash received from investment income		255,656,071.44	545,267,857.49
Disposal of fixed assets, intangible assets and other long-term assets		599,046.24	19,004,765.80
Cash received relating to other investing activities		—	14,390,000.00
Subtotal of cash inflows from investing activities		2,042,220,716.86	998,056,864.11
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		671,496,041.41	190,735,508.66
Cash paid on investments		2,841,003,755.00	2,591,000,000.00
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		3,512,499,796.41	2,781,735,508.66
Net cash flows from investing activities		-1,470,279,079.55	-1,783,678,644.55

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

Item	Note	Amounts during the year	Amounts during the prior year
<b>III. Cash flows from financing activities:</b>		—	—
Cash received from capital contribution		—	—
Cash received from borrowings		10,764,488,694.56	3,239,397,401.53
Cash received from bond issue		1,982,000,000.00	4,376,900,000.00
Cash received relating to other financing activities			409,984,697.61
<b>Subtotal of cash inflows from financing activities</b>		<b>12,746,488,694.56</b>	<b>8,026,282,099.14</b>
Cash repayments of amounts borrowed		9,183,064,949.46	5,157,736,193.29
Cash paid for dividend and profit distribution or interest payment		1,155,318,645.28	829,615,829.90
Cash paid relating to other financing activities		415,445,919.04	—
<b>Subtotal of cash outflows from financing activities</b>		<b>10,753,829,513.78</b>	<b>5,987,352,023.19</b>
<b>Net cash flows from financing activities</b>		<b>1,992,659,180.78</b>	<b>2,038,930,075.95</b>
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-3,822,851.98</b>	<b>-8,891,485.17</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>627,829,471.28</b>	<b>-923,836,391.54</b>
Add: Balance of cash and cash equivalents as at the beginning of the period	XV.6(3)	662,209,607.29	1,586,045,998.83
<b>VI. Cash and cash equivalents as at the end of the period</b>	XV.6(3)	<b>1,290,039,078.57</b>	<b>662,209,607.29</b>

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

## Statement of Changes in Owners' Equity

2011

Prepared by: Shandong Chenming Paper Holdings Limited  
Unit: RMB

Item	Amounts during the year					Amounts during the prior year					Total owners' equity				
	Paid-up capital (or share capital)	Capital reserves	Less: treasury shares	Special reserves	Surplus reserves	General risk provisions	Retained profit	Total owners' equity	Capital reserves	Less: treasury shares		Special reserves	Surplus reserves	General risk provision	Retained profit
I. Balance as at the beginning of the prior year	2,062,045,941.00	6,184,215,988.77	-	-	1,034,321,090.08	-	3,419,934,642.10	12,700,517,670.95	6,184,215,988.77	-	-	884,739,465.38	-	2,782,213,722.30	11,933,315,118.25
Plus accounting policy changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance as at the beginning of the year	2,062,045,941.00	6,184,215,988.77	-	-	1,034,321,090.08	-	3,419,934,642.10	12,700,517,670.95	6,184,215,988.77	-	-	884,739,465.38	-	2,782,213,722.30	11,933,315,118.25
III. Changes in the year ("+" denotes increase)	-	-	-	-	86,865,425.41	-	151,835,046.41	237,440,471.82	-	-	-	139,581,633.30	-	637,620,919.20	777,202,532.70
(I) Net profit	-	-	-	-	-	-	860,054,234.12	660,054,254.12	-	-	-	-	-	1,395,616,335.00	1,395,616,335.00
(II) Other comprehensive income	-	-	-	-	-	-	860,054,234.12	660,054,254.12	-	-	-	-	-	1,395,616,335.00	1,395,616,335.00
Sub-total of (I) and (II)	-	-	-	-	-	-	860,054,234.12	660,054,254.12	-	-	-	-	-	1,395,616,335.00	1,395,616,335.00
(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	-	-	-	-	86,865,425.41	-	-704,218,207.71	-618,613,782.30	-	-	-	139,581,633.30	-	-738,195,415.80	-618,613,782.30
1. Transfer to surplus reserves	-	-	-	-	86,865,425.41	-	-85,665,425.41	-	-	-	-	139,581,633.30	-	-139,381,633.30	-
2. Transfer to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (shareholders)	-	-	-	-	-	-	618,613,782.30	-618,613,782.30	-	-	-	-	-	-618,613,782.30	-618,613,782.30
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	2,062,045,941.00	6,184,215,988.77	-	-	1,119,925,515.49	-	3,571,769,688.51	12,937,958,142.77	6,184,215,988.77	-	-	1,024,321,090.68	-	3,419,934,642.10	12,700,517,670.95

## XII.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 2011

#### 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 of 31 December 2011, the cumulatively issued total share capital of the Company was 2,062,045,941 shares. Please see Note VII. 35 for details.

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 28 March 2012 (these financial statements will be proposed in the general meeting for approval in accordance with the Articles of Association of the Company).

## XII. 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 and consumable biological assets, 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 2011 and relevant information such as the operating results and cash flows of the Company and the Group of 2011. 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.

## XII.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. Involved contingent consideration charged to the combination cost according to its fair value on 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.

## XII.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.

#### 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 determined on the basis of control. The term "control" means that the Company has the power to decide 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.

## XII.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.

If the Company loses control over a subsidiary due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control lost. The difference between the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest less the net assets attributable to the Company calculated continuously since the purchase date based on shareholding percentage before disposal are recognised in gains on investment in the period when the control lost. Other comprehensive income related to equity investment in the subsidiary is transferred to gains on investment at the time control lost. The remaining equity interest is measured subsequently according to the related requirements of "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment" or "Accounting Standards for Business Enterprises No. 22 – Recognition and measurement of Financial Instruments". Please see Note IV. 10 "Long-term equity investments" for details or Note IV. 7 "Financial Instruments".

#### 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 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.



## XII.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 average 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.

## XII.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, loans and receivables 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.

Financial assets may be classified as financial assets held for trading if one of the following conditions is met: A. the financial assets is acquired or incurred principally for the purpose of selling it in the near term; B. 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 C. 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.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: A. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or B. The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

A financial asset at fair value through profit or loss is subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial asset are recognised in profit or loss in the current period.

## XII.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)

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

###### 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.

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 Loans and receivables

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 and entrusted loans are classified as loans and receivables by the Group.

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses incurred at the time of derecognition, impairment or amortization are charged to profit or loss in the current 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.

## XII.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 *Impairment of held-to-maturity investments and loans and receivables*

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.

## XII.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.

## XII.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 and embedded derivatives

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.

For a hybrid instrument containing an embedded derivative, an embedded derivative is separated from the hybrid instrument and separately accounted for as a derivative if the hybrid instrument is not designated to be a financial asset or financial liability measured at fair value with changes in fair value recognised in profit or loss in the current period; the embedded derivative is not closed related to the host contract in terms of economic characteristics and risks and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The hybrid instrument as a whole is designated to be a financial asset or financial liability measured at fair value with changes in fair value recognised in profit or loss in the current period if the embedded derivative cannot be separately measured when it is acquired or at a subsequent balance sheet date.

## XII.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)

##### (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.

##### (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.

## XII.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
No-risk portfolio	Accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately.
General-risk portfolio	Accounts receivable for which bad debts are provided under credit risk portfolio as they are not qualified to be subject to impairment tests separately (individually significant or have certain specific risk features) and are classified into some portfolios based on the credit risk features such as age and the percentage of bad debt provision of each portfolio is determined against the common risk features of each portfolio by the management.

###### 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
No-risk portfolio	No bad debts provided
General-risk portfolio	Aging analysis



## XII.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 (Cont'd)*

##### B. Measurement of determine bad debt provision based on credit risk feature portfolio (Cont'd)

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
3-4 years	100	100
4-5 years	100	100
Over 5 years	100	100

- 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: 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.

## XII.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

##### (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.

##### (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.

## XII.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

##### (1) Determination of 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 business combination cost is the aggregate of assets paid, liabilities incurred or undertook and fair value of equity securities issued by the acquirer. Agent fees incurred by the acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period at the time such expenses incurred. Transaction cost incurred for issuing equity securities or debt securities, which are used as consideration for the combination, are included in the initial recognition amount of the equity securities or debt securities.

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.

##### 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.

## XII.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)

###### 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.

## XII.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.

## XII.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.

## XII.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

A fixed asset 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 its estimated useful life from the next month after it has been brought to its working condition for its intended use using the straight-line method. The useful life, estimated residual value and annual depreciation rate of each category of a fixed asset 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.

## XII.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.



## XII.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.

## XII.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 a finite 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 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;

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### 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 prepaid expenses

Long-term prepaid 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 prepaid expenses are amortised over the estimated benefit period using the straight-line method.

#### 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.

## XII.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.

## XII.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.

## XII.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.

## XII.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.

## XII.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.



## XII.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.

## XII.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.

## XII.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.

## XII.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	17%
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%
Educational surcharges	Amount of value added tax and business tax paid	3%
Local educational surcharges	Amount of value added tax and business tax paid	2%
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%.

## XII.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 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 24% in 2011.

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 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 24% in 2011.

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 enjoyed 50% tax concessions and was subject to the applicable tax rate of 12.5% in 2011.

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%.

## XII.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 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 2011.

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.

# XII. 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	Enterprise type	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	Balance of other projects that constitutes net investment in the subsidiary	Set off the profit or loss of the minority interests from the equity of the minority interests	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	Note
Wuhan Chenming Hengyang Paper Holdings Co., Ltd.	Controlling subsidiary	Wuhan, China	Manufacture of paper	21,136	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	Sino-foreign joint venture	Tan Daocheng	2718925-4	20,282	—	50.93 <td>50.93 <td>Yes <td>31,271.04</td> <td>— <td>—</td> <td>—</td> <td>1</td> </td></td></td>	50.93 <td>Yes <td>31,271.04</td> <td>— <td>—</td> <td>—</td> <td>1</td> </td></td>	Yes <td>31,271.04</td> <td>— <td>—</td> <td>—</td> <td>1</td> </td>	31,271.04	— <td>—</td> <td>—</td> <td>1</td>	—	—	1	
Shandong Chenming Paper Group Qihé Paperboard Co., Ltd.	Wholly-owned subsidiary	Qihé, China	Manufacture of paper	37,620	Manufacture, processing and sales of paperboard and packaging paper	Limited liability company	Li Weishan	72074271-4	37,620	—	100 <td>100 <td>Yes</td> <td>—</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td>	100 <td>Yes</td> <td>—</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td>	Yes	—	—	—	—	1	
Shandong Chenming Power Supply Holdings Co., Ltd.	Controlling subsidiary	Shouguang, China	Electricity	9,355	Manufacture and supply of electricity and steam	Limited liability company	Sun Hongji	70620711-8	15,781	—	86.71 <td>86.71 <td>Yes <td>2,044.26</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td></td>	86.71 <td>Yes <td>2,044.26</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td>	Yes <td>2,044.26</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td>	2,044.26	—	—	—	1	
Yanbian Chenming Paper Co., Ltd.	Controlling subsidiary	Yanji, China	Manufacture of paper	8,163.30	Mucilage glue fiber pulp, pulp and machine-made paper	Limited liability company	Sang Jinggao	7258840-0	9,673	—	100 <td>100 <td>Yes</td> <td>—</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td>	100 <td>Yes</td> <td>—</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td>	Yes	—	—	—	—	1	
Jiangxi Chenming Paper Co., Ltd.	Controlling subsidiary	Nanchang, China	Manufacture of paper	USD172.00 million	Production and processing, etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials	Sino-foreign joint venture	Geig Guangjin	74426407-7	69,355	—	51 <td>51 <td>Yes <td>89,682.75</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td></td>	51 <td>Yes <td>89,682.75</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td>	Yes <td>89,682.75</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td>	89,682.75	—	—	—	1	
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Controlling subsidiary	Shouguang, China	Arboriculture	1,059	Development, nurture of fast growth poplar, forest, vegetable and fruit	Limited liability company	Li Dejiang	73925671-7	720	—	68 <td>68 <td>Yes <td>-89.23</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td></td>	68 <td>Yes <td>-89.23</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td> </td>	Yes <td>-89.23</td> <td>—</td> <td>—</td> <td>—</td> <td>1</td>	-89.23	—	—	—	1	

# XII.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	Enterprise type	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 interests from 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	Note	Unit: RMB '0000
																		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
Hailaer Chenming Paper Co., Ltd.	Controlling subsidiary	Hailaer, China	Manufacture of paper	1,600	Sales and processing of machine-made paper and pulp paper	Limited liability company	Gao Zwei	70130836-6	1,200	—	75	75	Yes	3,179.63	—	—	1	
Wuhan Chenming Quanneng Electric Power Co., Ltd.	Controlling subsidiary	Wuhan, China	Electricity	8,824	Generation and sales of electricity and steam	Limited liability company	Hu Jianguo	7257972-2	4,500	—	51	51	Yes	4,538.11	—	—	2	
Wuhan Chenjian New-style Wall Materials Co., Ltd.	Controlling subsidiary	Wuhan, China	Wall materials	1,000	Production, operation and sales of aerated fly ash concrete blocks	Limited liability company	Lu Xuefeng	74475404-0	510	—	51	51	Yes	2,197.92	—	—	2	
Shandong Chenming Xinhui Power Co., Ltd.	Controlling subsidiary	Shouguang, China	Electricity	USD11.80 million	Generation and sales of electricity and steam	Sino-foreign joint venture	Sun Hongji	72073121-5	4,982	—	51	51	Yes	7,875.86	—	—	2	
Shouguang Chenming Cement Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of cement	700	Utilisation of ash in the production of cement and sales of cement	Limited liability company	Sun Hongji	7372078-X	700	—	100	100	Yes	—	—	—	2	
Shandong Chenming Panels Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of panels	3,000	Decorative board of the layer of laminated board, wooden products, laminated board and fortified wooden floorboard	Limited liability company	Liu Shusen	73816170-8	3,000	—	100	100	Yes	—	—	—	2	
Shouguang Chenming Floor Board Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of floor board	50	Production, processing and sales of fortified wooden floorboard and impregnated paper	Limited liability company	Liu Shusen	76366212-5	50	—	100	100	Yes	—	—	—	2	



# XII.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	Enterprise type	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 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	Note
Qihe Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Qing, China	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	Limited liability company	Liu Shusen	76001404-2	4,082	-	100	100	Yes	-	-	-	2
Yangjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Yangjiang, China	Arboriculture	100	Plantation and development of forest, and technology consultation of forestry	Limited liability company	Li Dejiang	78487434-6	100	-	100	100	Yes	-	-	-	2
Zhanjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Arboriculture	100	Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	Limited liability company	Wang Ziqiao	78288807-5	100	-	100	100	Yes	-	-	-	2
Jilin Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Jilin City, China	Manufacture of paper	150,000	Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper	Limited liability company	Zhang Chunlin	78288556-0	150,135	-	100	100	Yes	-	-	-	1
Juancheng Chenming Panels Co., Ltd.	Wholly-owned subsidiary	Juancheng, China	Production and sales of panels	1,500	Production and sales of particle board, decorative particle board and melamine impregnated paper	Limited liability company	Liu Shusen	7787245-X	1,500	-	100	100	Yes	-	-	-	1

# XII.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	Enterprise type	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	Set off the profit or loss of the minority interests from the equity of the subsidiary	Note	Unit: RMB '0000
																		Setting off 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
Shandong Grand View Hotel Co., Ltd.	Controlling subsidiary	Shouguang, China	Beverage	USD13.91 million	Restaurant and beverage services	Sino-foreign joint venture	Xia Guangchun	97529657-8	8,060	-	70	70	Yes	-485.17	-	-	1	
Zhanjiang Chenming Paper Pulp Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Arboriculture	250,000	Improvement of plant foddering, tree planting and soil research of forestry, manufacture, production, processing and sales of paper pulp etc.	Limited liability company	Geog Guangjin	77327084-1	250,000	-	100	100	Yes	-	-	-	1	
Chenming (HK) Limited	Wholly-owned subsidiary	Hong Kong, China	Trade of paper	USD0.10 million	Export and import trade of paper products and market research	Limited liability company	Li Feng	373492790001080	78	-	100	100	Yes	-	-	-	1	
Shouguang Chenming Modern Logistic Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	1,000	Transportation of goods	Limited liability company	Chen Hongguo	66015223-7	1,000	-	100	100	Yes	-	-	-	1	
Shouguang Chenming Art Paper Co., Ltd.	Controlling subsidiary	Shouguang, China	Manufacture of paper	USD20.00 million	Production and sales of machine-made paper	Sino-foreign joint venture	Yin Tongyuan	79867677-0	11,362	-	75	75	Yes	4,985.08	-	-	1	
Qihe Chenming Waste Collection Co., Ltd.	Wholly-owned subsidiary	Qihe, China	Purchase and sales of waste and old material	50	Purchase and sales of wastes and old materials	Limited liability company	Wang Xinglong	75825591-2	50	-	100	100	Yes	-	-	-	2	
Jilin Chenming Waste Collection Co., Ltd.	Wholly-owned subsidiary	Jilin, China	Purchase and sales of waste and old material	100	Purchase and sales of wastes and old materials	Limited liability company	Zheng Bangji	77872731-5	100	-	100	100	Yes	-	-	-	2	

# XII. 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	Enterprise type	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	Balance of owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary	Note	Unit: RMB '0000
																		Setting off the loss attributable to the minority shareholders of the subsidiaries in the current period from the minority shareholders' equity of the Company
Jilin Chenming Machinery Manufacturing Co., Ltd.	Wholly-owned subsidiary	Jilin, China	Processing of machinery	60	Processing of machinery, manufacture, installation and repair of the equipment of machinery	Limited liability company	Zhang Chunlin	66012410-5	60	—	100	100	Yes	—	—	—	2	
Nanchang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Nanchang, China	Arboriculture	1,000	Processing and sales of wooden finished products, semi-finished products and by-products of timber	Limited liability company	Hou Huancai	66204306-9	1,000	—	100	100	Yes	—	—	—	2	
Fuyu Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Fuyu, China	Manufacture of paper	20,800	Production and sales of machine-made paper and paperboard	Limited liability company	Liu Chunshan	66380298-6	20,800	—	100	100	Yes	—	—	—	1	
Huanggang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Arboriculture	1,000	Plantation, processing and sales of forests	Limited liability company	Wang Zaiguo	67066808-X	1,000	—	100	100	Yes	—	—	—	1	
Huanggang Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Arboriculture	2,000	Operation and acquisition of forest, establishment of paper pulp projects	Limited liability company	Xiao Xiang	67076366-9	2,000	—	100	100	Yes	—	—	—	2	
Shougang Meilun Paper Co., Ltd.	Wholly-owned subsidiary	Shougang, China	Manufacture of paper	220,000	Production and sales of machine-made paper and paperboard	Limited liability company	Chen Hongguo	68064934-0	220,000	—	100	100	Yes	—	—	—	1	
Shougang Shun De Customs Declaration Co. Ltd.	Wholly-owned subsidiary	Shougang, China	Customs declaration, inspection declaration	150	Business agency of professional customs declaration and inspection declaration	Limited liability company	Chen Hongguo	68689781-2	150	—	100	100	Yes	—	—	—	1	

# XII.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	Enterprise type	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 interests from 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	Note	Unit: RMB '0000
																		Setting off of the loss attributable to the minority shareholders of the subsidiaries in the
Wuhan Chemming Wen Xing Real Estate Co., Ltd.	Wholly-owned subsidiary	Wuhan, China	Real estate	2,000	Development of real estate and sales of commodity house	Limited liability company	Li Weibian	6853485-0	2,000	—	100	100	Yes	—	—	—	2	
Shandong Chemming Paper Sales Company Limited	Wholly-owned subsidiary	Shouguang, China	Sales of paper	10,000	Sales of machine-made paper, paperboard and paper making raw materials	Limited liability company	Chen Hongguo	5522631-5	10,000	—	100	100	Yes	—	—	—	1	
Shanghai Runchen Equity Investment Fund Co., Ltd.	Controlling subsidiary	Shanghai, China	Equity investment	30500	Equity investment, investment management, investment consulting	Limited liability company	Li Yunnan	58867547-5	30000	—	98.36	98.36	Yes	500.00	—	—	1	
Shouguang Chemming Industrial Logistics Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	1000	Land transport, storage of goods	Limited liability company	Chen Hongguo	58877448-7	1000	—	100	100	Yes	—	—	—	1	
Shouguang Chemming Papermaking Machine Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Machinery manufacturing	200	Processing and repair of paper making machines	Limited liability company	Chen Hongguo	58877452-4	200	—	100	100	Yes	—	—	—	1	
Shouguang Chemming Import and Export Trade Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Import and export trade	1000	Import and export of goods and technology	Limited liability company	Chen Hongguo	58877452-2	1000	—	100	100	Yes	—	—	—	1	
Shouguang Chemming Jialai Property Management Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Property investment	100	Property investment	Limited liability company	Chen Hongguo	58877454-0	100	—	100	100	Yes	—	—	—	1	

## XII. 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	Enterprise type	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 interests from 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	Note
Shouguang Chenming Hongxin Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Packaging	100	Sales of paper packaging	Limited liability company	Chen Hongguo	68877451-6	100		100	100	Yes				1
Shouguang Hengfeng Storage Co., Ltd.	Wholly-owned subsidiary	Shouguang, Shandong, China	Storage of goods, storage leasing	50	Storage and leasing, storage service	Limited liability company	Zheng Jianguo	68688781-4	50		100	100	Yes				1
Chenming International Co., Ltd.	Wholly-owned subsidiary	Los Angeles, United States	Import and export, technology research and development	USD3.00 million	Import and export, technology research and development	Limited liability company	Xia Guangchun		USD3.00 million		100	100	Yes				1

Note "1"- Subsidiary directed established or invested by the Company

"2" - Subsidiary established or invested by the subsidiary(ies) controlled by the Company

# XII. 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	Enterprise type	Legal representative	Organisation code	The actual investment at the end of period	Balance of other projects that constitute 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	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	Note
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Wholly-owned subsidiary	Shouguang, Shandong	Purchase and sales of waste and old materials	100	Purchase and sales of waste and obsolete materials	Limited liability company	Chen Hongguo	77316557-9	100	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	2
Wuxue Song Ling Paper Co., Ltd.	Wholly-owned subsidiary	Wuxi City	Manufacture of paper	501	Sales, cutting and processing of paper	Limited liability company	Liu Chunshan	7629345-6	—	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	2
Shouguang Hongyi Decorative Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, Shandong	Packaging	155	Processing and sales of packaging Products, indoor and outdoor decorations	Limited liability company	Ding Buxun	78077560-7	170	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	2
Shouguang Wei Yuan Logistics Company Limited	Wholly-owned subsidiary	Shouguang, Shandong	Transportation	393	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency service	Limited liability company	Hao Limin	78079463-X	400	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	2
Shouguang Xinyuan Coal Co., Ltd.	Wholly-owned subsidiary	Shouguang, Shandong	Coal	300	Retail of coal, gasoline, construction materials and plumbing parts	Limited liability company	Hao Limin	86670424-2	200	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	2
Shouguang Liben Paper Making Co., Ltd.	Wholly-owned subsidiary	Shouguang, Shandong	Paper making	7407	Carbon copy paper	Limited liability company	—	—	1585	Balance of other projects that constitute net investment in the subsidiary	100	100	Yes	—	—	—	1

Note "1"- Subsidiary directed established or invested by the Company

"2" – Subsidiary established or invested by the subsidiary(ies) controlled by the Company

## XII.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)

#### 2. Explanation for change in scope of consolidation

On 25 August 2011, the Board approved the sale of the 20% and 31% of the equity interest in Chibi Chenming Paper Co., Ltd. respectively held by the Company and Wuhan Chenming Hanyang Paper Holding Co., Ltd., a controlling subsidiary of the Company, to Guangdong Huashen Investment Co., Ltd. at RMB66,000,200 and RMB102,300,300 respectively. The transferee was not related to the Company and the transfer of equity interest was completed on 16 November 2011. Upon completion of the transfer of the equity interest, the Company had no control over Chibi Chenming Paper Co., Ltd., which therefore was not included in the scope of consolidation since 16 November 2011.

On 25 August 2011, the Board approved the sale of the 100% of the equity interest in Xianning Chenming Aboriculture Co., Ltd. held by the Company to Guangdong Huashen Investment Co., Ltd. at RMB6,679,500. The transferee was not related to the Company and the transfer of equity interest was completed on 16 November 2011. Upon completion of the transfer of the equity interest, the Company no longer held equity interest in nor had control over that company, which therefore was not included in the scope of consolidation since 16 November 2011.

On 1 April 2011, Shandong Chenming Power Electricity Supply Holdings Co., Ltd., a secondary subsidiary of the Company, and Shandong Chenming Panels Co., Ltd., a tertiary subsidiary of the Company, disposed of 33% and 34% equity interest in Shandong Heze Chenming Panels Co., Ltd. held by them respectively to Jining Sunshine Wood Industry Co., Ltd. at RMB1. The transferee was not related to the Company and the transfer of equity interest was completed on 1 April 2011. Upon completion of the transfer of the equity interest, the Company had no control over Shandong Heze Chenming Panels Co., Ltd., which therefore was not included in the scope of consolidation since 1 April 2011.

On 1 April 2011, Shandong Chenming Panels Co., Ltd., a wholly-owned subsidiary of the Company, disposed of 67% equity interest in Shandong Lin Dun Wood Industry Co., Ltd. held by it to Jining Sunshine Wood Industry Co., Ltd. at RMB4,500,000. The transferee was not related to the Company and the transfer of equity interest was completed on 1 April 2011. Upon completion of the transfer of the equity interest, the Company no longer held equity interest in nor had control over that company, which therefore was not included in the scope of consolidation since 1 April 2011.

The Company originally held 26.4% equity interest in Shouguang Liben Paper Making Co., Ltd. On 13 August 2011, Nippon Paper Industries Co., Ltd. and Japan Pulp and Paper Company Limited, the former shareholders of Shouguang Liben Paper Making Co., Ltd., transferred to the Company their respective 61.5% and 12.1% equity interest in Shouguang Liben Paper Making Co., Ltd. at RMB0. As of 13 August 2011, the Company held 100% equity interest in and was able to exercise control over Shouguang Liben Paper Making Co., Ltd., which was included in the scope of consolidation since 13 August 2011.

On 18 January 2011, the Company invested in and established Chenming International Co., Ltd., a wholly-owned subsidiary, in Los Angeles, USA. On 10 November 2011, the Company invested in and established Shouguang Hengfeng Storage Co., Ltd., a wholly-owned subsidiary. On 26 December 2011, the Company and Western Development Investment Management (Shanghai) Co., Ltd. established a joint venture, namely Shanghai Runchen Equity Investment Fund Co., Ltd., with registered capital of RMB305,000,000.00. The Company contributed RMB300,000,000.00 and held 98.36% equity interest in it. The Company invested in and established Shouguang Chenming Jiatai Property Management Co., Ltd., Shouguang Chenming Industrial Logistics Co., Ltd., Shouguang Chenming Import and Export Trading Co., Ltd., Shouguang Chenming Paper-making Machinery Co., Ltd., and Shouguang Chenming Hongxin Packaging Co., Ltd., wholly-owned subsidiaries, on 30 December 2011. The Company was able to exercise control over the above 8 companies since the establishment date, and they were included in the scope of consolidation since the establishment date.

## XII.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)

#### 3. Entities newly included in the scope of consolidation during the reporting period and entities not included in the scope of consolidation during the reporting period

(1) *Entities newly included in the scope of consolidation and not included in the scope of consolidation during the year*

(1) Entities newly included in the scope of consolidation during the year

Name	Closing balance of net assets	Net profit for the year
Shanghai Runchen Equity Investment Fund Co., Ltd.	305,000,000.00	
Shouguang Chenming Industrial Logistics Co., Ltd.	10,000,000.00	
Shouguang Chenming Papermaking Machine Co., Ltd.	2,000,000.00	
Shouguang Chenming Import and Export Trade Co., Ltd.	10,000,000.00	
Shouguang Chenming Jiatai Property Management Co., Ltd.	1,000,000.00	
Shouguang Chenming Hongxin Packaging Co., Ltd.	1,000,000.00	
Shouguang Hengfeng Storage Co., Ltd.	496,850.00	-3,150.00
Shouguang Liben Paper Making Co., Ltd.	61,845,696.29	1,806,475.98
Chenming International Co., Ltd.	18,902,700.00	

Note: Shouguang Liben Paper Making Co., Ltd. was a subsidiary acquired under business combination not under common control during the year. Its net profit for the year was the net profit made by it for the period from the acquisition date to the end of the year.

(2) Companies not included in the scope of consolidation during the year

Name	Net assets as at the disposal date	Net profit from the beginning of the year to the disposal date
Chibi Chenming Paper Co., Ltd.	335,297,755.58	16,842,477.50
Xianning Chenming Arboriculture Co., Ltd.	6,458,618.28	10,367,214.85
Heze Chenming Panels Co., Ltd.	-36,984,844.94	-4,055,305.95
Shandong Lin Dun Wood decorating materials Industry Co., Ltd.	23,790,854.72	217,157.90

Note: The control over Chibi Chenming Paper Co., Ltd., Xianning Chenming Arboriculture Co., Ltd., Heze Chenming Panels Co., Ltd. and Shandong Lin Dun Wood decorating materials Industry Co., Ltd. was lost due to disposal of their equity interest and they were not included in the scope of consolidation.



## XII.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)

#### 4. Business combination not under common control during the reporting period

Acquiree	Goodwill	Method of goodwill calculation	Acquisition date
Shouguang Liben Paper Making Co., Ltd.			13 August 2011

Note: On 13 August 2011, the Company was transferred 61.50% and 12.1% equity interest in Shouguang Liben Paper Making Co., Ltd. (hereinafter referred to as "Liben Company") respectively held by Nippon Paper Industries Co., Ltd. and Japan Pulp and Paper Company Limited. The acquisition date of the transaction was 13 August 2011, which was also the date when the Company acquired the control over Liben Company (The contract terms of the equity transfer contract are as follows: (1) the consideration of the equity transfer was RMB0. (2) The acquirer took over the operations of the joint venture upon execution of the contract, and the acquirer dealt with all matters related to Liben Company and was entitled to the corresponding rights and undertook the corresponding obligations since execution of the contract up to approval of the equity transfer by the related government authorities and completion of registration of the equity transfer with the related administrative departments of Industry and Commerce).

- ① Cost of combination and excess of the fair value of the identifiable net assets over the cost of combination recognised in profit or loss are set out as follows:

Item	Amount (RMB)
Cost of combination	—
Less: fair value of the identifiable net assets acquired	44,188,866.15
Excess of the fair value of the identifiable net assets over the cost of combination recognised in profit or loss	44,188,866.15

- ② Assets and liabilities of Liben Paper Making as at the acquisition date is set out below:

Item	Fair value as at the acquisition date	Carrying amount as at the acquisition date	Carrying amount as at the end of the prior year
Cash and cash equivalents	5,474,107.49	5,474,107.49	7,050,952.15
Accounts receivable	31,380,492.29	31,380,492.29	34,775,932.79
Inventory	16,428,086.30	16,428,086.30	15,284,463.47
Other current assets			143,074.05
Fixed assets	21,928,903.71	21,928,903.71	23,208,604.86
Intangible assets	594,578.49	594,578.49	673,094.48
Less: accounts payable	15,766,947.97	15,766,947.97	17,951,916.17
Net assets	60,039,220.31	60,039,220.31	63,184,205.63
Less: minority interests	15,850,354.16	15,850,354.16	16,680,630.29
Net assets acquired	44,188,866.15	44,188,866.15	46,503,575.34

Note: The Company used the carrying amount of Liben Company as at the acquisition date as the fair value of the assets and liabilities of Liben Company as at the acquisition date.

## XII.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)

#### 4. Business combination not under common control during the reporting period (Cont'd)

- ③ Revenue, net profit and cash flows of Liben Company for the period from the acquisition date to the end of the year are set out below

Item	Amount
Revenue for operations	29,822,377.90
Net profit	1,806,475.98
Cash flows from operating activities	-4,234,485.00
Net cash flows	-4,208,485.00

- ④ According to the requirements of the contract and the agreement under business combination, (1) Nippon Paper Industries Co., Ltd. (hereinafter referred as "Nippon Paper") and Japan Pulp and Paper Company Limited (hereinafter referred as "Japan Paper") agreed to transfer the entire equity interest in Liben Company respectively held by Nippon Paper and Japan Paper at no consideration on an "as is" basis and the Company agreed to be transferred of the said interest. (2) Nippon Paper and Japan Paper guaranteed that they had complete rights to dispose of the equity interest transferred to the Company and guaranteed the equity interest was not subject to confiscation, pledge and a third party's right of recourse. Nippon Paper and Japan Paper respectively guaranteed Liben Company did not provide any off-balance-sheet guarantees or borrowings to any third parties as of the execution date of the equity transfer contract. (3) The Company took over the operations of Liben Company upon execution of the equity transfer contract.
- ⑤ This business combination not under common control generated non-operating income of RMB44,188,866.15 based on the re-calculation of the fair value, as compared to the 26.4% equity interest in Liben Company at fair value of RMB15,850,354.16 held by the Company prior to business combination.

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period

Name of the subsidiary	Disposal date	Recognition method of gain or loss on disposal
Chibi Chenming Paper Co., Ltd.	16 November 2011	The excess of the disposal consideration over the share of the net assets of the subsidiary attributable to the equity interest disposed of as at the disposal date accounted for in the consolidated financial statements of the Company is recognised as the gain or loss on disposal.
Xianning Chenming Arboriculture Co., Ltd.	16 November 2011	The excess of the disposal consideration over the share of the net assets of the subsidiary attributable to the equity interest disposed of as at the disposal date accounted for in the consolidated financial statements of the Company is recognised as the gain or loss on disposal.
Heze Chenming Panels Co., Ltd.	1 April 2011	The excess of the disposal consideration over the share of the net assets of the subsidiary attributable to the equity interest disposed of as at the disposal date accounted for in the consolidated financial statements of the Company is recognised as the gain or loss on disposal.
Shandong Lin Dun Wood decorating materials Industry Co., Ltd.	1 April 2011	The excess of the disposal consideration over the share of the net assets of the subsidiary attributable to the equity interest disposed of as at the disposal date accounted for in the consolidated financial statements of the Company is recognised as the gain or loss on disposal.

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period

(1) *Xianning Chenming Arboriculture Co., Ltd.*

On 16 November 2011, the Company transferred the entire 100% equity interest in Xianning Chenming Arboriculture Co., Ltd. (hereinafter referred as "Xianning Arboriculture") held by the Company to Guangdong Huashen Investment Co., Ltd. The disposal date was the date when the Company no longer had control over the net assets and financial and operating decision of Xianning Arboriculture.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	6,679,500.00
Cash and cash equivalents received from disposal	3,339,750.00
Less: cash and cash equivalents held by Xianning Arboriculture	337,314.93
Net cash received from disposal	3,002,435.07

② Disposed net assets of Xianning Arboriculture are set as follows:

Item	Net assets as at the disposal date	Net assets as at the end of the end of the prior year
Current assets	14,114,024.21	16,594,352.11
Non-current assets	37,722,151.56	12,169,968.59
Current liabilities	45,377,557.49	32,672,917.27
Non-current liabilities		
Total net assets	6,458,618.28	-3,908,596.57

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	6,679,500.00
Less: net assets of Xianning Arboriculture as at the disposal date	6,458,618.28
Gain on disposal	220,881.72

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period (Cont'd)

##### (1) Xianning Chenming Arboriculture Co., Ltd. (Cont'd)

- ④ Revenue, expenses and profit of Xianning Arboriculture from the beginning of the year of disposal to the disposal date are set out as follows:

Item	Amount
revenue	
Less: costs and expenses	1,095,996.39
Plus: gain on change in fair value	10,892,531.27
Plus: non-operating income	570,679.97
Total profit	10,367,214.85
Less: income tax expense	
Net profit	10,367,214.85

##### (2) Chibi Chenming Paper Co., Ltd.

On 16 November 2011, the Company and its controlling subsidiary, Wuhan Chenming Hanyang Paper Co., Ltd., transferred the entire 51% equity interest in aggregate in Chibi Chenming Paper Co., Ltd. (hereinafter referred as "Chibi Chenming") held by the Company to Guangdong Huashen Investment Co., Ltd. The disposal date was the date when the Company no longer had control over the net assets and financial and operating decision of Chibi Chenming.

- ① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	168,300,459.00
Cash and cash equivalents received from disposal	84,150,229.50
Less: cash and cash equivalents held by Chibi Chenming	4,785,955.23
Net cash received from disposal	79,364,274.27

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period (Cont'd)

##### (2) Chibi Chenming Paper Co., Ltd. (Cont'd)

##### ② Disposed net assets of Chibi Chenming are set as follows:

Item	Net assets as at the disposal date	Net assets as at the end of the end of the prior year
Current assets	246,703,664.78	212,180,754.53
Non-current assets	276,205,168.33	286,102,949.92
Current liabilities	181,551,543.97	174,703,426.37
Non-current liabilities	6,059,533.56	5,125,000.00
<b>Total net assets</b>	<b>335,297,755.58</b>	<b>318,455,278.08</b>

##### ③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	168,300,459.00
Less: the proportionate share of net assets of Chibi Chenming as at the disposal date	171,001,855.35
<b>Gain on disposal</b>	<b>-2,701,396.35</b>

##### ④ Revenue, expenses and profit of Chibi Chenming from the beginning of the year of disposal to the disposal date are set out as follows:

Item	Amount
revenue	408,768,092.09
Less: costs and expenses	386,615,135.75
Total profit	22,152,956.34
Less: income tax expense	5,310,478.84
<b>Net profit</b>	<b>16,842,477.50</b>

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period (Cont'd)

##### (3) Shandong Lin Dun Wood decorating materials Industry Co., Ltd.

On 1 April 2011, Shandong Chenming Panels Co., Ltd., a wholly-owned subsidiary of the Company, transferred the entire 67% equity interest in Shandong Lin Dun Wood Industry Co., Ltd. (hereinafter referred as "Lin Dun Wood") held by it to Jining Sunshine Wood Industry Co., Ltd. The disposal date was the date when the Company no longer had control over the net assets and financial and operating decision of Shandong Lin Dun Wood Industry Co., Ltd.

##### ① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	4,500,000.00
Cash and cash equivalents received from disposal	4,500,000.00
Less: cash and cash equivalents held by Lin Dun Wood	1,027,511.39
<b>Net cash received from disposal</b>	<b>3,472,488.61</b>

##### ② Disposed net assets of Lin Dun Wood are set as follows:

Item	Net assets as at the disposal date	Net assets as at the end of the end of the prior year
Current assets	22,915,179.26	28,752,909.38
Non-current assets	21,556,950.26	22,556,123.58
Current liabilities	20,681,274.80	27,697,586.94
<b>Total net assets</b>	<b>23,790,854.72</b>	<b>23,611,446.02</b>

##### ③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	4,500,000.00
Less: the proportionate share of net assets of Lin Dun Wood as at the disposal date	15,939,872.66
<b>Gain on disposal</b>	<b>-11,439,872.66</b>

## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period (Cont'd)

##### (3) Shandong Lin Dun Wood decorating materials Industry Co., Ltd. (Cont'd)

- ④ Revenue, expenses and profit of Lin Dun Wood from the beginning of the year of disposal to the disposal date are set out as follows:

Item	Amount
revenue	11,920,121.61
Less: costs and expenses	11,702,963.71
Total profit	217,157.90
Less: income tax expense	
Net profit	217,157.90

##### (4) Shandong Heze Chenming Panels Co., Ltd.

On 1 April 2011, Shandong Chenming Power Electricity Supply Holdings Co., Ltd., a controlling subsidiary of the Company, and Shandong Chenming Panels Co., Ltd., a wholly-owned subsidiary of the Company, transferred 33% and 34% equity interest in Shandong Heze Chenming Panels Co., Ltd. (hereinafter referred as "Heze Panels") held by them respectively to Jining Sunshine Wood Industry Co., Ltd. at RMB1. The disposal date was the date when the Company no longer had control over the net assets and financial and operating decision.

- ① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	2.00
Cash and cash equivalents received from disposal	2.00
Less: cash and cash equivalents held by Heze Panels	5,338.30
Net cash received from disposal	-5,336.30



## XII.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)

#### 5. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period (Cont'd)

##### (4) Shandong Heze Chenming Panels Co., Ltd. (Cont'd)

##### ② Disposed net assets of Heze Panels are set as follows:

Item	Net assets as at the disposal date	Net assets as at the end of the end of the prior year
Current assets	9,777,550.66	11,172,012.69
Non-current assets	66,604,722.04	69,440,356.69
Current liabilities	113,367,117.64	113,541,908.37
<b>Total net assets</b>	<b>-36,984,844.94</b>	<b>-32,929,538.99</b>

##### ③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	2.00
Less: the proportionate share of net assets of Heze Panels as at the disposal date	-24,779,846.11
<b>Gain on disposal</b>	<b>24,779,848.11</b>

##### ④ Revenue, expenses and profit of Heze Panels from the beginning of the year of disposal to the disposal date are set out as follows:

Item	Amount
revenue	561,181.61
Less: costs and expenses	4,616,487.56
<b>Total profit</b>	<b>-4,055,305.95</b>
Less: income tax expense	
<b>Net profit</b>	<b>-4,055,305.95</b>

#### 6. Exchange rate of translating major financial statement items of overseas operating entities

The exchange rate of translating Chenming (HK) Limited and Chenming International Co., Ltd., the overseas subsidiaries of the Company, into the reporting currency of the consolidated financial statements is as follows: all asset and liability items in the balance sheet were translated using the spot exchange rate (i.e. RMB6.3009: USD1) prevailing at the balance sheet date; All the owner's equity items were translated using the spot exchange rate on the date the corresponding transactions occurred, except the "retained profit" item. The income and expense items in the income statement were translated using the average exchange rate on the date the corresponding transactions occurred. The cash flows of overseas subsidiaries were translated using the spot exchange rate on the date the cash flows occurred. The effect of exchange rate change on cash is separately presented in the cash flow statement as reconciliation item.

## XII.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

For the following notes (including the notes to major items of the financial statements of the Company), unless otherwise specified, the "opening balance" and "closing balance" refer to the balances as at 1 January 2011 and 31 December 2011 respectively, and "the prior year" and "the year" refer to 2010 and 2011 respectively.

#### 1. Monetary funds

Item	Closing balance			Opening balance		
	Foreign currency amounts	Exchange Rate	Amount in RMB	Foreign currency amounts	Exchange Rate	Amount in RMB
Cash on hand:			1,908,702.31			1,232,651.18
- RMB	—	—	1,556,425.31	—	—	1,100,197.18
- USD	30,000.00	6.3009	189,027.00	20,000.00	6.6227	132,454.00
- EUR	20,000.00	8.1625	163,250.00			
Cash in Bank:			2,315,139,917.22			1,854,003,328.62
- RMB	—	—	1,830,469,433.66	—	—	1,546,974,335.41
- USD	76,809,500.06	6.3009	483,969,293.97	45,958,441.92	6.6227	304,368,975.24
- EUR	82,977.09	8.1625	677,300.50	228,683.68	8.8065	2,013,902.79
- HKD	29,467.24	0.8107	23,889.09	759,304.73	0.8509	646,115.18
Other monetary funds:			1,212,889,591.94			96,618,960.92
- RMB	—	—	1,212,112,028.70	—	—	95,802,510.63
- USD	123,389.73	6.3009	777,466.35	123,264.82	6.6227	816,345.94
- EUR	11.87	8.1625	96.89	11.85	8.8065	104.35
<b>Total</b>			<b>3,529,938,211.47</b>			<b>1,951,854,940.72</b>

- Note: (1) On 31 December 2011, the ownership of other monetary funds of RMB402,100,000.00 (31 December 2010: RMB22,640,933.48) of the Group was restricted, of which certificates of time deposits of RMB136,100,000.00 were the pledge for the bank loans of USD20,000,000.00 from J.P. Morgan for a term of two years, certificates of time deposits of RMB202,000,000.00 were the pledge for the bank loans of USD15,000,000.00 from China Bohai Bank for a term of 3 months; and certificates of time deposits of RMB64,000,000.00 were the pledge for the bank loans of USD10,000,000.00 from the Weifang branch of Shanghai Pudong Development Bank for a term of 6 months;
- (2) Other monetary funds of RMB263,942,118.89 (31 December 2010: RMB13,899,565.96) were the guarantee deposit for the application for bank acceptance with the banks by the Group;
- (3) Other monetary funds of 546,847,473.05 (31 December 2010: RMB60,078,461.48) were the guarantee deposit for the application for letter of credit with the banks by the Group.

## XII. 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)

#### 2. Bills receivable

##### (1) Classification of bills receivable

Category	Closing balance	Opening balance
Bank acceptance	2,444,508,997.74	2,762,389,909.89
Commercial acceptance		
<b>Total</b>	<b>2,444,508,997.74</b>	<b>2,762,389,909.89</b>

Note: (1) As at 31 December 2011, notes with a carrying value of RMB1,729,809,660.95 (31 December 2010: RMB1,583,925,454.80) was discounted for short-term borrowings. The Company did not cease to recognise discounted bills.

##### (2) The top five bills receivable pledged at the end of the year

Bill Issuer	Issue date	Expiry date	Amount	Note
Shandong Chenming Paper Sales Company Limited	2011-8-12	2012-2-11	833,643.48	
Shandong Chenming Paper Sales Company Limited	2011-8-9	2012-2-8	800,000.00	
Shandong Chenming Paper Sales Company Limited	2011-7-25	2012-1-1	700,000.00	
Shandong Chenming Paper Sales Company Limited	2011-8-19	2012-2-18	667,142.00	
Shandong Chenming Paper Sales Company Limited	2011-8-31	2012-2-29	550,531.10	
<b>Total</b>			<b>3,551,316.58</b>	

##### (3) 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	Note
Foreign Language Teaching and Research Publishing Co., Ltd.	2011.08.31	2012.02.29	4,284,592.83	Yes	
Hangzhou Weisheng Textile Co., Ltd.	2011.08.08	2012.02.08	3,920,000.00	Yes	
Foshan Nanhai Jindehui Paper Industry Co. Ltd.	2011.12.13	2012.03.08	3,381,924.50	Yes	
Shandong Helon Co., Ltd.	2011.08.15	2012.02.15	3,000,000.00	Yes	
Tongyang Paper Co., Ltd.	2011.09.29	2012.03.29	3,000,000.00	Yes	
<b>Total</b>			<b>17,586,517.33</b>		

## XII.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. Accounts receivable

(1) The breakdown of accounts receivable according to classification is as follows

Category	Book balance		Closing balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable provided as single bad debt	56,089,509.86	1.79	56,089,509.86	100
Accounts receivable provided as bad debt by category				
No-risk portfolio	241,485,698.41	7.72		
General-risk portfolio	2,831,411,794.16	90.49	186,459,737.88	6.59
Sub-total	3,072,897,492.57	98.21	186,459,737.88	6.07
Single item without significant accounts receivable yet provided as single bad debt				
Total	3,128,987,002.43	100	242,549,247.74	7.75

## XII.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. Accounts receivable (Cont'd)

(1) The breakdown of accounts receivable according to classification is as follows (Cont'd)

Category	Book balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable provided as single bad debt	78,048,918.75	3.31	78,048,918.75	100
Accounts receivable provided as bad debt by category				
No-risk portfolio	59,337,282.21	2.52		
General-risk portfolio	2,220,548,007.49	94.17	157,306,465.43	7.08
Sub-total	2,279,885,289.70	96.69	157,306,465.43	6.90
Single item without significant accounts receivable yet provided as single bad debt				
Total	2,357,934,208.45	100	235,355,384.18	9.98

(2) Accounts receivable stated according to aging analysis

Item	Closing balance		Bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	3,011,123,696.78	96.23	2,223,077,582.95	94.28
1 to 2 years	23,656,767.35	0.76	28,201,927.15	1.20
2 to 3 years	14,291,872.31	0.46	59,631,780.83	2.53
Over 3 years	79,914,665.99	2.55	47,022,917.52	1.99
Total	3,128,987,002.43	100	2,357,934,208.45	100

## XII.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. Accounts receivable (Cont'd)

##### (2) Accounts receivable stated according to aging analysis (Cont'd)

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 aging analysis based on the invoice date, net of impairment, at the reporting date:

Age	Closing balance	Opening balance
Within 1 year	2,872,638,580.01	2,102,828,155.97
1 to 2 years	9,869,976.13	15,885,146.97
2 to 3 years	3,929,198.55	3,865,521.33
<b>Total</b>	<b>2,886,437,754.69</b>	<b>2,122,578,824.27</b>

The following is an aging analysis of the overdue and uncollected accounts receivable beyond the credit period, net of impairment:

Age	Closing balance	Opening balance
Within 1 year	520,677,251.23	600,910,005.58
1 to 2 years	9,869,976.13	15,885,146.97
2 to 3 years	3,929,198.55	3,865,521.33
<b>Total</b>	<b>534,476,425.91</b>	<b>620,660,673.88</b>

Based on the accounts receivable collection experience of the Group, the accounts receivable of over 3 years generally are uncollectable so the Group makes impairment provisions in full for the overdue receivables of over 3 years. The above overdue accounts receivable are not provided for impairment in full as the Group recognises the subsequent repayment performance and credibility of the related customers, except the individually impaired upon impairment tests.

##### (3) Overview of bad debt provisions

① Single item with significant accounts receivable provided as single bad debt

Accounts receivable	Carrying amount	Bad debt provision	Percentage of provision	Reason
Payment for goods	56,089,509.86	56,089,509.86	100.00%	Most of which were payment for goods aged over two years and unlikely to be recovered
<b>Total</b>	<b>56,089,509.86</b>	<b>56,089,509.86</b>	<b>100.00%</b>	

## XII.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. Accounts receivable (Cont'd)

##### (3) Overview of bad debt provision (Cont'd)

##### ② Provision of bad debt on accounts receivable by category

A. In the portfolios, the no-risk portfolio refers to accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately, and for which bad debts are not provided;

B. 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 provisions
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	2,769,702,335.26	97.82	138,485,116.77	2,151,043,025.00	96.87	107,552,151.25
1 to 2 years	10,895,154.72	0.38	1,089,515.48	17,650,163.27	0.79	1,765,016.32
2 to 3 years	4,911,498.20	0.18	982,299.65	4,831,901.70	0.22	966,380.34
Over 3 years	45,902,805.98	1.62	45,902,805.98	47,022,917.52	2.12	47,022,917.52
<b>Total</b>	<b>2,831,411,794.16</b>	<b>100</b>	<b>186,459,737.88</b>	<b>2,220,548,007.49</b>	<b>100</b>	<b>157,306,465.43</b>

##### (4) Reversal or recovery during the year

Particulars of accounts receivable	Reason for reversal or recovery	Original basis for bad debt provisions	Cumulative bad debt provisions prior to reversal or recovery	Reversed or recovered amounts
Payment for goods	Collection of payment for goods	Overdue for 2 years and the least estimated possibility of recovery	22,004,508.89	22,004,508.89
<b>Total</b>			<b>22,004,508.89</b>	<b>22,004,508.89</b>

Note: RMB45,100.00 were recovered from the written-off accounts receivable. RMB21,959,408.89 were recovered from the accounts receivable being provided for impairment in full.

(5) During the reporting period, the cumulative written-off accounts receivable amounted to RMB869,881.03 and no significant accounts receivable were actually written off.

(6) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period.

## XII.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. Accounts receivable (Cont'd)

(7) Top five accounts receivable are as follows:

Entity name	Relationship with the Company	Amount	Term	As a percentage of the total balance of accounts receivable (%)
Shanxi Printing Materials Company	Non-related party	47,566,143.37	Within 1 year	1.52
Dandong Wuxing Chemical Fibre and Textile (Group) Co., Ltd.	Non-related party	39,757,941.95	Within 1 year	1.27
Zhejiang Xinhua Printing Material Co., Ltd.	Non-related party	36,065,732.92	Within 1 year	1.15
Hefei Wuzhou Paper Co., Ltd.	Non-related party	29,887,761.14	Within 1 year	0.96
Guangzhou Mingsheng Logistic Co., Ltd.	Non-related party	29,687,982.39	Within 1 year	0.95
<b>Total</b>		<b>182,965,561.77</b>		<b>5.85</b>

#### (8) Overview of accounts receivable of the related parties

Please refer to Note 9 5. Amounts receivable and payable of the related parties.

#### (9) 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	39,529,969.13	6.3009	249,074,382.49	49,294,334.22	6.6227	326,461,587.20



## XII.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. Other receivables

(1) The breakdown of other receivables according to classification is as follows

Category	Closing balance		Bad debt provisions	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables provided as single bad debt	9,330,331.45	2.38	9,330,331.45	100.00
Other receivables provided as bad debt by category				
No-risk portfolio	252,019,690.65	64.41		
General-risk portfolio	114,387,017.39	29.23	40,855,794.32	35.72
Sub-total	366,406,708.04	93.64	40,855,794.32	11.15
Single item without significant other receivables yet provided as single bad debt	15,554,009.74	3.98	15,554,009.74	100.00
Total	391,291,049.23	100.00	65,740,135.51	16.80

Category	Opening balance		Bad debt provisions	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables provided as single bad debt	26,923,251.81	12.10	26,923,251.81	100.00
Other receivables provided as bad debt by category				
No-risk portfolio	9,128,105.59	4.11		
General-risk portfolio	163,995,954.67	73.72	55,489,679.74	33.84
Sub-total	173,124,060.26	77.83	55,489,679.74	32.05
Single item without significant other receivables yet provided as single bad debt	22,407,088.63	10.07	22,407,088.63	100.00
Total	222,454,400.70	100.00	104,820,020.18	47.12

## XII.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. Other receivables (Cont'd)

##### (2) Other receivables stated according to aging

Items	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	290,861,260.47	74.33	97,396,686.98	43.78
1 to 2 years	22,447,913.22	5.74	13,073,451.73	5.88
2 to 3 years	12,523,529.69	3.20	16,106,270.06	7.24
Over 3 years	65,458,345.85	16.73	95,877,991.93	43.10
<b>Total</b>	<b>391,291,049.23</b>	<b>100.00</b>	<b>222,454,400.70</b>	<b>100.00</b>

##### (3) Bad debt provisions

- ① Single item with significant other receivables provided as single bad debt

Other receivables	Carrying amount	Bad debt provisions	Percentage of provision	Reason
Amounts with customers	9,330,331.45	9,330,331.45	100%	Mainly amounts aged over five years
<b>Total</b>	<b>9,330,331.45</b>	<b>9,330,331.45</b>	<b>100%</b>	

## XII.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. Other receivables (Cont'd)

##### (3) Bad debt provisions (Cont'd)

##### ② Other receivables provided as bad debt by category

A. In the portfolios, the no-risk portfolio refers to accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately, and for which bad debts are not provided;

B. Within the category, the provision of bad debt on other receivables according to aging analysis:

Aging	Closing balance			Opening balance		
	Book balance		Bad debt provisions	Book balance		Bad debt provisions
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	63,395,635.64	55.42	3,169,781.77	88,268,581.39	53.83	4,413,429.07
1 to 2 years	3,856,994.93	3.37	385,699.49	13,073,451.73	7.97	1,307,345.17
2 to 3 years	12,292,592.20	10.75	2,458,518.44	16,106,270.06	9.82	3,221,254.01
Over 3 years	34,841,794.62	30.46	34,841,794.62	46,547,651.49	28.38	46,547,651.49
<b>Total</b>	<b>114,387,017.39</b>	<b>100.00</b>	<b>40,855,794.32</b>	<b>163,995,954.67</b>	<b>100.00</b>	<b>55,489,679.74</b>

##### ③ Single item without significant other receivables yet provided as single bad debt as at the end of the year

Other receivables	Book balance	Percentage of provision (%)	Bad debt provisions	Reasons for provision
Amounts with customers	15,554,009.74	100%	15,554,009.74	Mainly amounts aged over 2 years
<b>Total</b>	<b>15,554,009.74</b>	<b>100%</b>	<b>15,554,009.74</b>	

## XII.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. Other receivables (Cont'd)

##### (4) Reversal or recovery during the year

Particulars of other receivables	Reason for reversal or recovery	Original basis for debt provisions	Cumulative bad debt provisions prior to reversal or recovery	Reversed or recovered amounts
Prepayments for goods	Receipt of payments for goods, receipt of goods	Prepayment overdue for 2 years and the least estimated possibility of recovery	17,848,786.25	17,848,786.25
<b>Total</b>			<b>17,848,786.25</b>	<b>17,848,786.25</b>

Note: RMB255,865.89 were recovered from the other receivables being written off as bad debts. RMB17,592,920.36 were recovered from the other receivables being provided for as bad debts in full.

(5) During the reporting period, the cumulative written-off other receivables amounted to RMB198,943.95 and no significant other receivables were actually written off.

(6) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period.

(7) Top five other receivables are as follows

Entity name	Relationship with the Company	Amount	Age	As a percentage of the total balance of other receivable (%)
Development Area branch of Bureau of Land Resources of Wuhan	Non-related party	108,000,000.00	Within 1 year	27.60
Guangdong Huashen Investment Co., Ltd.	Non-related party	87,489,979.50	Within 1 year	22.36
Xianning Chenming Arboriculture Co., Ltd.	Non-related party	45,373,300.00	Within 1 year	11.60
Communications and Transportation Bureau of Shouguang City	Non-related party	7,318,243.00	Within 1 year	1.87
People's Court of Shouguang City	Non-related party	4,267,112.28	Within 1 year	1.09
<b>Total</b>		<b>252,448,634.78</b>		<b>64.52</b>

##### (8) Overview of other receivables of the related parties

Please refer to Note IX. 5. Amounts receivable and payable of the related parties.

## XII.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. Prepayments

(1) Prepayments stated according to aging

Aging	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	582,653,900.45	76.18	618,529,456.56	66.91
1 to 2 years	182,226,337.45	23.82	305,825,088.99	33.09
<b>Total</b>	<b>764,880,237.90</b>	<b>100</b>	<b>924,354,545.55</b>	<b>100</b>

Note: The significant prepayments of over 1 year mainly are the prepaid amounts of purchasing for which the Group does not require the delivery of goods due to the operating plan and arrangement of the Group.

(2) Top 5 prepayments are set out as follows

Name	Relationship with the Group	Amount	Year of prepayment	Reason of outstanding
Administration Committee of Jilin Jinzhu Industrial Area	Non-related party	100,000,000.00	Within 1 year	Prepaid land grant fees according to the agreed contract
Forestry deposits of each village of Huanggang Shi Xia Qu	Non-related party	87,498,904.20	With 1 year and 1 to 2 years	Prepaid forestry deposits according to the agreed contract
Dalin Nge Logistics Co., Ltd.	Non-related party	27,129,991.64	Within 1 year	Prepaid the good payments according to the agreed contract
Valtra Inc. of Finland	Non-related party	20,061,245.64	Within 1 year	Prepaid the good payments according to the agreed contract
Tianyuan Construction Group Co., Ltd.	Non-related party	16,830,000.00	Within 1 year	Prepaid the good payments according to the agreed contract
<b>Total</b>		<b>251,520,141.48</b>		

(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.

## XII.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. Prepayments (Cont'd)

(4) Other advances 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	52,882,534.55	6.3009	333,207,561.94	58,981,185.01	6.6227	390,614,694.00
EUR	8,835,086.28	8.1625	72,116,391.72	4,878,217.69	8.8065	42,960,024.10
<b>Total</b>			<b>405,323,953.66</b>			<b>433,574,718.10</b>

#### 6. Inventory

(1) Inventory categories:

Item	Book balance	Closing balance	
		Impairment provisions	Carrying amount
Raw materials	2,892,631,003.19	21,071,145.40	2,871,559,857.79
Work-in-process products	105,925,380.16		105,925,380.16
Goods in stock	2,644,574,241.70	35,587,358.28	2,608,986,883.42
<b>Total</b>	<b>5,643,130,625.05</b>	<b>56,658,503.68</b>	<b>5,586,472,121.37</b>

Item	Book balance	Opening balance	
		Impairment provisions	Carrying amount
Raw materials	1,834,652,151.48	3,092,298.90	1,831,559,852.58
Work-in-process products	118,807,317.30		118,807,317.30
Goods in stock	1,101,441,158.39	4,730,113.26	1,096,711,045.13
<b>Total</b>	<b>3,054,900,627.17</b>	<b>7,822,412.16</b>	<b>3,047,078,215.01</b>

## XII.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. Inventory (Cont'd)

##### (2) Changes in allowance for inventories

Item	Opening balance	Provision during the year	Decrease during the year		Closing balance
			Reversals	Write-offs	
Raw materials	3,092,298.90	20,518,698.71		2,539,852.21	21,071,145.40
Goods in stock	4,730,113.26	35,553,353.01		4,696,107.99	35,587,358.28
<b>Total</b>	<b>7,822,412.16</b>	<b>56,072,051.72</b>		<b>7,235,960.20</b>	<b>56,658,503.68</b>

##### (3) Allowance for inventories and reason for reversal

Item	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
Raw materials	The realisable net value of the relevant raw materials lower than the cost of the inventory due to the decrease of the market price of coated paper	Reversal of the relevant impairment provision due to disposal of Heze Panels	
Goods in stock	The realisable net value of the finished goods lower than the cost of the inventory due to the decrease of the market price of coated paper	Reversal of the relevant impairment provision due to disposal of Heze Panels	

#### 7. Other current assets

Item	Closing balance	Opening balance
Non-credited VAT proceeds	1,661,162,690.83	652,018,306.99
Prepaid enterprise income tax	37,199,570.80	6,553,818.35
<b>Total</b>	<b>1,698,362,261.63</b>	<b>658,572,125.34</b>

## XII.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)

#### 8. Long-term equity investments

##### (1) Classification of Long-term equity investments

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Investments in associates	44,170,084.12	30,000,000.00	19,096,504.16	55,073,579.96
Other equity investments	24,950,000.00			24,950,000.00
Less: Provision for impairment of long equity investments	1,918,152.23	671,422.24		2,589,574.47
<b>Total</b>	<b>67,201,931.89</b>	<b>29,328,577.76</b>	<b>19,096,504.16</b>	<b>77,434,005.49</b>

##### (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	16,680,630.29	-16,680,630.29	—
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	21,651,499.85	-2,266,198.68	19,385,301.17
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	4,937,953.98	-149,675.19	4,788,278.79
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
Anhui Shidai Resources Holdings Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00
Shandong Hongqiao Venture Capital Co., Ltd.	Equity method	30,000,000.00		30,000,000.00	30,000,000.00
<b>Total</b>		<b>161,500,000.00</b>	<b>69,120,084.12</b>	<b>10,903,495.84</b>	<b>80,023,579.96</b>



## XII.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)

#### 8. 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 provisions	impairment provisions for the year	Cash bonuses for the year
Shouguang Liben Paper Making Co., Ltd.						
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				
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		1,139,574.47	671,422.24	
Anhui Shidai Resources Holdings Co., Ltd.	10.00	10.00				
Shandong Hongqiao Venture Capital Co., Ltd.	22.23	22.23				
<b>Total</b>				<b>2,589,574.47</b>	<b>671,422.24</b>	

Note: Shouguang Liben Paper Making Co., Ltd., in which 26.4% equity interest was held by the Company, became a wholly-owned subsidiary of the Company upon transfer of 73.6% equity interest by other shareholders during the year.

## XII.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)

#### 8. Long-term equity investments (Cont'd)

##### (3) Investments in 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 (%)
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Sino-foreign joint venture	Shandong, China	Tong Chong	Manufacture of paper	267,368,330.00	30	30
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Limited liability company	Shandong, China	Fang Shiming	Deep processing of starch	3,000,000.00	30	30
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Limited liability company	Jiangxi, China	Ou Yang	Printing	23,140,000.00	21.16	21.16
Shandong Hongqiao Venture Capital Co., Ltd.	Limited liability Company	Shandong, China	Tan Shouqing	Venture capital	225,000,000.00	22.23	22.23

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 year	Net profit for the year	Relationship	Organisation No.
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	312,460,232.43	247,842,561.72	64,617,670.58	18,452,851.36	-7,553,995.59	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.	39,585,751.09	16,946,135.05	22,639,616.04	13,759,959.47	-571,441.82	Associated corporations	79479506-X
Shandong Hongqiao Venture Capital Co., Ltd.	225,000,000.00		225,000,000.00			Associated corporation	58875429-1

## XII.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)

#### 8. Long-term equity investments (Cont'd)

(4) Details of impairment provision on long-term equity investments

Items	Opening balance	Increase for the year	Decrease for the year	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
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23	671,422.24		1,139,574.47
<b>Total</b>	<b>1,918,152.23</b>	<b>671,422.24</b>		<b>2,589,574.47</b>

## XII.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. Investment Properties

##### (1) The details of investment properties

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Investment property adopting cost method for subsequent measurement	24,688,212.07		1,738,256.04	22,949,956.03
Less: Provision for impairment of long investment property	—		—	—
<b>Total</b>	<b>24,688,212.07</b>		<b>1,738,256.04</b>	<b>22,949,956.03</b>

##### (2) Investment properties measured at cost

Item	Opening balance	Increase during the year	Decrease during the year	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	13,603,183.63	1,738,256.04		15,341,439.67
Buildings	13,603,183.63	1,738,256.04		15,341,439.67
III. Impairment provision in total Buildings				
IV. Total carrying amount	24,688,212.07			22,949,956.03
Buildings	24,688,212.07			22,949,956.03

Note: Depreciation for the current period amounted to RMB1,738,256.04.

## XII.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. Fixed Assets

##### (1) Overview of fixed assets

Items	Opening balance	Additions during the year		Deductions during the year	Closing balance
I. Total original carrying amount:	20,401,326,599.38	11,439,875,857.00		640,183,549.47	31,201,018,906.91
Of which: Buildings	3,489,121,797.39	1,667,819,754.16		124,081,568.29	5,032,859,983.26
Machinery and equipment	16,187,336,880.50	9,619,614,495.88		476,647,751.95	25,330,303,624.43
Electronic equipment and others	550,925,327.25	86,452,799.44		23,108,823.96	614,269,302.73
Vehicles	173,942,594.24	65,988,807.52		16,345,405.27	223,585,996.49
		Additions during the year	Accrued for during the year		
II. Accumulated depreciation					
Total accumulated depreciation:	7,490,186,114.37	64,615,949.49	1,204,437,060.94	315,368,088.63	8,443,871,036.17
Of which: Buildings	776,138,764.87	3,600,456.40	115,762,123.91	36,448,892.32	859,052,452.86
Machinery and equipment	6,325,073,882.19	60,616,350.13	1,013,514,783.20	257,023,761.11	7,142,181,254.41
Electronic equipment and others	309,393,625.93	193,898.42	59,128,804.28	12,444,989.37	356,271,339.26
Vehicles	79,579,841.38	205,244.54	16,031,349.55	9,450,445.83	86,365,989.64
III. Net carrying amount	12,911,140,485.01				22,757,147,870.74
Of which: Buildings	2,712,983,032.52				4,173,807,530.40
Machinery and equipment	9,862,262,998.31				18,188,122,370.02
Electronic equipment and others	241,531,701.32				257,997,963.47
Vehicles	94,362,752.86				137,220,006.85
IV. Total impairment provision	28,782,103.45				16,243,839.72
Of which: Buildings					
Machinery and equipment	28,782,103.45			12,538,263.73	16,243,839.72
Electronic equipment and others					
Vehicles					
V. Net carrying amount	12,882,358,381.56				22,740,904,031.02
Of which: Buildings	2,712,983,032.52				4,173,807,530.40
Machinery and equipment	9,833,480,894.86				18,171,878,530.30
Electronic equipment and others	241,531,701.32				257,997,963.47
Vehicles	94,362,752.86				137,220,006.85

Note: 1. Depreciation for the current period amounted to RMB 1,204,437,060.94. RMB 11,306,006,829.25 was transferred from construction in progress to the original value of fixed assets for the current period.

2. During the year, the increase of the original value of fixed assets arising from an increase in the number of subsidiaries was RMB85,831,189.87. The increase of depreciation of fixed assets arising from an increase in the number of subsidiaries was RMB64,615,949.49. The decrease of the original value of fixed assets arising from disposal was RMB601,489,788.62. The decrease of depreciation of fixed assets arising from disposal was RMB288,647,699.58.

## XII.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. Fixed Assets (Cont'd)

##### (2) Details of restricted fixed assets

As at 31 December 2011, the ownership of buildings and structures and equipment of the carrying amount of approximately RMB7,601,941,606.98 (the original value of RMB8,001,160,491.56) (31 December 2010: carrying amount of RMB1,022,544,077.50 and original value of RMB1,352,124,400.00) and intangible assets - land cooperation rights of the carrying amount of RMB407,560,348.35 (31 December 2010: RMB71,448,435.14) was restricted as collateral for long-term borrowings of RMB3,099,817,990.11 (31 December 2010: RMB127,175,683.11) and long-term borrowings due within one year of RMB539,993,458.22 (31 December 2010: RMB71,890,463.15).

##### (3) Temporary unused fixed assets

Item	Original carrying value	Accumulated depreciation	Impairment provisions	Carrying amount	Note
Buildings	34,620,502.99	10,217,270.09		24,403,232.90	
Machinery and equipment	256,520,514.61	135,575,780.69	2,140,834.48	118,803,899.44	
<b>Total</b>	<b>291,141,017.60</b>	<b>145,793,050.78</b>	<b>2,140,834.48</b>	<b>143,207,132.34</b>	

##### (4) Fixed assets without property right certificates

Item	Reason for not yet obtaining property right certificates	Estimated time for obtaining property right certificates	Carrying amount
Shandong Chenming Paper Holdings Limited	Being applied	2012	199,022,741.01
Jilin Chenming Paper Co., Ltd.	Being applied	2012	190,439,739.71
Fuyu Chenming Paper Co., Ltd.	Being applied	2012	45,835,139.45
Jiangxi Chenming Paper Co., Ltd.	Being applied	2012	17,805,402.98
Shouguang Meilun Paper Co., Ltd.	Being applied	2012	265,392,891.83
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Being applied	2012	40,965,854.27
<b>Total</b>			<b>759,461,769.25</b>

Note: Fixed asset impairment provisions of RMB12,538,263.73 was reversed during the year. They were originally the fixed asset impairment provisions for Heze Panels, which was completely disposed of during the year.

## XII.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. Construction in progress

##### (1) The general information of constructions in progress

Items	Closing balance		Carrying amount	Opening balance		Carrying amount
	Book balance	Impairment provisions		Book balance	Impairment provisions	
The high-end coated paper project of annual production capacity of 800,000 tonnes	114,294,573.34		114,294,573.34	2,277,312,260.67		2,277,312,260.67
The household paper project of annual production capacity of 98,000 tonnes	45,812,895.20		45,812,895.20	407,103,435.25		407,103,435.25
Huanggang forestry pulp integration project (Huanggang)	54,100,442.98		54,100,442.98	30,383,565.19		30,383,565.19
4400 paper machine technological improvement (Qihe)				61,850,381.70		61,850,381.70
Pulping production plant oxygen delignification improvement (Qihe)				11,613,569.78		11,613,569.78
Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)	10,812,188.35		10,812,188.35	10,513,384.07		10,513,384.07
Intermediate water advance treatment (Jilin)				34,341,668.12		34,341,668.12
Second plant paper machine improvement (Jilin)	45,216,980.09		45,216,980.09	45,216,980.09		45,216,980.09
Power plant phase III expansion and improvement (the Company)				234,299,205.48		234,299,205.48
Technology upgrade of the projects such as the white paper board project	125,241,798.08		125,241,798.08	42,830,017.64		42,830,017.64
Reclamation of recyclable water (electricity and steam)	21,984,737.22		21,984,737.22	20,129,045.13		20,129,045.13
700,000 tonnes paper pulp and 450,000 tonnes cultural paper				4,092,344,011.00		4,092,344,011.00
Mihe River view wetland (Grand View Hotel)	69,314,704.82		69,314,704.82	33,615,119.48		33,615,119.48
600,000 tonnes white coated linerboard project (Meilun)	1,557,621,431.73		1,557,621,431.73	247,563,122.64		247,563,122.64
Power plant phase III further expansion (the Company)	206,777,982.80		206,777,982.80			
60,000 tonnes sewage advance treatment (the Company)	47,901,473.19		47,901,473.19			
New plant (Jilin)	54,738,533.66		54,738,533.66			
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade	43,862,858.73		43,862,858.73			
Other projects of construction in progress	220,359,024.66		220,359,024.66	322,396,797.60		322,396,797.60
<b>Total</b>	<b>2,618,039,624.85</b>		<b>2,618,039,624.85</b>	<b>7,871,512,563.84</b>		<b>7,871,512,563.84</b>

## XII.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. Construction in progress (Cont'd)

##### (2) Change in material constructions in progress projects

Project name	budgeted amounts (RMB in 100 million)	Opening balance	Additions during year	Transfer to fixed assets during the year	Other deductions	Closing balance
The high-end coated paper project of an annual production capacity of 800,000 tonnes	35	2,277,312,260.67	853,968,577.36	3,016,986,264.69		114,294,573.34
98,000-tonne household paper project	5	407,103,435.25	12,958,957.47	374,249,497.52		45,812,895.20
Huanggang forestry pulp integration project (Huanggang)	0.5	30,383,565.19	23,716,877.79			54,100,442.98
4400 paper machine technological improvement (Qihe)	0.7	61,850,381.70	11,271,785.54	73,122,167.24		
Pulping production plant oxygen delignification improvement (Qihe)	0.13	11,613,569.78	609,229.82	12,222,799.60		
Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)	0.15	10,513,384.07	298,804.28			10,812,188.35
Intermediate water advance treatment (Jilin)	0.35	34,341,668.12	237,740.00	34,579,408.12		
Second plant paper machine improvement (Jilin)	0.5	45,216,980.09				45,216,980.09
Power plant phase III expansion and improvement (the Company)	4.5	234,299,205.48	122,173,293.43	356,472,498.91		
Technology upgrade of the projects such as the white paper board project		42,830,017.64	91,989,659.55	9,577,879.11		125,241,798.08
Reclamation of recyclable water (electricity and steam)	0.23	20,129,045.13	1,855,692.09			21,984,737.22
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	94	4,092,344,011.00	2,515,458,070.69	6,607,802,081.69		
Mihe River view wetland (Grand View Hotel)	0.6	33,615,119.48	35,699,585.34			69,314,704.82
600,000 tonnes white coated linerboard project (Meilun)	26	247,563,122.64	1,310,058,309.09			1,557,621,431.73
Power plant phase III further expansion (the Company)	5.8		206,777,982.80			206,777,982.80
60,000 tonnes sewage advance treatment (the Company)	0.5		47,901,473.19			47,901,473.19
New plant (Jilin)	13.79		54,738,533.66			54,738,533.66
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade	2.7		43,862,858.73			43,862,858.73
Other projects of construction in progress		322,396,797.60	726,675,400.36	820,994,232.37	7,718,940.93	220,359,024.66
<b>Total</b>		<b>7,871,512,563.84</b>	<b>6,060,252,831.19</b>	<b>11,306,006,829.25</b>	<b>7,718,940.93</b>	<b>2,618,039,624.85</b>



## XII.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. 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 during the year	Capitalisation rate of the interest amount during the year (%)	Investment to budgeted costs (%)	Construction progress	Sources of fund
The high-end coated paper project of an annual production capacity of 800,000 tonnes	184,775,491.95	158,035,825.28	5.78	89.46%	100%	Capital and borrowing
98,000-tonne household paper project	13,000,000.00	13,000,000.00	5.78	84.01%	100%	Capital and borrowing
Huanggang forestry pulp integration project (Huanggang)				108%	To be Completed	Self raised
4400 paper machine technological improvement (Qihe)				104.46%	Completed	Self raised
Pulping production plant oxygen delignification improvement (Qihe)				92.3%	Completed	Self raised
Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)				72%	72%	Self raised
Intermediate water advance treatment (Jilin)				98.7%	Completed	Self raised
Second plant paper machine improvement (Jilin)					Suspended	Self raised
Power plant phase III expansion and improvement (the Company)	8,012,573.78	8,012,573.78	3.43	98%	Completed	Capital and borrowing
Technology upgrade of the projects such as the white paper board project						Self raised
Reclamation of recyclable water (electricity and steam)	2,029,707.99	215,643.72	6.56	85.72%	To be Completed	Capital and borrowing
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	189,779,337.00	166,602,231.12	3.94	100%	100%	Capital and borrowing
Mihe River view wetland (Grand View Hotel)	1,799,756.58			115.52%		Self raised
600,000 tonnes white coated linerboard project (Meilun)	85,061,827.99	85,061,827.99	5.78	59.8%	80%	Capital and borrowing
Power plant phase III further expansion (the Company)				36%	40%	Self-raised
60,000 tonnes sewage advance treatment (the Company)				98%	95%	Self-raised
New plant (Jilin)				4%	5%	Self-raised
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade				16%	20%	Capital and borrowing
Other projects of construction in progress	18,937,693.11	15,305,457.49				Capital and borrowing
<b>Total</b>	<b>503,396,388.40</b>	<b>446,233,559.38</b>				

Note: The decrease of the other items of construction in progress during the year was the construction in progress of Chibi Chenming Paper Co., Ltd., which was the wholly-owned subsidiary disposed of during the year.

## XII.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. Construction in progress (Cont'd)

##### (3) Construction progress of material constructions

Projects	Construction progress	Notes
The high-end coated paper project of an annual production capacity of 800,000 tonnes	100%	Construction progress was estimated on the basis of investment to budgeted costs
98,000-tonne household paper project	100%	Construction progress was estimated on the basis of investment to budgeted costs
Power plant phase III expansion and improvement (the Company)	100%	Construction progress was estimated on the basis of investment to budgeted costs
Zhanjiang 700,000-tonne pulp paper and 450,000-tonne culture paper	100%	Construction progress was estimated on the basis of investment to budgeted costs

#### 12. Project materials

Item	Opening balance	Additions during the year	Deduction during the year	Closing balance
Special equipment	93,745,274.76	569,319,217.67	619,103,160.52	43,961,331.91
Special materials	22,735,811.36	37,463,090.11	42,235,651.53	17,963,249.94
<b>Total</b>	<b>116,481,086.12</b>	<b>606,782,307.78</b>	<b>661,338,812.05</b>	<b>61,924,581.85</b>

#### 13. Consumable biological assets

##### Measured at fair value

Item	Opening balance	Additions during the year	Deduction during the year	Closing balance
Timber	726,742,568.44	270,151,583.67	37,832,651.26	959,061,500.85
<b>Total</b>	<b>726,742,568.44</b>	<b>270,151,583.67</b>	<b>37,832,651.26</b>	<b>959,061,500.85</b>

Note: (i) Consumable biological assets are measured at fair value, the fair value of timber increased by RMB16,918,291.43 due to acquisition, increased by RMB205,059,365.98 due to breeding, decreased by RMB 37,832,651.26 due to disposal, and increased by RMB48,173,926.26 due to change of fair value.

(2) As of 31 December 2011, there was no significant difference between the fair value and cost of the timbers planted during the year or unable to form any level of stocking in the consumable biological assets so their carrying amount was taken as their fair value. The timbers forming a level of stocking were measured at fair value and their fair value was determined based on the valuation of Jones Lang LaSalle Sallmanns Limited. The consumable biological assets measured at carrying amount as their fair value amounted to RMB119,923,047.75 and the consumable biological assets measured at assessed value as their fair value amounted to RMB839,138,453.10.

## XII.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)

#### 14. Intangible assets

##### (1) The details of intangible assets

Items	Opening book balance	Additions during the year	Deductions during the year	Closing book balance
I. Total original carrying amount:	1,599,493,963.68	131,163,147.64	40,309,194.37	1,690,347,916.95
Land use rights	1,584,208,340.63	128,750,108.12	40,309,194.37	1,672,649,254.38
Software	15,285,623.05	2,413,039.52		17,698,662.57
II. Total accumulated amortisation	140,040,735.74	38,386,067.89	5,216,088.04	173,210,715.59
Land use rights	131,276,521.30	36,739,945.52	5,216,088.04	162,800,378.78
Software	8,764,214.44	1,646,122.37		10,410,336.81
III. Total impairment provision				
Land use rights				
Software				
IV. Total carrying amount	1,459,453,227.94			1,517,137,201.36
Land use rights	1,452,931,819.33			1,509,848,875.60
Software	6,521,408.61			7,288,325.76

Notes: ① The amortisation amount was RMB 36,423,156.38 during the current period.

The original value of the increased intangible assets due to the increase of subsidiaries amounted to RMB2,557,490.00 during the year. The cumulative amortisation of the increased intangible assets amounted to RMB1,962,911.51. The original value of the decreased intangible assets due to disposal during the year amounted to RMB40,309,194.37. The cumulative amortisation of the decreased intangible assets amounted to RMB5,216,088.04.

② On 31 December 2011, the ownership of intangible assets of carrying amount of RMB407,560,348.35 (31 December 2010: RMB71,308,341.17) was restricted, of which land use rights and fixed assets of carrying amount of RMB407,560,348.35 (please see Note VII. 10 for details) were the pledge for long-term borrowings of RMB3,099,817,990.11 (31 December 2010: RMB127,175,683.11) and long-term borrowings due within one year of RMB539,993,458.22 (31 December 2010: RMB71,890,463.15). The amortisation of the land use rights in 2011 amounted to RMB8,896,794.04 (31 December 2010: RMB1,681,139.60)

## XII.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. Goodwill

##### (1) Breakdown of the goodwill

Name of investee units	Opening balance	Additions during the year	Deductions during the year	Closing balance	Impairment provisions at the end of the year
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	—
<b>Total</b>	<b>20,283,787.17</b>	<b>—</b>	<b>—</b>	<b>20,283,787.17</b>	<b>—</b>

##### (2) Impairment test method and impairment provision on goodwill

Please see Note IV. 18 for details of the goodwill impairment test methods.

The goodwill of the Company arose from the business combination not under common control during the prior years.

On the balance sheet date, management of the Company 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% (2010: 5%) expected by the market, and time value of currency was estimated using the discount rate of 8.32% (2010: 8.32%). Management of the Company expects no provision for impairment loss is necessary to be made for goodwill during the reporting period.

#### 16. 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	20,634,556.14	4,209,455.15	3,927,024.78		20,916,986.51	
Woodland expenses	152,748,747.82	114,183,938.80	24,715,276.93	72,464,751.88	169,752,657.81	Lease terminated
Others	3,053,646.46	2,324,200.00	3,130,245.16		2,247,601.30	
<b>Total</b>	<b>176,436,950.42</b>	<b>120,717,593.95</b>	<b>31,772,546.87</b>	<b>72,464,751.88</b>	<b>192,917,245.62</b>	

## XII.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)

#### 17. 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

Item	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	71,751,853.16	314,787,643.19	74,965,397.98	338,243,809.22
Elimination of unrealised profit arising from intra-group	15,739,516.99	63,204,734.93	15,789,316.34	63,157,265.36
Unpaid payables	16,443,903.23	101,004,317.87	25,669,063.89	151,340,192.12
Deferred income	20,232,117.18	91,467,775.41	21,067,365.45	96,948,558.78
Deductible losses	49,859,143.71	199,436,574.84	10,019,335.57	40,077,342.27
<b>Total</b>	<b>174,026,534.27</b>	<b>769,901,046.24</b>	<b>147,510,479.23</b>	<b>689,767,167.75</b>

Note: The decrease of deferred income tax assets arising from disposal of subsidiaries amounted to RMB3,290,826.96 during the year.

###### ② Recognised deferred income tax liabilities

Item	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
			1,340,281.66	5,361,126.68

Note: Shandong Lin Dun Wood decorating materials Industry Co., Ltd., a subsidiary originally not under common control and acquired through merger, was disposed of during the year, and the taxable temporary difference arising from fair value calculation was eliminated.

## XII.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)

#### 17. Deferred income tax assets / deferred income tax liabilities

##### (2) The breakdown of unrecognised deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	139,486,221.34	93,529,334.28
Deductible loss	548,006,631.56	293,028,858.81
<b>Total</b>	<b>687,492,852.90</b>	<b>386,558,193.09</b>

##### (3) Deductible loss of unrecognised deferred income tax will expire by the following periods:

Year	Closing balance	Opening balance	Note
2011		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	129,791,262.25	
2016	261,960,600.79		
<b>Total</b>	<b>548,006,631.56</b>	<b>293,028,858.81</b>	

#### 18. Provision for impairment of assets

Item	Opening balance	Provision during the year	Reversals	Decrease during the year Write-offs	Others	Closing balance
I. Provisions for bad debts	340,175,404.36	24,070,404.88	39,597,429.25	767,859.09	15,591,137.65	308,289,383.25
II. Provisions for inventory impairment	7,822,412.16	56,072,051.72		3,870,510.42	3,365,449.78	56,658,503.68
III. Impairment provisions for long-term equity investments	1,918,152.23	671,422.24				2,589,574.47
IV. Impairment provisions for fixed assets	28,782,103.45				12,538,263.73	16,243,839.72
<b>Total</b>	<b>378,698,072.20</b>	<b>80,813,878.84</b>	<b>39,597,429.25</b>	<b>4,638,369.51</b>	<b>31,494,851.16</b>	<b>383,781,301.12</b>

Note: the other decrease of the decrease during the year was the corresponding decrease of asset impairment provision arising from disposal of subsidiaries during the year.

## XII.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)

#### 19. Other non-current assets

Item	Particulars	Closing balance	Opening balance
Investments		10,000,000.00	
<b>Total</b>		<b>10,000,000.00</b>	

Note: As of 27 December 2011, the Company invested RMB10.00 million in Weifeng Xinya Capital Investment Co., Ltd. which had not changed its shareholder registration with Administration for Industry and Commerce as of 31 December 2011.

#### 20. Assets with limited ownership or use rights

Items	Closing balance	Reasons of limitations
Sub-total of assets used for providing guarantees:	8,024,461,920.75	
Land (Jiangxi, Zhanjiang)	407,560,348.35	As collaterals for bank borrowings
Fixed assets (Jiangxi, Zhanjiang)	7,601,941,606.98	As collaterals for bank borrowings
Bills receivable	14,959,965.42	As pledge for bank borrowings
Sub-total of assets with limited ownership or use rights due to other reasons:	1,212,889,591.94	
Other monetary funds	1,212,889,591.94	Secured bank borrowings, bank acceptance bills and letter of credit deposits
<b>Total</b>	<b>9,237,351,512.69</b>	

## XII.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

Types of short-term borrowings

Item	Closing balance	Opening balance
Secured borrowings	176,133,062.41	20,561,496.69
Discounted loans	1,729,809,660.95	1,583,925,454.80
Guarantee loans	2,223,510,136.38	187,493,632.08
Credit loans	7,957,531,746.95	1,802,176,636.90
<b>Total</b>	<b>12,086,984,606.69</b>	<b>3,594,157,220.47</b>

Note: ① Pledged borrowings included pledged borrowings for bills receivable of subsidiaries amounting to RMB13,400,000.00 (The amount of pledged bills receivable was RMB14,959,965.42), credit letter remittance borrowings amounting to RMB5,210,562.41 and pledged bank deposits borrowings amounting to RMB157,522,500.00;

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 borrowings were discounted with bank acceptance and accounted for as short-term borrowings by the Group.

#### 22. Bills payable

Type	Closing balance	Opening balance
Bank acceptance	615,327,402.85	213,607,186.75
Commercial acceptance		5,150,000.00
<b>Total</b>	<b>615,327,402.85</b>	<b>218,757,186.75</b>

Note: Amount to be due in the next accounting period amounted to 615,327,402.85.

#### 23. Accounts payable

(1) Breakdown of accounts payable:

Item	Closing balance	Opening balance
Within 1 year	4,420,184,816.30	2,516,618,611.43
1-2 years	117,265,142.92	71,824,074.09
2-3 years	67,792,980.94	64,607,259.87
Over 3 years	80,343,057.44	55,014,731.05
<b>Total</b>	<b>4,685,585,997.60</b>	<b>2,708,064,676.44</b>

(2) During the reporting period, the accounts payable was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares or connected persons.



## XII. 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 aged over one year

Name of creditors	Amount	Reason of outstanding loans	Repaid after the reporting period or not
Zhejiang Huazhang Technology Co., Ltd.	8,791,763.93	Temporary outstanding	No
Anhui Hualing Cable Group Co., Ltd.	5,935,402.68	Temporary outstanding	No
Siemens Ltd., China	5,992,770.00	Temporary outstanding	No
Guangxi Mingyang Biochemistry Science & Technology Co., Ltd.	3,436,302.56	Temporary outstanding	No
Shandong Hengda Construction and Installation Engineering Co., Ltd.	2,220,636.19	Temporary outstanding	No
<b>Total</b>	<b>26,376,875.36</b>		

(4) Accounts receivable at the end of the reporting period comprised the following balances in foreign currencies:

Item	Closing balance			Opening balance		
	Foreign currency	Foreign exchange rates	RMB	Foreign currency	Foreign exchange rates	RMB
USD	109,789,379.2	6.3009	691,771,899.52	99,658,689.98	6.6227	660,009,606.14
GBP	19,125.00	9.7116	185,734.35			
EUR	3,802,570.02	8.1625	31,038,477.79	7,753.51	8.8065	68,281.29
<b>Total</b>			<b>722,996,111.66</b>			<b>660,077,887.43</b>

#### 24. Advance receipts

(1) Breakdown of advance receipts

Item	Closing balance	Opening balance
Within 1 year	211,879,347.81	400,171,708.36
1-2 years	19,548,665.64	10,071,846.39
<b>Total</b>	<b>231,428,013.45</b>	<b>410,243,554.75</b>

(2) The Company does not receive any advance from any shareholders holding over 5% (5% inclusive) of the Company's shares or connected persons.

## XII.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 aged over one year

Name of creditors	Amount	Reasons of not being carried forward
Samsung Inc., Korea	1,065,775.96	No delivery requirement from the counterparty
Jilin Longhai Trading Co., Ltd.	837,692.40	No delivery requirement from the counterparty
<b>Total</b>	<b>1,903,468.36</b>	

(4) Prepayments at the end of the year included balances of foreign currencies as follows:

Item	Amount of foreign currency	Closing balance		Amount of foreign currency	Opening balance	
		Exchange rate	RMB equivalent		Exchange rate	RMB equivalent
USD	18,133,899.02	6.3009	114,259,884.34	10,234,175.58	6.6227	67,777,874.61
EUR	1,117,098.18	8.1625	9,118,313.89			
<b>Total</b>			<b>123,378,198.23</b>			<b>67,777,874.61</b>

#### 25. Staff remuneration payables

Items	Opening balance	Increase during the year	Decrease during the year	Closing balance
I. Salaries, bonuses, allowance and subsidies	106,164,937.66	657,319,426.27	673,569,701.90	89,914,662.03
II. Staff welfare	692,139.40	47,463,200.92	47,721,437.06	433,903.26
III. Social insurance premiums	15,521,936.46	153,387,375.24	156,413,422.53	12,495,889.17
Of which:				
1. Medical insurance premium	10,127,697.04	27,836,305.03	29,280,100.08	8,683,901.99
2. Pension insurance premium	3,409,664.85	110,688,830.19	111,848,771.07	2,249,723.97
3. Unemployment insurance premium	157,215.80	9,910,794.45	9,913,976.39	154,033.86
4. Work-related injury insurance premium	48,528.38	3,279,228.01	3,300,211.30	27,545.09
5. Maternity insurance premium	1,778,830.39	1,672,217.56	2,070,363.69	1,380,684.26
IV. Housing provident funds	6,160,147.64	52,724,560.34	51,395,091.43	7,489,616.55
V. Union operation costs and employee education costs	22,024,200.53	12,999,248.82	17,098,224.25	17,925,225.10
VI Non-monetary welfare				
VII Lay off welfare				
VIII Cash-settled share-based payment				
IX Others	18,863,298.72	473,924.85	532,628.03	18,804,595.54
<b>Total</b>	<b>169,426,660.41</b>	<b>924,367,736.44</b>	<b>946,730,505.20</b>	<b>147,063,891.65</b>

## XII.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

Item	Closing balance	Opening balance
Enterprise income tax	21,030,687.55	63,216,459.39
Value added tax	8,847,121.90	22,409,317.62
Business tax	6,510,523.22	4,809,383.74
Land use tax	14,021,262.09	13,840,227.24
Property tax	5,382,575.62	5,578,174.83
Urban maintenance and construction tax	2,669,994.50	5,088,049.71
Educational surcharges and others	2,775,009.93	6,402,114.55
Individual income tax	5,201,988.58	10,532,914.69
Stamp duty	1,800,842.52	2,152,746.05
<b>Total</b>	<b>68,240,005.91</b>	<b>134,029,387.82</b>

#### 27. Interest payable

Item	Closing balance	Opening balance
Interest on medium-term notes	44,740,750.00	46,115,333.31
Interest on corporate bonds	62,113,952.74	
<b>Total</b>	<b>106,854,702.74</b>	<b>46,115,333.31</b>

## XII.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

Item	Closing balance	Opening balance
Within 1 year	525,381,372.20	467,607,969.48
1-2 years	176,020,931.91	38,962,690.39
2-3 years	20,604,081.20	51,434,377.75
Over 3 years	41,615,153.64	24,047,473.81
<b>Total</b>	<b>763,621,538.95</b>	<b>582,052,511.43</b>

(2) For the details of the payables due to any shareholders who holding over 5% (5% inclusive) of the Company's shares, please refer Note XI.5. Receivables and payables of related parties.

(3) Explanation on the significant other payables aged over one year

Name of creditors	Amount	Reason of outstanding loans	Repaid after the reporting period or not
Zhanjiang Finance Bureau	120,000,000.00	Temporary outstanding	No
Guo Xiucheng	11,475,826.89	Temporary outstanding	No
Guangxi Construction Engineering Group No. 1 Installation Co., Ltd.	19,300,825.51	Temporary outstanding	No
Jilin Paper Manufacturing Co., Ltd.	10,000,000.00	Temporary outstanding	No
Hunan No. 3 Construction and Engineering Co., Ltd.	2,500,000.00	Temporary outstanding	No
<b>Total</b>	<b>163,276,652.40</b>		

(4) Explanation on the significant other payables

Name of creditors	Outstanding balance	Nature or details
Zhanjiang Finance Bureau	200,000,000.00	Borrowings
Qihe County Lianxinyuan Panels Co., Ltd.	82,000,000.00	Amounts with customers
Shouguang Chenming Holdings Co., Ltd.	30,000,000.00	Amounts with customers
Prepaid transportation cost	36,359,068.52	Transportation cost
Guo Xiucheng	11,475,826.89	Amounts with customers
Shandong Zongxi Steel Structure Group Co., Ltd.	10,000,000.00	Amounts with customers
Jilin Paper Manufacturing Co., Ltd.	10,000,000.00	Amounts with customers
State-owned Shouguang Qingshuipo Farm	8,800,000.00	Amounts with customers
Shandong Quanfuyuan Commercial Group Co., Ltd.	6,000,000.00	Amounts with customers
<b>Total</b>	<b>394,634,895.41</b>	

## XII.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

Item	Closing balance	Opening balance
Long-term liabilities due within one year (Note VII.31)	1,203,616,858.22	1,432,841,463.15
<b>Total</b>	<b>1,203,616,858.22</b>	<b>1,432,841,463.15</b>

##### (2) Long-term borrowings due within one year

###### ① Breakdown of long-term borrowings due within one year

Item	Closing balance	Opening balance
Secured borrowings	539,993,458.22	71,890,463.15
Guarantee loans	19,800,000.00	
Credit loans	643,823,400.00	1,360,951,000.00
<b>Total</b>	<b>1,203,616,858.22</b>	<b>1,432,841,463.15</b>

###### ② Top five long-term borrowings due within one year

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance		Opening balance	
					Foreign currency	Functional currency	Foreign currency	Functional currency
Sumitomo Mitsui Banking Corporation (China) Limited	2009/9/10	2012/9/9	3.60	USD	16,000,000.00	100,814,400.00		
The Export-Import Bank of China Nanchang branch	2009/12/10	2012/12/9	4.06	RMB		450,000,000.00		
The Export-Import Bank of China Qingdao branch	2009/09/28	2012/09/27	3.51	RMB		280,000,000.00		
China Construction Bank Corporation Shouguang sub-branch	2009/06/17	2012/06/15	5.76	RMB		170,000,000.00		
Hong Kong and Shanghai Banking Corporation Limited	2010/09/15	2012/09/14	3.55	USD	10,000,000.00	63,009,000.00		
Bank of China Limited Shouguang sub-branch	2008/12/23	2011/12/22	4.86	RMB				400,000,000.00
Sumitomo Mitsui Banking Corporation (China) Limited	2009/12/28	2011/12/28	1.69	USD			30,000,000.00	198,681,000.00
Bank of China Limited Shouguang sub-branch	2009/12/20	2011/12/20	1.42	USD			30,000,000.00	198,681,000.00
China Construction Bank Corporation Shouguang sub-branch	2009/05/20	2011/05/19	1.33	USD			25,000,000.00	165,567,500.00
Bank of China Limited Shouguang sub-branch	2009/11/06	2011/11/05	1.46	USD			25,000,000.00	165,567,500.00
<b>Total</b>						<b>1,063,823,400.00</b>		<b>1,128,497,000.00</b>

## XII.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

Item	Particulars	Closing balance	Opening balance
Deferred income		10,227,001.60	7,609,415.89
Short-term debentures payable			3,358,769,166.68
Total		10,227,001.60	3,366,378,582.57

Note: Other current liabilities as at the end of the year were deferred income to be amortised within one year.

## XII. 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

Item	Closing balance	Opening balance
Pledged loans	126,018,000.00	
Secured borrowings	120,891,118.33	199,066,146.26
Guarantee loans	5,034,728,300.00	3,746,230,300.00
Credit loans	1,065,046,935.94	2,213,173,735.94
Less: long-term borrowings due within one year (Note VII.29)	1,203,616,858.22	1,432,841,463.15
<b>Total</b>	<b>5,143,067,496.05</b>	<b>4,725,628,719.05</b>

- Note: 1. For the category and amount of secured assets under secured borrowings, please see Note VII.17 and VII.21.
2. Guarantee loans were the loans obtained by the subsidiaries of the Company from financial institutions when the Company acted as their guarantee, among which the loans of RMB3,518,920,330.00 were also secured real estate and machinery and equipment as collateral;
3. For the category and amount of secured assets under secured borrowings, please see Note VII. 1;
4. Long-term borrowings due within one year amounted to RMB1,203,616,858.22. Long-term borrowings due over one year but within two years amounted to RMB1,232,657,500.00. Long-term borrowings due over two years but within five years amounted to RMB390,797,660.11. Long-term borrowings due over five years amounted to RMB3,519,612,335.94.

##### (2) Top five long-term borrowings

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance		Opening balance	
					Foreign currency	Functional currency	Foreign currency	Functional currency
China Development Bank Guangdong branch	2008/3/25	2023/3/24	2.96	USD	380,000,000.00	2,394,342,000.00		
China Development Bank Guangdong branch	2009/3/25	2023/3/24	4.86	RMB		1,124,578,300.00		
Sumitomo Mitsui Banking Corporation (China) Limited	2009/9/10	2013/9/10	3.60	USD	104,000,000.00	655,293,600.00		
J.P. Morgan Chase	2011/06/27	2013/06/27	2.37	RMB	20,000,000.00	126,018,000.00		
The Export-Import Bank of China Qingdao branch	2010/06/28	2013/06/27	3.95	USD	36,000,000.00	226,832,400.00		
China Development Bank Guangdong branch	2008/03/25	2023/03/24	2.96	USD			309,000,000.00	2,046,414,300.00
China Development Bank Guangdong branch	2009/03/25	2023/03/24	4.86	RMB				540,000,000.00
Sumitomo Mitsui Banking Corporation (China) Limited	2009/09/10	2013/09/10	3.60	USD			80,000,000.00	529,816,000.00
The Export-Import Bank of China Bank of China Limited	2009/12/10	2012/12/10	4.06	RMB				450,000,000.00
Shouguang sub-branch	2008/12/13	2011/12/22	4.86	RMB				400,000,000.00
<b>Total</b>						<b>4,527,064,300.00</b>		<b>3,996,230,300.00</b>

## XII.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. Bonds payable

Bond name	Face value	Issue date	Term	Issued amount	Issue expenses amortised during the year	Closing balance
11 Chenming debt	2,000,000,000.00	2011.7.16	5 year	1,982,000,000.00	1,425,123.62	1,983,425,123.62
11 Chenming Hong Kong debt	500,000,000.00	2011.4.13	5 year	491,750,000.00	1,767,571.17	493,517,571.17
Sub-total	2,500,000,000.00			2,473,750,000.00	3,192,694.79	2,476,942,694.79

#### 33. Special accounts payable

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Relocation of Jilin Chenming due to environmental reason		660,000,000.00		660,000,000.00	
Total		660,000,000.00		660,000,000.00	

Note: Jilin Chenming Paper Co., Ltd. and Jilin Paper Manufacturing Co., Ltd. were required to relocate their plants according to the environmental requirements and Jilin urban construction planning. A parcel of land of 1304.8 mu being occupied by them was collected by China Development Jilin Investment Co., Ltd. on behalf of People's Government of Jilin City. China Development Jilin Investment Co., Ltd. shall make a payment amounting to RMB2,200,000,000 to Jilin Chenming Paper Co., Ltd. as land compensation fees, loss on relocation of all the fixed assets ancillary to the land, relocation fees and staff relocation fees. As stipulated in the agreement, China Development Jilin Investment Co., Ltd. was to pay Jilin Chenming Paper Co., Ltd. 30% of the compensation, i.e. RMB660,000,000, within 10 days from the date of the agreement. In September 2011, Jilin Chenming Paper Co., Ltd. obtained compensation of RMB660,000,000, which was accounted for as special accounts payable.



## XII.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)

#### 34. Other Non-current liabilities

Item	Particulars	Closing balance	Opening balance
Deferred income		151,733,337.22	142,414,214.19
Medium-term notes		2,292,360,559.92	2,285,483,331.48
Including: due within one year		1,200,000,000.00	
due within 1 - 2 years		1,100,000,000.00	1,200,000,000.00
due within 2 - 5 years			1,100,000,000.00
Unamortised issue expenses		-7,639,440.08	-14,516,668.52
Total		2,444,093,897.14	2,427,897,545.67

The breakdown of the above deferred income is as follows:

Item	Particulars	Closing balance	Opening balance
Government grants in respect of assets			
Special subsidy funds for environmental protection		43,981,654.62	49,868,423.92
Project fund for National technological support scheme		2,770,125.00	4,660,575.00
Special subsidy fund for Songhuajiang environmental protection project		29,354,246.60	23,060,833.12
Modification of alkaline recycling system		5,070,416.57	5,350,416.65
Atmospheric pollution prevention and treatment subsidy fund		800,000.00	993,785.71
Sewage treatment and water conservation reconfiguration project		22,562,488.46	21,892,797.56
Financial grants for technological modification project		2,771,015.05	2,164,285.79
Zhejiang pulp project and construction project of eucalyptus forest		53,633,800.00	40,992,000.00
Others		1,016,592.52	1,040,512.33
Less: deferred income to be amortised within 1 year		10,227,001.60	7,609,415.89
Total		151,733,337.22	142,414,214.19

Note: Deferred income of RMB26,521,800.00 was received in the current period. Deferred income recognised through profit or loss was RMB9,460,091.26 for the current period. The decrease of deferred income resulting from disposal of subsidiaries amounted to RMB5,125,000.00 during the current period.

## XII.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. Share capital

Item	Opening balance		New issue	Change during the year (Increase/decrease)				Closing balance	
	Amounts	Percentage		Bonus shares	Shares transfer from reserve	Others	Sub-total	Amounts	Percentage
I. Restricted shares									
1. State-owned shares	293,003,657	14.21						293,003,657	14.21
2. State-owned legal person shares	10,008,315	0.48				-800,715	-800,715	9,207,600	0.45
3. Other domestic shares of which: Domestic natural person shares	10,008,315	0.48						9,207,600	0.45
<b>Total number of restricted shares</b>	<b>303,011,972</b>	<b>14.69</b>				<b>-800,715</b>	<b>-800,715</b>	<b>302,211,257</b>	<b>14.66</b>
II. Non-restricted shares									
1. RMB ordinary shares	810,266,484	39.30				800,715	800,715	811,067,199	39.33
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
<b>Total number of non-restricted shares</b>	<b>1,759,033,969</b>	<b>85.31</b>				<b>800,715</b>	<b>800,715</b>	<b>1,759,033,969</b>	<b>85.34</b>
III. Total shares	2,062,045,941	100						2,062,045,941	100

Note: A capital review report named as Zhong Rui Yue Hua Yan Zi [2008] No. 2189 was published for the certification of the review.

## XII.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. Capital reserves

Item	Opening balance	Increase during the year	Decrease during the year	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	4,771,831.29		4,781,034.08
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
Gain or loss directly charged to owners' equity				
<b>Total</b>	<b>6,093,493,004.71</b>	<b>4,771,831.29</b>		<b>6,098,264,836.00</b>

Note: Increase in capital reserves during the year was the deficiency of the consideration paid for acquiring minority interests in subsidiaries below the corresponding book value of the net assets.

#### 37. Surplus reserve

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,046,510,680.99	85,605,425.41		1,132,116,106.40
<b>Total</b>	<b>1,046,510,680.99</b>	<b>85,605,425.41</b>		<b>1,132,116,106.40</b>

Note: Pursuant to the Companies Law and the Articles of Association, the Group transferred 10% of the net profit to the statutory surplus reserves. There was no need to transfer if the accumulated amount of the statutory reserves exceeded 50% of the Company's registered capital.

## XII.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)

#### 38. Retained profit

##### (1) Information on the change of retained profit

Item	Amounts during the year	Amounts during the prior year	Proportion of appropriation or allocation
Retained profit of prior year before adjustment	4,333,731,947.96	3,928,586,297.55	
Adjustment of the aggregate retained profit as at the beginning of the year (increase after adjustment +, decrease after adjustment -)			
Retained profit as at the beginning of the year after adjustment	4,333,731,947.96	3,928,586,297.55	
Add : Net profit of the current year attributable to equity holders of the Company	608,271,256.29	1,163,341,066.21	
Less : Withdrawn statutory surplus reserves	85,605,425.41	139,581,633.50	10% of net profit of the Company
Ordinary shares dividend payable	618,613,782.30	618,613,782.30	
Retained profit as at the end of the year	4,237,783,996.54	4,333,731,947.96	

##### (2) Information on the breakdown of profit distribution

According to the profit distribution plan for 2010 approved by 2011 Annual General Meeting of the Company on 8 May 2011, the Company declared cash dividends of RMB0.30 (2010: RMB0.3) per share to all shareholders, totalling RMB618,613,782.30 (2010: RMB618,613,782.30), which was calculated based on the 2,062,045,941 shares in issue.

Pursuant to PRC tax laws, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

##### (3) Breakdown of the transfer to surplus reserve of subsidiaries during the reporting period

The transfer to surplus reserve of subsidiaries in 2011 was RMB13,534,568.82, of which RMB10,787,697.00 was attributable to the parent company.

#### 39. Operating revenue and operating costs

##### (1) Operating revenue and operating costs

Item	Amounts during the year	Amounts during the prior year
Operating revenue from principal operations	17,535,452,305.79	17,129,820,871.55
Other operating revenue	212,037,595.08	73,302,157.94
Total operating revenue	17,747,489,900.87	17,203,123,029.49
Operating costs from principal operations	14,851,342,511.80	13,651,586,236.61
Other operating costs	79,810,664.09	31,415,223.71
Total operating costs	14,931,153,175.89	13,683,001,460.32

## XII.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)

#### 39. Operating revenue and operating costs (Cont'd)

##### (2) Principal operation (by industry)

Industry name	Amounts during the year		Amounts during the prior year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
I. Machine-made paper	16,340,097,056.12	13,874,585,926.00	16,163,909,140.60	12,886,896,603.15
II. Electricity and steam	660,177,424.83	601,127,173.53	444,972,993.46	392,235,364.46
III. Building materials	376,995,349.10	285,692,731.80	388,957,755.02	306,730,154.46
IV. Paper chemicals	99,210,362.32	70,836,680.37	74,269,212.30	50,859,132.91
V. Hotel	49,052,205.69	12,908,369.30	47,197,701.30	12,352,389.61
VI. Others	9,919,907.73	6,191,630.80	10,514,068.87	2,512,592.02
<b>Total</b>	<b>17,535,452,305.79</b>	<b>14,851,342,511.80</b>	<b>17,129,820,871.55</b>	<b>13,651,586,236.61</b>

##### (3) Principal operations (Machine-made paper by geographical segment)

Region	Amounts during the year	Amounts during the prior year
PRC	13,719,620,003.25	14,166,233,174.99
Hong Kong	654,247,295.62	160,884,123.01
United States	228,142,055.85	167,762,309.03
Japan	238,715,748.48	187,537,719.18
South East Asia	271,628,358.80	208,986,217.33
Middle East	442,209,367.84	311,289,016.11
Europe	282,410,131.85	182,676,366.51
South Africa	99,209,626.75	67,501,630.34
Other countries and regions	403,914,467.68	711,038,584.11
<b>Total</b>	<b>16,340,097,056.12</b>	<b>16,163,909,140.61</b>

##### (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 (%)
2011	890,211,819.38	5.02
2010	994,768,181.55	5.78

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### VII. Notes to the Consolidated Financial Statements (Cont'd)

#### 40. Business taxes and surcharges

Item	Amounts during the year	Amounts during the prior year
Business taxes	12,305,486.90	7,952,885.00
Urban maintenances and construction tax	35,808,598.04	13,037,023.71
Educational surcharges	24,867,037.20	9,127,571.48
Other	2,736,406.45	
<b>Total</b>	<b>75,717,528.59</b>	<b>30,117,480.19</b>

Note: For the calculation standard of business taxes and surcharges, please see Note V. Taxation.

#### 41. Selling expenses

Item	Amounts during the year	Amounts during the prior year
Wages	84,658,343.14	70,958,713.15
Depreciation expense	22,043,153.21	23,472,608.62
Material consumption expense	5,701,464.47	4,373,193.85
Office expense	6,534,007.49	5,409,515.58
Travel expense	20,858,605.78	14,761,401.84
Sales commission and selling expense	18,463,822.73	7,528,296.95
Transportation expense	600,151,151.50	636,649,348.94
Cargo handling charges	23,099,320.30	19,857,614.51
Rental expense	9,774,884.93	5,808,268.58
Hospitality expense	52,740,766.77	43,408,878.49
Others	88,859,097.65	41,551,352.54
<b>Total</b>	<b>932,884,617.97</b>	<b>873,779,193.05</b>

#### 42. General and administrative expenses

Item	Amounts during the year	Amounts during the prior year
Wages and surcharges	187,205,292.88	188,691,060.22
Welfare expense	40,437,750.27	42,228,553.17
Depreciation expense	46,807,425.17	40,359,737.06
Waste disposal expense	35,237,867.15	23,727,498.39
Hospitality expense	18,003,123.82	22,865,705.13
Amortisation of intangible assets	24,921,269.65	26,402,995.63
Technological development expense	272,863,115.77	199,666,494.12
Tax	59,844,542.52	79,297,284.58
Production interruption loss	81,583,041.97	70,450,167.93
Insurance premium	22,790,160.49	18,562,842.04
Others	224,801,018.81	158,885,866.44
<b>Total</b>	<b>1,014,494,608.50</b>	<b>871,138,204.71</b>

## XII.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. Finance expenses

Item	Amounts during the year	Amounts during the prior year
Interest expenses	986,692,433.15	371,456,433.00
Less: interest income	50,427,710.99	21,817,317.38
Less: capitalised interest amount	469,735,941.14	88,798,479.28
Foreign exchange gains and losses	-81,877,446.18	-51,823,694.62
Less: capitalised foreign exchange gains and losses amount	—	—
Others	47,370,693.00	24,438,716.38
<b>Total</b>	<b>432,022,027.84</b>	<b>233,455,658.10</b>

Note: Out of the capitalised interest amount, RMB446,233,559.38 was used in construction in progress and RMB23,502,381.76 was used in consumable biological assets.

#### 44. Gain on changes in fair value

Source of gain on changes in fair value	Amounts during the year	Amounts during the prior year
Gain on changes in fair value generated from derivative financial Instruments		-8,450,000.00
Biological assets measured at fair value	48,173,926.26	54,752,250.58
<b>Total</b>	<b>48,173,926.26</b>	<b>46,302,250.58</b>

## XII.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. Investment income

(1) Breakdown of investment income

Item	Amounts during the year	Amounts during the prior year
Gain from long-term equity investments accounted for using the equity method	-3,246,150.00	-13,863,141.44
Interest income from entrusted loans	258,109.35	
Investment gain on disposal of long-term equity investments	10,859,460.82	100,385.84
<b>Total</b>	<b>7,871,420.17</b>	<b>-13,762,755.60</b>

Note: There are no significant restrictions on remittance of investment income back to the Company.

(2) Gain on long-term equity investments of the Company accounted for using equity method

Name of investee entity	Amounts during the year	Amounts during the prior year	Reason for increase or decrease
Arjo Wiggins Chenming Specialty Paper Co., Ltd	-2,266,198.68	-10,959,327.37	The investee incurred loss during the current period
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-149,675.19	-757,694.45	The investee incurred loss during the current period
Shouguang Liben Paper Making Co., Ltd.	-830,276.13	-2,146,119.62	The investee incurred loss during the current period
<b>Total</b>	<b>-3,246,150.00</b>	<b>-13,863,141.44</b>	



## XII.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)

#### 46. Loss on impairment of assets

Item	Amounts during the year	Amounts during the prior year
Loss on bad debts	-15,527,024.37	90,966,571.02
Loss on allowance for inventories	56,072,051.72	-3,026,874.44
Loss on impairment of long-term equity investments	671,422.24	
Loss on impairment of fixed assets		22,480,088.46
<b>Total</b>	<b>41,216,449.59</b>	<b>110,419,785.04</b>

#### 47. Non-operating income

Item	Amounts during the year	Amounts during the prior year	Amount of extraordinary gains and losses recorded for the current period
Total income on disposal of non-current assets	21,181,499.17	36,633,268.16	21,181,499.17
Of which: Income on disposal of fixed assets	21,181,499.17	36,633,268.16	21,181,499.17
Income on disposal of intangible assets			
Income from debt reconstructing	1,726,083.28	54,841.22	1,726,083.28
Business combination not under common control	44,188,866.15		44,188,866.15
Government grants			
(For details, please see the following table: breakdown of government grants)	249,703,804.50	128,131,184.48	236,198,625.29
Others	48,026,667.21	14,598,743.74	48,026,667.21
<b>Total</b>	<b>364,826,920.31</b>	<b>179,418,037.60</b>	<b>351,321,741.10</b>

Of which, breakdown of government grants:

Item	Amounts during the year	Amounts during the prior year	Explanation
Expansion grants	236,198,625.29	96,530,256.72	Deferred income amortised was RMB9,460,091.26, and the income-related expansion grants were RMB226,738,534.03.
Value-added tax refund	13,505,179.21	31,600,927.76	
<b>Total</b>	<b>249,703,804.5</b>	<b>128,131,184.48</b>	

## XII.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)

#### 48. Non-operating expenses

Item	Amounts during the year	Amounts during the prior year	Amount of extraordinary gains and losses recorded for the current period
Total loss on disposal of non-current assets	5,791,866.58	42,128,862.46	5,791,866.58
Of which: Loss on disposal of fixed assets	5,791,866.58	42,128,862.46	5,791,866.58
Loss on disposal of intangible assets			
Loss on debt restructuring	19,905,972.60		19,905,972.60
Loss on non-monetary asset swap			
Donation expenses		437,000.00	
Others	16,186,023.35	8,248,354.00	16,186,023.35
<b>Total</b>	<b>41,883,862.53</b>	<b>50,814,216.46</b>	<b>41,883,862.53</b>

Note: Loss for debt restructuring represented waiver of the debts of Heze Chenming Panels Co., Ltd. by the Company.

#### 49. Income tax expenses

##### (1) Breakdown of income tax expenses

Item	Amounts during the year	Amounts during the prior year
Current income tax calculated according to tax laws and relevant rules	138,729,714.22	287,849,279.19
Adjustment on deferred income tax	-28,466,600.34	-27,152,834.06
<b>Total</b>	<b>110,263,113.88</b>	<b>260,696,445.13</b>

##### (2) The relationship between income tax expenses and total profit is as follows

Item	Amounts during the year	Amounts during the prior year
Profit before tax	698,989,896.70	1,562,354,564.20
Income tax calculated according to the statutory tax rate	174,747,474.18	390,588,641.05
Plus: effect of non-deductible costs, expenses and losses	41,288,716.07	63,400,531.33
Less: effect of tax concessions	133,431,268.73	151,629,531.81
Less: Tax effect of utilisation of deductible tax losses and deductible temporary differences previously not recognised	9,975,239.81	19,273,555.40
Plus: effect of deductible tax losses and deductible temporary differences not recognised during the current year	37,633,432.17	-22,389,640.04
<b>Income tax expenses</b>	<b>110,263,113.88</b>	<b>260,696,445.13</b>

## XII.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. 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.

(1) *Basic earnings per share and diluted earnings per share over the periods*

Profit for the reporting period	Amounts during the year		Amounts during the prior year	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	0.29	0.29	0.56	0.56
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.14	0.14	0.50	0.50

## XII.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. Basic earnings per share and diluted earnings per share (Cont'd)

##### (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:

Item	Amounts during the year	Amounts during the prior year
Net profit for the period attributable to ordinary shareholders of the Company	608,271,256.29	1,163,341,066.21
Of which: net profit attributable to continued operations	608,271,256.29	1,163,341,066.21
net profit attributable to discontinued operations	—	—
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	285,121,911.63	1,034,233,761.46
Of which: net profit attributable to continued operations	285,121,911.63	1,034,233,761.46
net profit attributable to discontinued operations	—	—

## XII.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. 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:

Item	Amounts during the year	Amounts during the prior year
Number of outstanding ordinary as at the beginning of the year	2,062,045,941	2,062,045,941.00
Add: number of weighted ordinary shares issued during the year	—	—
Less: number of weighted ordinary shares repurchased during the year	—	—
Number of outstanding ordinary as at the end of the year	2,062,045,941	2,062,045,941.00

#### 51. Other comprehensive income

Item	Amounts during the year	Amounts during the prior year
1. Translation difference of financial statements denominated in foreign currency	-1,592,779.91	-855,013.84
Less: net amount of disposal of overseas operations transferred to profit or loss during the year		
Sub-total	-1,592,779.91	-855,013.84
2. Others		
Less: income tax effect arising from other items charged to other comprehensive income net amount of other items previously charged to other comprehensive income and transferred to profit or loss during the current year		
Sub-total		
Total	-1,592,779.91	-855,013.84

## XII.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)

#### 52. Notes to the cash flow statement items

(1) Cash received relating to other operating activities

Item	Amounts during the year	Amounts during the prior year
Finance support fund	214,474,796.89	89,326,270.88
Interest income	50,427,710.99	21,817,317.38
Income on default penalty and fine	5,549,316.51	671,021.75
Bank balances and other income	190,437,217.83	277,836,446.51
<b>Total</b>	<b>460,889,042.22</b>	<b>389,651,056.52</b>

(2) Cash paid relating to other operating activities

Item	Amounts during the year	Amounts during the prior year
Transportation expense	552,957,513.02	330,426,629.06
Hospitality expense	70,743,890.59	63,220,204.41
Rental expense	9,774,884.93	10,705,849.00
Travel expense	34,199,084.05	27,613,014.17
Office expense	13,315,487.27	12,855,624.55
Waste disposal expense	35,237,867.15	33,110,383.24
Insurance premium	22,790,160.49	9,873,464.98
Repair expense	28,289,433.97	11,412,162.05
Advertising expense	6,882,990.00	1,604,141.09
Intermediary service expense	3,096,760.03	7,462,551.70
Financial institutions charge	47,370,693.00	24,438,716.38
Others	190,308,435.04	106,787,996.63
<b>Total</b>	<b>1,014,967,199.54</b>	<b>639,510,737.26</b>

## XII.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)

#### 52. Notes to the cash flow statement items (Cont'd)

(3) *Cash received relating to other investing activities*

Item	Amounts during the year	Amounts during the prior year
Special subsidy funds received	26,521,800.00	35,337,000.00
Demolition and relocation compensation received	660,000,000.00	
Prepayments received for land sale	98,000,000.00	
Business combination not under common control	5,474,107.49	
<b>Total</b>	<b>789,995,907.49</b>	<b>35,337,000.00</b>

(4) *Cash received relating to other financing activities*

Item	Amounts during the year	Amounts during the prior year
Decrease in restricted bank deposits during the period		428,970,082.51
<b>Total</b>		<b>428,970,082.51</b>

(5) *Cash paid relating to other financing activities*

Item	Amounts during the year	Amounts during the prior year
Increase in restricted bank deposits during the period	1,116,270,631.02	
<b>Total</b>	<b>1,116,270,631.02</b>	

## XII.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)

#### 53. Supplementary information on cash flow statements

##### (1) Information on reconciliation of net profit to cash flows from operating activities

Item	Amounts during the year	Amounts during the prior year
<b>① Reconciliation of net profit as cash flows from operating activities:</b>		
Net profit	588,726,782.82	1,301,658,119.07
Add: Provision for impairment of assets	41,216,449.59	110,419,785.04
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	1,206,175,316.98	1,161,789,925.60
Amortisation of intangible assets	34,988,533.32	32,111,970.96
Long-term prepaid expenses	7,057,269.94	15,058,411.72
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" denotes gain)	-15,389,632.59	5,495,594.30
Loss on retired fixed assets ("-" denotes gain)	—	—
Loss on change in fair value ("-" denotes gain)	-48,173,926.26	-46,302,250.58
Finance expenses ("-" denotes gain)	527,560,633.17	282,657,953.72
Investment loss ("-" denotes gain)	-7,871,420.17	13,762,755.60
Decrease in deferred income tax assets ("-" denotes increase)	-26,516,055.04	-16,084,497.59
Increase in deferred income tax liabilities ("-" denotes decrease)	1,340,281.66	-11,068,336.47
Decrease in inventory ("-" denotes increase)	-2,588,229,997.88	-820,498,722.42
Decrease in Consumable biological assets ("+" denotes increase)	-184,145,006.15	-175,265,342.92
Decrease in operating receivables ("-" denotes increase)	-1,572,607,592.36	-584,900,050.48
Increase in operating payables ("-" denotes decrease)	1,598,405,352.08	-418,506,388.55
Others		
<b>Net cash flows from operating activities</b>	<b>-437,463,010.89</b>	<b>850,328,927.00</b>
<b>② Major investing and financing activities not involving cash settlements:</b>		
Capital converted from debts	—	—
Convertible bonds of the Company due within one year	—	—
Finance leases of fixed assets	—	—
<b>③ Net change in cash and cash equivalents:</b>		
Cash balance at the end of the period	2,317,048,619.53	1,855,235,979.80
Less: cash balance at the beginning of the period	1,855,235,979.80	2,367,334,202.50
Add: balance of cash equivalents at the end of the period	—	—
Less: balance of cash equivalents at the beginning of the period	—	—
<b>Net increase in cash and cash equivalents</b>	<b>461,812,639.73</b>	<b>-512,098,222.70</b>



## XII.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)

#### 53. 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*

Item	Amounts during the year	Amounts during the prior year
① Relevant information with respect to acquisition of subsidiaries and other operating units:		
A. Consideration for acquisition of subsidiaries and other operating units	—	
B. Cash and cash equivalents paid on acquisition of subsidiaries and other operating units	—	
Less: cash and cash equivalents held by subsidiaries and other operating units	5,474,107.49	
C. Net cash paid on acquisition of subsidiaries and other operating units	—	
D. Net assets of subsidiaries acquired	60,039,220.31	
Of which: Current assets	53,282,686.08	
Non-current assets	22,523,482.20	
Current liabilities	15,766,947.97	
② Relevant information with respect to disposal of subsidiaries and other operating units:		
A. Consideration from disposal of subsidiaries and other operating units	179,479,961.00	
B. Cash and cash equivalents received from disposal of subsidiaries and other operating units	91,989,981.50	
Less: cash and cash equivalents held by subsidiaries and other operating units	6,156,119.85	
C. Net cash received from disposal of subsidiaries and other operating units	85,833,861.65	
D. Net assets of subsidiaries disposed of	328,562,383.64	
Including: current assets	293,510,418.91	
non-current assets	402,088,992.19	
current liabilities	360,977,493.90	
Non-current liabilities	6,059,533.56	

(3) The composition of cash and cash equivalents

Item	Closing balance	Opening balance
① Cash		
Of which: cash on hand	1,908,702.31	1,232,651.18
bank deposits repayable on demand	2,315,139,917.22	1,854,003,328.62
loans to banks		
② Cash equivalents		
Of which: bond investments due within 3 months	—	—
③ Balance of cash and cash equivalents as at the end of the year	2,317,048,619.53	1,855,235,979.80

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

### VIII.Segment reporting

The Company 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 Company, the operating businesses of the Company 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 Company 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.

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

### VIII. Segment reporting

#### (1) Segment revenue

Item	RMB'0000											
	Machine-made paper		Construction materials		Electricity and steam		Others		Eliminations among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year
External transaction sales	1,634,009.71	1,616,390.91	37,899.53	38,895.78	66,017.74	44,497.30	37,022.01	20,528.31	1,774,748.99	1,720,312.30		
Inter-segment sales			7,512.95	6,287.09	59,401.97	26,610.60	22,530.35	20,118.91	81,932.32	53,016.60		
Total segment operating revenue	1,634,009.71	1,616,390.91	45,212.48	45,182.87	125,419.71	71,107.90	59,552.36	40,647.22	81,932.32	53,016.60	1,774,748.99	1,720,312.30
Operating costs	1,485,475.14	1,401,036.67	44,727.45	45,352.57	121,815.38	67,112.49	47,082.32	36,241.56	81,932.32	53,016.60	1,609,655.02	1,496,726.69
Segment operating profit	148,534.57	215,354.24	485.03	-169.70	3,604.33	3,995.41	12,470.04	4,405.66	165,093.97	223,585.61		
Adjustment items:												
Administrative expenses									47,853.08		47,853.08	42,338.31
Finance expenses									52,946.44		52,946.44	28,265.80
Profit or loss from change in fair value									-4,817.39		-4,817.39	-4,630.23
Investment income									-787.14		-787.14	1,376.28
Total profit									69,898.99		69,898.99	156,235.45
Income tax									69,898.98		69,898.98	156,235.45
Net profit									11,026.31		11,026.31	26,069.64

## XII. 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

Item	RMB' 0000											
	Machine-made paper		Construction materials		Electricity and steam		Others		Eliminations among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year	The year	Prior year
Segment assets	4,304,279.47	3,203,769.33	42,577.44	58,495.26	188,429.90	233,790.37	92,986.72	44,364.95	-65,190.63	-32,706.70	4,563,082.90	3,507,713.21
Segment liabilities	3,021,404.40	1,915,539.36	31,505.57	42,327.35	23,852.82	21,482.84	52,733.25	35,050.46	-65,190.63	-32,706.70	3,064,305.41	1,981,693.31

### 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 (RMB'0000)	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	168,542	14.21	14.21	State-owned Assets Supervision and Administration Commission of Shouguang City	78348518-9

## XII. 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 XIV.3. Long-term equity investments (2) for details.

#### 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	Amounts during the year		Amounts during the prior year	
			Amount	As a percentage of similar transaction amounts (%)	Amount	As a percentage of similar transaction amounts (%)
Anhui Shidai Resources Holdings Co. Ltd.	Sales of paper	Market price Authorised by the Board	954,360.44	—	18,221,859.35	0.11
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Sales of paper	Market price Authorised by the Board	1,497,390.00	—	2,077,643.00	0.01

##### (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	2009.04.22	2012.04.21	No
The Company	Jiangxi Chenming Paper Co., Ltd.	450,000,000.00	2009.12.10	2012.12.10	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.	50,000,000.00	2010.04.29	2013.07.07	No
The Company	Huanggang Chenning Arboriculture Co., Ltd.	30,000,000.00	2011.09.19	2014.09.18	No
The Company	Shouguang Meilun Paper Co. Ltd.	55,383,600.00	2009.08.07	2012.08.06	No
The Company	Shouguang Meilun Paper Co. Ltd.	313,764,200.00	2011.01.14	2014.01.13	No
The Company	Shouguang Meilun Paper Co., Ltd.	756,108,000.00	2010.9.10	2013.9.10	No
The Company	Shouguang Meilun Paper Co., Ltd.	96,739,400.00	2011.08.29	2012.02.24	No
The Company	Shouguang Meilun Paper Co., Ltd.	54,484,900.00	2011.09.05	2012.04.19	No
The Company	Shouguang Meilun Paper Co., Ltd.	187,500,000.00	2011.09.20	2012.03.19	No
The Company	Zhanjiang Chenming Paper & Pulp Co., Ltd.	3,518,922,000.00	2008.03.25	2023.03.24	No
The Company	Shandong Chenming Paper Sales Company Limited	399,945,000.00	2011.09.02	2012.11.02	No
The Company	Shandong Chenming Paper Sales Company Limited	200,693,100.00	2011.08.11	2012.08.10	No
The Company	Shandong Chenming Paper Sales Company Limited	475,000,000.00	2011.08.11	2012.08.05	No
The Company	Shandong Chenming Paper Sales Company Limited	340,000,000.00	2011.09.09	2012.08.31	No
The Company	Shandong Chenming Paper Sales Company Limited	200,000,000.00	2011.11.21	2012.11.20	No
The Company	Chenming (HK) Limited (Note)	500,000,000.00	2011.04.13	2014.04.12	No
<b>Total</b>		<b>7,728,540,200.00</b>			

Note: The Company provided guarantee for the bond issue of RMB500 million by Chenming (HK) Limited.

## XII.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 loans to subsidiaries of the Company

Unit: RMB'0000

Related party	Loan amount	Starting date	Expiry date	Explanation
Jiangxi Chenming Paper Co., Ltd.	190,000,000.00	2007.5.24	2017.5.24	Entrusted loan
Jiangxi Chenming Paper Co., Ltd.	110,000,000.00	2007.5.25	2017.5.25	Entrusted loan
Jiangxi Chenming Paper Co., Ltd.	200,000,000.00	2010.4.19	2013.4.18	Entrusted loan
Huanggang Chenming Arboriculture Co., Ltd.	50,000,000.00	2010.1.6	2012.1.5	Entrusted loan

##### (4) Compensation of key management personnel

###### A. Distribution band of remuneration of key management staff

Unit: RMB'0000

Band of annual remuneration	Amounts during the year	Amounts during the prior year
Total (excluding social security of directors borne by the Company)	2,355.63	2,525.64
Of which: (number of staff in each band of amount)		
RMB4.80-5.00million	1	1
RMB3.20-4.80million		
RMB2.80-3.20million	1	1
RMB2.00-2.80million		
RMB1.60-2.00million	1	1
RMB1.20-1.60million	2	2
RMB0.80-1.20million	6	10
Below RMB0.80million	20	16

###### B. Breakdown of remuneration of key management staff

Unit: RMB'0000

Key management staff	Amounts during the year	Amounts during the prior year
Independent non-executive directors	32.5	32.5
Fees	32.5	32.5
Non-executive directors	15	15
Fees	15	15
Executive directors		
Fees		
Salaries and performance related incentive payments	1,276.6	1,400.33
Retirement benefits (social security borne by the Group)	13.1	11.5
Other senior management staff	1,031.53	1,077.81
Total	2,368.73	2,537.14

Note: The performance related incentive payments are determined by reference to the stipulations of the Group and individual performance of directors, and approved by the Remuneration Committee.

## XII.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)

##### (4) Compensation of key management personnel (Cont'd)

##### B. Breakdown of remuneration of key management staff Unit: RMB'0000 (Cont'd)

##### B1. Breakdwn for independent non-executive directors

Unit: RMB'0000

Independent non-executive director	Amounts during the year	Amounts during the prior year
Wang Yumei	5	5
Wang Aiguo	5	5
Wang Xiangfei	12.5	12.5
Zhang Zhiyuan	5	5
Zhang Hong	5	5
<b>Total</b>	<b>32.5</b>	<b>32.5</b>

##### B2. Breakdwn for non-executive directors

Unit: RMB'0000

Non-executive director	Amounts during the year	Amounts during the prior year
Cui Youping	5	5
Wang Fengrong	5	5
Wang Xiaoqun	5	5
<b>Total</b>	<b>15</b>	<b>15</b>

##### B3. Breakdwn for executive directors

Unit: RMB'0000

Executive director	Amounts during the year	Amounts during the prior year
Chen Hongguo	499	498
Yin Tongyuan	298	298
Li Feng	105.45	142.75
Hou Huancai	78.61	115.53
Zhou Shaohua	126.2	130.16
Geng Guanglin	127.85	107.85
Tan Daocheng	41.49	108.04
<b>Total</b>	<b>1,276.6</b>	<b>1,400.33</b>

##### C. All of the five highest paid individuals of the Group during the year were 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.

## XII.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

Item name	Closing balance		Opening balance	
	Book balance	Bad debt provisions	Book balance	Bad debt provisions
Accounts receivable:				
Anhui Shidai Resources Holdings Co. Ltd.	819,534.42	40,976.71	10,791,300.00	539,565.00
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	847,390.00	42,369.50	566,700.00	28,335.00
<b>Total</b>	<b>1,917,263.45</b>	<b>83,346.21</b>	<b>11,358,000.00</b>	<b>567,900.00</b>
Other receivables:				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	1,290,901.12	258,180.22	1,290,901.12	166,500.00
<b>Total</b>	<b>1,290,901.12</b>	<b>258,180.22</b>	<b>1,290,901.12</b>	<b>166,500.00</b>

##### (2) Payables and advances of related parties during the reporting period

Item name	Closing balance	Opening balance
Accounts payable:	—	—
Advance receipts:	—	—
Other payables:		
Shouguang Chenming Holdings Co., Ltd.	30,000,000.00	—
<b>Total</b>	<b>30,000,000.00</b>	<b>—</b>

### X Contingent items

As at 31 December 2011, it was not necessary for the Group to disclose significant contingent items.



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

### XI. COMMITMENTS

#### 1. Significant Commitments

##### (1) Capital commitments

Item	Closing balance	Opening balance
Contracted but not yet recognised in the financial statements – commitments in relation to acquisition and construction of long-term assets	3,367,499,794.06	4,634,896,079.74
<b>Total</b>	<b>3,367,499,794.06</b>	<b>4,634,896,079.74</b>

##### (2) Operating lease commitments

As at the balance sheet date, the Company entered into irrevocable operating lease contracts with non-group companies as follows:

Item name	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	39,043,673.69	60,189,073.16
The second year after balance sheet date	20,588,005.02	28,385,986.80
The third year after balance sheet date	15,599,245.62	28,492,058.29
In the years thereafter	666,563,916.25	938,172,599.89
<b>Total</b>	<b>741,794,840.58</b>	<b>1,055,239,718.14</b>

#### 2. Performance of commitments for the prior period

As of 31 December 2011, no significant commitments had to be disclosed by the Company.

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

### XII After-Balance-Sheet-Date Events

#### Explanation on profit distribution after the balance sheet date

As at 28 March 2012, the tenth meeting of the sixth session of the board of the Company approved the profit distribution proposal for 2011 to distribute cash dividends of RMB309,306,891.15. Pursuant to the Articles of Association of the Company, the budget is subject to approval of the general meeting.

Pursuant to PRC tax laws, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

### XIII.Other important explanations

#### 1. Business combination

Please see Note VI. Business combination and consolidated financial statements for details of business combination during the reporting period.

#### 2. Lease

For details on investment properties held under operation lease, please refer to note VII.9.

Remaining lease terms	Minimum lease payments
Within 1 year (including 1 year)	2,835,754.80
Over 1 year but within 2 years (including 2 years)	1,614,010.80
Over 2 years but within 3 years (including 3 years)	309,352.07
Total	4,759,117.67

#### 3. 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	726,724,974.94	48,173,926.26	138,128,774.23		959,061,500.85
Sub-total	726,724,974.94	48,173,926.26	138,128,774.23		959,061,500.85

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

### XIV.Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks: market risk (foreign currency risk and interest rate 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.

#### 1. Market risk

##### (1) Foreign currency risk

The Group's principal operations are conducted in the PRC and its major activities are settled in RMB. The foreign currency risk of the Group arises from financing activities and commercial activities using foreign currencies (mainly of which are USD). The finance department of the headquarters of the Group is responsible for monitoring the size of the Group's transactions in foreign currency and its foreign currency-denominated assets and liabilities to minimise its foreign currency risk exposure. As a result, the Group may enter into forward foreign exchange contracts to avoid foreign currency risk. In 2011, the Group did not enter into any forward foreign exchange contracts.

As at 31 December 2011 and 31 December 2010, the foreign currency-denominated assets and foreign currency-denominated liabilities held by the Group were translated into RMB as follows:

Item	31 December 2011		
	USD	EUR	GBP
Foreign currency-denominated assets-			
Monetary funds	484,935,787.32	840,647.39	
Accounts receivable	249,074,382.49		
Prepayments	333,207,561.94	72,116,391.72	
Sub-total	1,067,217,731.75	72,957,039.11	
Foreign currency-denominated liabilities-			
Short-term borrowing	1,631,383,851.83		
Accounts payable	691,771,899.52	31,038,477.79	185,734.35
Advance receipts	114,259,884.34	9,118,313.89	
Non-current liabilities due within one year	41,017,624.02		
Long-term borrowings	3,742,858,148.05		
Sub-total	6,221,291,407.76	40,156,791.68	185,734.35

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

### XIV.Financial risk management and financial instruments (Cont'd)

#### 1. Market risk (Cont'd)

##### (1) Foreign currency risk (Cont'd)

Item	31 December 2010		
	USD	EUR	GBP
Foreign currency-denominated assets-			
monetary funds	305,317,775.18	2,014,007.14	
Accounts receivable	326,461,587.20		
Prepayments	390,614,694.00	42,960,024.10	
	1,022,394,056.38	44,974,031.24	
Foreign currency-denominated liabilities-			
Short-term borrowing	703,231,765.68		
Accounts payable	660,009,606.14	68,281.29	
Advance receipts	67,777,874.61		
Non-current liabilities due within one year	562,929,500.00		
Long-term borrowings	3,275,119,936.85		
Sub-total	5,269,068,683.28	68,281.29	

As at 31 December 2011, for various USD, EUR and GBP financial assets and financial liabilities of the Group, if RMB against USD, EUR and GBP had appreciated or depreciated by 5% with all other variables held constant, the Group's profit would have been approximately RMB256,072,958.15 (31 December 2010: approximately RMB212,333,731.35) higher or lower.

##### (2) Interest rate risk

The interest rate risk of the Group arises from the interest bearing debt such as bank loans and bonds payable. Variable-rate financial liabilities make the Group expose to cash flow interest rate risk. Fixed-rate financial liabilities make the Group expose to fair value interest rate risk. The Group determines the proportion between fixed-rate and variable-rate contracts based on the prevailing market environment. As at 31 December 2011, the interest bearing debts of the Group mainly consisted of variable-rate borrowing contract in RMB and USD amounting to RMB18,433,668,960.96 (31 December 2010: 9,752,627,402.67), and fixed-rate interest rate contracts in RMB amounting to RMB4.8 billion (31 December 2010: RMB5.6 billion).

The finance department of the headquarters of the Group continuously monitors the interest rate level of the Group. When the interest rate increases, the cost of the new interest bearing debts and the outstanding interest expenses incurred by the variable-rate interest bearing debts of the Group will increase, thereby having an adverse effect on the financial results of the Group. The management will make timely adjustment based on the latest market conditions. Directors of the Company believe that the future interest rate change will not have significant adverse effect on the operating results of the Group.

On 31 December 2011, if the interest rate of the interest bearing debts increases or decrease by by 10% with all other variables held constant, the profit for the year would have would have been approximately RMB35,292,312.78 (2010: RMB14,305,876.25) higher or lower mainly due to the increase and decrease of the interest expenses.

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

### XIV.Financial risk management and financial instruments (Cont'd)

#### 2. Credit risk

The Group manages the credit risk by portfolio. Credit risk mainly arises from bank deposit, accounts receivable, other receivables and bills receivable. The majority of the Group's cash at banks are deposited in state-owned banks and other medium or large listed banks. All of the bills receivable are bank acceptance. There is no significant credit risk in the opinion of the Group and no significant loss will be incurred due to default by the counterparties. Sales are settled through the combination of advance and credit. Customers are granted a credit period through a strict credit approval system. The Group has set up a department specialising in reviewing the credibility of the trade customers regularly, thereby reasonably control the credit line and term of each trade customer, recovering amounts in arrears on a timely basis and examining the recoverable amounts in respect of accounts receivables one by one and making corresponding bad debt provisions in full as at the end of the period. As a result, there is no significant credit risk in trade customers.

The management of the Group believe that no significant loss will be incurred due to default by the aforesaid parties.

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

### XIV.Financial risk management and financial instruments (Cont'd)

#### 3. Liquidity risk

Each subsidiary of the Group is responsible for its own cash flows forecast. The finance department of the headquarters continuously monitors the short-term and long-term funding needs at the group level based on the consolidated cash flow forecast of each subsidiary, thereby ensuring a sufficient cash reserve. The department continues to monitor the compliance of borrowing agreements and obtains sufficient facilities from major financial institutions to satisfy the Group's short-term and long-term funding needs.

As at the balance sheet date, the undiscounted contracted cash flows of various financial assets and financial liabilities of the Group are set out according to the maturity date as follows:

Item	31 December 2011				Total
	Within one year	One to two years	Two to five years	Over five years	
<b>Financial assets-</b>					
monetary funds	3,529,938,211.47				3,529,938,211.47
Bills receivable	2,444,508,997.74				2,444,508,997.74
Accounts receivable	3,011,123,696.78	23,656,767.35	94,206,538.30		3,128,987,002.43
Other receivables	290,861,260.47	22,447,913.22	77,981,875.54		391,291,049.23
Prepayments	582,653,900.45	182,226,337.45			764,880,237.90
<b>Sub-total</b>	<b>9,859,086,066.91</b>	<b>228,331,018.02</b>	<b>172,188,413.84</b>		<b>10,259,605,498.77</b>
<b>Financial liabilities-</b>					
Short-term borrowing	12,086,984,606.69				12,086,984,606.69
Bills payable	615,327,402.85				615,327,402.85
Accounts payable	4,420,184,816.30	117,265,142.92	148,136,038.38		4,685,585,997.60
Advance receipts	211,879,347.81	19,548,665.64			231,428,013.45
Other payables	525,381,372.20	176,020,931.91	62,219,234.84		763,621,538.95
Non-current liabilities due within one year	1,203,616,858.22				1,203,616,858.22
Long-term borrowings		1,232,657,500.00	390,797,660.11	3,519,612,335.94	5,143,067,496.05
Bonds payable			2,500,000,000.00		2,500,000,000.00
Medium-term notes	1,200,000,000.00	1,100,000,000.00			2,300,000,000.00
<b>Sub-total</b>	<b>20,263,374,404.07</b>	<b>2,645,492,240.47</b>	<b>3,101,152,933.33</b>	<b>3,519,612,335.94</b>	<b>29,529,631,913.81</b>

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

### XIV.Financial risk management and financial instruments (Cont'd)

#### 3. Liquidity risk (Cont'd)

Item	31 December 2010				Total
	Within one year	One to two years	Two to five years	Over five years	
Financial assets-					
monetary funds	1,951,854,940.72				1,951,854,940.72
Bills receivable	2,762,389,909.89				2,762,389,909.89
Accounts receivable	2,223,077,582.95	28,201,927.15	106,654,698.35		2,357,934,208.45
Other receivables	97,396,686.98	13,073,451.73	111,984,261.99		222,454,400.70
Prepayments	618,529,456.56	305,825,088.99			924,354,545.55
<b>Sub-total</b>	<b>7,653,248,577.1</b>	<b>347,100,467.87</b>	<b>218,638,960.34</b>		<b>8,218,988,005.31</b>
Financial liabilities-					
Short-term borrowing	3,594,157,220.47				3,594,157,220.47
Bills payable	218,757,186.75				218,757,186.75
Advance receipts	400,171,708.36	10,071,846.39			410,243,554.75
Accounts payable	2,516,618,611.43	71,824,074.09	119,621,990.92		2,708,064,676.44
Other payables	467,607,969.48	38,962,690.39	75,481,851.56		582,052,511.43
Non-current liabilities due within one year	1,432,841,463.15				1,432,841,463.15
Long-term borrowings		1,593,991,704.48	356,832,400.00	2,774,804,614.57	4,725,628,719.05
Bonds payable	3,300,000,000.00				3,300,000,000.00
Medium-term notes		1,200,000,000.00	1,100,000,000.00		2,300,000,000.00
<b>Sub-total</b>	<b>11,930,154,159.64</b>	<b>2,914,850,315.35</b>	<b>1,651,936,242.48</b>	<b>2,774,804,614.57</b>	<b>19,271,745,332.04</b>

An analysis of the repayment of bank loans and bonds payable is as follows:

	Closing balance		Opening balance	
	Bank loans	Bonds payable	Bank loans	Bonds payable
Loans with the last repayment date within five years	14,914,056,625.02	4,800,000,000.00	6,977,822,788.10	5,600,000,000.00
Loans with the last repayment date over five years	3,519,612,335.94		2,774,804,614.57	
<b>Total</b>	<b>18,433,668,960.96</b>	<b>4,800,000,000.00</b>	<b>9,752,627,402.67</b>	<b>5,600,000,000.00</b>

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

### XIV.Financial risk management and financial instruments (Cont'd)

#### 4. Fair value

##### (1) Financial instruments not measured at fair value

The financial assets and liabilities not measured at fair value mainly consist of: accounts receivable, short-term borrowings, accounts payable, , long-term borrowings, bonds payable and long-term payables.

Except the financial liabilities below, the carrying amount of other financial assets and liabilities not measured at fair value deviates from the fair value by a small amount.

	Closing balance		Opening balance	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities-Bonds payable	4,769,303,254.71	4,800,000,000.00	2,285,483,331.48	2,300,000,000.00

For long-term borrowings, long-term payables and bonds payable, their fair value is determined by the present value of the contracted future cash flows discounted by the interest rate which is comparable in terms of credit rating and offers substantially same cash flows on equal conditions in the market.

##### (2) As at 31 December 2011, the Group had no financial instruments measured at fair value (31 December 2010: Nil).



## XII.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

(1) Accounts receivable stated according to breakdown

Breakdown	Closing balance			
	Book balance Amount	Ratio (%)	Bad debt provisions Amount	Ratio (%)
Single item with significant accounts receivable and bad debt provisions	56,089,509.86	3.08	56,089,509.86	100
Accounts receivable with bad debt provisions by group				
No-risk portfolio	1,730,082,770.43	95.07		
General-risk portfolio	33,541,440.60	1.85	20,589,929.06	61.39
Group sub-total	1,763,624,211.03	96.92	20,589,929.06	1.17
Single item without significant accounts receivable but with bad debt provisions				
Total	1,819,713,720.89	100	76,679,438.92	4.21

Breakdown	Opening balance			
	Book balance Amount	Ratio (%)	Bad debt provisions Amount	Ratio (%)
Single item with significant accounts receivable and bad debt provisions	78,048,918.75	4.49	78,048,918.75	100
Accounts receivable with bad debt provisions by group				
No-risk portfolio	1,199,803,944.50	68.97		
General-risk portfolio	461,802,555.03	26.54	39,666,946.35	8.59
Group sub-total	1,661,606,499.53	95.51	39,666,946.35	2.39
Single item without significant accounts receivable but with bad debt provisions				
Total	1,739,655,418.28	100	117,715,865.10	6.77

## XII.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 (Cont'd)

(2) Accounts receivable stated according to aging

Item	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,718,434,986.05	94.43	1,644,505,095.40	94.53
1 to 2 years	35,110,491.10	1.93	21,571,510.58	1.24
2 to 3 years	13,018,745.26	0.72	57,067,573.19	3.28
Over 3 years	53,149,498.48	2.92	16,511,239.11	0.95
<b>Total</b>	<b>1,819,713,720.89</b>	<b>100</b>	<b>1,739,655,418.28</b>	<b>100</b>

(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 provisions	Percentage of provision (%)	Reason
Payment for goods	56,089,509.86	56,089,509.86	100.00%	Most of which were payment for goods aged over two years and unlikely to be recovered
<b>Total</b>	<b>56,089,509.86</b>	<b>56,089,509.86</b>	<b>100.00%</b>	

- ② Accounts receivable with bad debt provision by group

A. In the portfolios, the no-risk portfolio refers to accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately, and for which bad debts are not provided;

B. 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 provisions	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	7,038,534.93	20.98	351,926.75	432,003,875.16	93.55	21,600,193.76
1 to 2 years	3,726,896.05	11.11	372,689.61	11,019,746.70	2.39	1,101,974.67
2 to 3 years	3,638,371.15	10.85	727,674.23	2,267,694.06	0.49	453,538.81
Over 3 years	19,137,638.47	57.06	19,137,638.47	16,511,239.11	3.57	16,511,239.11
<b>Total</b>	<b>33,541,440.60</b>	<b>100</b>	<b>20,589,929.06</b>	<b>461,802,555.03</b>	<b>100</b>	<b>39,666,946.35</b>

## XII.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 (Cont'd)

(3) Information on the provision of bad debts (Cont'd)

- ③ There was no single item without significant accounts receivable but with bad debt provision as at the end of the year.
- (4) There was no significant accounts receivable actually written off during the reporting period
- (5) 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.
- (6) Top 5 accounts receivable are set out as follows

Entities	Relationship with the Company	Amount	Age	As a percentage of the total balance of accounts receivable (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	1,028,114,803.85	Within 1 year	56.50
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	379,993,237.42	Within 1 year	20.88
Shandong Chenming Paper Sales Company Limited	Related party within the scope of consolidation	261,112,299.85	Within 1 year	14.35
Foshan Shunde Xingchen Paper Co., Ltd.	Non-related party	27,295,065.23	3 to 4 years	1.50
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Related party with the scope of consolidation	24,094,263.95	Within 1 year	1.32
Total		1,720,609,670.30		94.55

## XII.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 (Cont'd)

(3) Information on the provision of bad debts (Cont'd)

(7) Information on accounts receivable of the related parties

Name of units	Relationship with the Company	Amounts	Percentage of the total accounts receivable (%)
Shouguang Meilun Paper Co., Ltd.	Subsidiary of the Company	1,028,114,803.85	56.50
Shouguang Chenming Art Paper Co., Ltd.	Subsidiary of the Company	379,993,237.42	20.88
Shandong Chenming Paper Sales Company Limited	Subsidiary of the Company	261,112,299.85	14.35
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Subsidiary of the Company	24,094,263.95	1.32
Shouguang Liben Paper Making Co., Ltd.	Subsidiary of the Company	11,694,503.84	0.64
Shandong Chenming Panels Co., Ltd.	Subsidiary of the Company	10,310,518.10	0.57
Jilin Chenming Paper Co., Ltd.	Subsidiary of the Company	7,222,034.62	0.40
Fuyu Chenming Paper Co., Ltd.	Subsidiary of the Company	5,419,362.95	0.30
Shandong Grand View Hotel Co., Ltd.	Subsidiary of the Company	1,252,887.13	0.07
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiary of the Company	1,061,174.96	0.06
Yanbian Chenming Paper Co., Ltd.	Subsidiary of the Company	161,047.89	0.01
Zhanjiang Chenming Paper & Pulp Co., Ltd.	Subsidiary of the Company	16,636.36	0.00
<b>Total</b>		<b>1,730,452,770.92</b>	<b>95.10</b>

## XII.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			
	Book balance Amount	Ratio (%)	Bad debt provisions Amount	Ratio (%)
Single item with significant other receivables and bad debt provisions	9,330,331.45	0.14	9,330,331.45	100.00
Other receivables with bad debt provisions by group				
No-risk portfolio	6,894,133,462.44	98.88		
General-risk portfolio	53,445,787.71	0.77	19,499,404.97	36.48
Group sub-total	6,947,579,250.15	99.64	19,499,404.97	0.28
Single item without significant other receivables but with bad debt provisions	15,554,009.74	0.22	15,554,009.74	100.00
Total	6,972,463,591.34	100.00	44,383,746.16	0.64

Breakdown	Opening balance			
	Book balance Amount	Ratio (%)	Bad debt provisions Amount	Ratio (%)
Single item with significant other receivables and bad debt provisions	26,923,251.81	0.56	26,923,251.81	100.00
Other receivables with bad debt provisions by group				
No-risk portfolio	4,738,793,161.61	97.82		
General-risk portfolio	56,388,142.93	1.16	22,106,693.63	39.20
Group sub-total	4,795,181,304.54	98.98	22,106,693.63	0.46
Single item without significant other receivables but with bad debt provisions	22,407,088.63	0.46	22,407,088.63	100.00
Total	4,844,511,644.98	100.00	71,437,034.07	1.47

## XII.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 (Cont'd)

(2) Other receivables stated according to aging

Item	Closing balance		Bad debt balance	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Within 1 year	6,589,642,880.16	94.51	3,940,163,157.85	81.33
1 to 2 years	263,422,203.29	3.78	688,441,277.28	14.21
2 to 3 years	77,724,175.01	1.11	148,636,636.28	3.07
Over 3 years	41,674,332.88	0.60	67,270,573.57	1.39
<b>Total</b>	<b>6,972,463,591.34</b>	<b>100</b>	<b>4,844,511,644.98</b>	<b>100</b>

(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 provisions	As Percentage of provision (%)	Reason
Amounts with customers	9,330,331.45	9,330,331.45	100.00%	Amounts of older age are unlikely to be recovered based on past experience
<b>Total</b>	<b>9,330,331.45</b>	<b>9,330,331.45</b>	<b>100.00%</b>	

② Other receivables with bad debt provision by group

A. In the portfolios, the no-risk portfolio refers to accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately, and for which bad debts are not provided;

B. Among the group, other receivables with bad debt provision based on the aging analysis:

Age	Closing balance			Opening balance		
	Book balance Amounts	Ratio (%)	Bad debt provisions	Book balance Amounts	Ratio (%)	Bad debt provisions
Within 1 year	28,392,081.38	53.12	1,419,604.07	19,637,735.53	34.82	981,886.78
1 to 2 years	3,011,095.47	5.64	301,109.55	5,774,611.35	10.24	577,461.14
2 to 3 years	5,329,899.38	9.97	1,065,979.87	13,035,562.92	23.12	2,607,112.58
Over 3 years	16,712,711.48	31.27	16,712,711.48	17,940,233.13	31.82	17,940,233.13
<b>Total</b>	<b>53,445,787.71</b>	<b>100</b>	<b>19,499,404.97</b>	<b>56,388,142.93</b>	<b>100</b>	<b>22,106,693.63</b>

## XII.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 (Cont'd)

(3) Information on the provision of bad debts (Cont'd)

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 provisions	Reason for provision
Amounts with customers	15,554,009.74	15,554,009.74	100.00%	Amounts of older age are unlikely to be recovered based on past experience
<b>Total</b>	<b>15,554,009.74</b>	<b>15,554,009.74</b>	<b>100.00%</b>	

(4) There was no significant other receivables actually written off during the reporting period

(5) 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.

(6) Top 5 other receivables are set out as follows

Name	Relationship with the Company	Amount	Age	As a percentage of the total balance of accounts receivable (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	2,491,176,377.98	Within 1 year	35.73
Zhanjiang Chenming Paper & Pulp Co., Ltd.	Related party within the scope of consolidation	1,821,744,923.66	Within 2 year	26.13
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	635,285,011.99	Within 1 year	9.11
Wuhan Chenming Hanyang Paper Co., Ltd.	Related party within the scope of consolidation	508,056,376.29	Within 1 year	7.29
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	344,736,803.67	Within 1 year	4.94
<b>Total</b>		<b>5,800,999,493.59</b>		<b>83.20</b>

## XII.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 (Cont'd)

(7) Information on receivables of the related parties

Name of units	Relationship with the Company	Amounts	As a percentage of the total balance of receivables (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	2,491,176,377.98	35.73
Zhanjiang Chenming Paper & Pulp Co., Ltd.	Related party within the scope of consolidation	1,821,744,923.66	26.13
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	635,285,011.99	9.11
Wuhan Chenming Hanyang Paper Co., Ltd.	Related party within the scope of consolidation	508,056,376.29	7.28
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	344,736,803.67	4.94
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	321,846,977.92	4.62
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Related party within the scope of consolidation	180,226,638.86	2.58
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	138,578,301.15	1.99
Shandong Chenming Selling Co., Ltd.	Related party within the scope of consolidation	70,299,521.18	1.01
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Related party within the scope of consolidation	57,456,938.62	0.82
Juancheng Chenming Panels Co., Ltd.	Related party within the scope of consolidation	49,253,372.85	0.71
Huanggang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	40,430,200.00	0.58
Huanggang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	39,544,510.02	0.57
Yanbian Chenming Paper Co., Ltd.	Related party within the scope of consolidation	20,195,610.49	0.29
Zhanjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	88,546,609.72	1.27
Yangjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	3,000,000.00	0.04
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Related party within the scope of consolidation	1,142,777.77	0.02
Shouguang Liben Paper Making Co., Ltd.	Related party within the scope of consolidation	718,284.73	0.01
Hailaer Chenming Paper Co., Ltd.	Related party within the scope of consolidation	77,175.33	
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Associated corporation	1,290,901.12	0.02
Chenming International Co., Ltd.	Related party within the scope of consolidation	12,820.00	
<b>Total</b>		<b>6,813,620,133.35</b>	<b>97.72</b>



## XII.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

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Investment in subsidiaries	5,890,685,807.88	2,816,854,109.16	36,270,460.90	8,671,269,456.14
Investment in associate enterprises	44,170,084.12	30,000,000.00	19,096,504.16	55,073,579.96
Other equity investments	24,950,000.00			24,950,000.00
Less: impairment provision for long term equity investments	1,918,152.23	671,422.24		2,589,574.47
<b>Total</b>	<b>5,957,887,739.77</b>	<b>2,846,182,686.92</b>	<b>55,366,965.06</b>	<b>8,748,703,461.63</b>

## XII.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	56,641,800.00	96,725,533.01
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	800,000,000.00	1,700,000,000.00	2,500,000,000.00
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
Shouguang Meilun Paper Co. Ltd.	Cost method	20,000,000.00	1,500,000,000.00	700,000,000.00	2,200,000,000.00
Shouguang Shun Da Customs Declaration Co, Ltd.	Cost method	1,500,000.00	1,500,000.00		1,500,000.00

## XII. 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
Shandong Chenming Paper Sales Company Limited	Cost method	100,000,000.00	100,000,000.00		100,000,000.00
Shouguang Liben Paper Making Co., Ltd.	Cost method	15,850,354.16		15,850,354.16	15,850,354.16
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	16,680,630.29	-16,680,630.29	
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	21,651,499.85	-2,266,198.68	19,385,301.17
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	4,937,953.98	-149,675.19	4,788,278.79
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
Anhui Shidai Resources Holdings Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00
Shanghai Runchen Equity Investment Fund Co., Ltd.	Cost method	300,000,000.00		300,000,000.00	300,000,000.00
Shouguang Chenming Industrial Logistics Co., Ltd.	Cost method	10,000,000.00		10,000,000.00	10,000,000.00
Shouguang Chenming Papermaking Machine Co., Ltd.	Cost method	2,000,000.00		2,000,000.00	2,000,000.00
Shouguang Chenming Import and Export Trade Co., Ltd.	Cost method	10,000,000.00		10,000,000.00	10,000,000.00
Shouguang Chenming Jiatai Property Management Co., Ltd.	Cost method	1,000,000.00		1,000,000.00	1,000,000.00
Shouguang Chenming Hongxin Packaging Co., Ltd.	Cost method	1,000,000.00		1,000,000.00	1,000,000.00
Shouguang Hengfeng Storage Co., Ltd.	Cost method	500,000.00		500,000.00	500,000.00
Chenming International Co., Ltd.	Cost method	19,861,955.00		19,861,955.00	19,861,955.00
Shandong Hongqiao Venture Capital Co., Ltd.	Equity method	30,000,000.00		30,000,000.00	30,000,000.00
<b>Total</b>			<b>5,959,805,892.00</b>	<b>2,791,487,144.10</b>	<b>8,751,293,036.10</b>

## XII.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	Dividend
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	50.93	50.93				
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	100	100				86,000,000.00
Shandong Chenming Power Supply Holdings Co., Ltd.	86.71	86.71				34,530,024.40
Chibi Chenming Paper Co., Ltd.	51	51				
Yanbian Chenming Paper Co., Ltd.	100	100				
Hailaer Chenming Paper Co., Ltd.	75	75				
Jiangxi Chenming Paper Co., Ltd.	51	51				
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				
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				

## XII. 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	Dividend
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.	100	100				
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				
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		1,139,574.47	671,422.24	
Anhui Shidai Resources Holdings Co., Ltd.	10.00	10.00				
Shanghai Runchen Equity Investment Fund Co., Ltd.	98.36	98.36				
Shouguang Chenming Industrial Logistics Co., Ltd.	100	100				
Shouguang Chenming Papermaking Machine Co., Ltd.	100	100				
Shouguang Chenming Import and Export Trade Co., Ltd.	100	100				

## XII.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	Impairment provision for the year	Dividend
Shouguang Chenming Jiatai Property Management Co., Ltd.	100	100				
Shouguang Chenming Hongxin Packaging Co., Ltd.	100	100				
Shouguang Hengfeng Storage Co., Ltd.	100	100				
Chenming International Co., Ltd.	100	100				
Shandong Hongqiao Venture Capital Co., Ltd.	22.23	22.23				
Total				2,589,574.47	671,422.24	120,530,024.40

##### (3) Breakdown of impairment provision of long term equity investments

Item	Opening balance	Increase during the year	Decrease during the year	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
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23	671,422.24		1,139,574.47
Total	1,918,152.23	671,422.24		2,589,574.47

## XII.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. Revenue from operations and operating costs

##### (1) Revenue from operations and operating costs

Item	Amounts during the year	Amounts during the prior year
Revenue from principal operations	7,803,739,278.88	13,608,918,924.77
Revenue from other operations	1,193,782,420.72	350,726,288.57
<b>Total revenue from operations</b>	<b>8,997,521,699.60</b>	<b>13,959,645,213.34</b>
Costs of principal operations	6,376,829,048.07	11,438,120,302.94
Costs of other operations	1,100,244,320.30	319,866,108.73
<b>Total operating costs</b>	<b>7,477,073,368.37</b>	<b>11,757,986,411.67</b>

##### (2) Principal operations (by industry)

Industry name	Amounts during the year		Amounts during the prior year	
	Revenue from operations	Operating costs	Revenue from operations	Operating costs
Machine-made paper	6,903,702,662.57	5,552,255,528.50	13,152,125,384.31	11,038,128,469.34
Electricity and steam supply	900,036,616.31	824,573,519.57	456,793,540.46	399,991,833.60
<b>Total</b>	<b>7,803,739,278.88</b>	<b>6,376,829,048.07</b>	<b>13,608,918,924.77</b>	<b>11,438,120,302.94</b>

## XII.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	Amounts during the year	Amounts during the prior year
Gain from long-term equity investments accounted for using the cost method	120,530,024.40	383,893,479.72
Gain from long-term equity investments accounted for using the equity method	-3,246,150.00	-13,863,141.44
Investment gain on disposal of long-term equity investments	36,409,219.10	100,385.84
Interest income from entrusted loans	109,626,047.04	113,758,706.80
<b>Total</b>	<b>263,319,140.54</b>	<b>483,889,430.92</b>

##### (2) Gains on long-term equity investment accounted for using cost method

Name of investee entity	Amounts during the year	Amounts during the prior year
Shandong Chenming Power Supply Holdings Co., Ltd.	34,530,024.40	108,769,576.86
Wuhan Chenming Hanyang Paper Holdings Co., Ltd		81,488,000.00
Yanbian Chenming Paper Co., Ltd		147,016,842.86
Jiangxi Chenming Paper Co., Ltd.		25,500,000.00
Chenming (HK) Limited		21,119,060.00
Weifang Venture Capital Co., Ltd.		
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	86,000,000.00	
<b>Total</b>	<b>120,530,024.40</b>	<b>383,893,479.72</b>



## XII.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 (Cont'd)

(3) Gain from long-term equity investments accounted for using the cost method

Name of investee entity	Amounts during the year	Amounts during the prior year	Reasons for change
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	-2,266,198.68	-10,959,327.37	Investee's loss for the current period
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-149,675.19	-757,694.45	Investee's loss for the current period
Shouguang Liben Paper Making Co., Ltd.	-830,276.13	-2,146,119.62	Investee's loss for the current period
<b>Total</b>	<b>-3,246,150.00</b>	<b>-13,863,141.44</b>	

## XII.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 during the year	Amounts during the prior year
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profit	856,054,254.12	1,395,816,335.00
Add: Provision for impairment of assets	-67,463,391.85	14,020,913.64
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive biological-assets	594,607,496.51	588,144,762.31
Amortisation of intangible assets	8,971,589.70	7,977,892.17
Long-term prepaid expenses		
Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is shown as "-")	1,804,139.43	33,788,191.33
Loss from retired fixed assets (gain is shown as "-")		
Loss from change in fair value (gain is shown as "-")		-6,450,000.00
Financial expenses (gain is shown as "-")	530,061,654.52	262,396,581.31
Investment losses (gain is shown as "-")	-263,319,140.54	-483,889,430.92
Decrease in deferred income tax assets (increase is shown as "-")	18,916,904.81	13,174,219.25
Increase in deferred income tax debt (decrease is shown as "-")		
Decrease in stock (gain is shown as "-")	-375,391,873.34	103,024,051.89
Decrease in operating receivables (increase is shown as "-")	-1,821,739,352.28	-2,634,300,205.14
Increase in operating payables (decrease is shown as "-")	626,769,940.95	-463,899,648.61
Others		
<b>Net cash flows from operating activities</b>	<b>109,272,222.03</b>	<b>-1,170,196,337.77</b>
(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	1,290,039,078.57	662,209,607.29
Less: cash balance at the beginning of the period	662,209,607.29	1,586,045,998.83
Add: cash equivalents as at the end of the period		
Less: cash equivalents as at the beginning of the period		
<b>Net increase in cash and cash equivalents</b>	<b>627,829,471.28</b>	<b>-923,836,391.54</b>

## XII.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	
Item	Amounts during the year	Amounts during the prior year
Profit or loss from disposal of non-current assets the approval was ultra vires, or the tax rebate or tax concessions lacked official approval documents.	26,249,093.41	-5,495,594.30
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 a fixed standard amount or quantity as stipulated by the State)	236,198,625.29	96,530,256.72
Fees charged to profit or loss for the current period received from non-financial institutions for utilisation of funds		
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	44,188,866.15	
Gain or loss on non-monetary assets swap		
Gain or loss on assets invested or managed under entrustment		
Impairment provisions for various assets due to force majeure such as natural disasters		
Net gains and losses from debt restructuring	-18,179,889.32	54,841.22
Corporate restructuring fees such as expenses for severance payments for staff and consolidation fees		
Profit or loss in excess of the fair value portion arising from transactions with obvious unfair transaction prices		
Net profit or loss arising from subsidiaries formed from business combination under common control from the beginning of the year to the combination date		
Profit or loss arising from contingent items unrelated to the normal course of business of the Company		
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		
Reversal of impairment provision on receivables tested for impairment on individual basis		1,521,172.98
Gain or loss on externally entrusted loans		
Gains or losses from changes in fair value of biological assets adopting fair value method for follow-up measurements	48,173,926.26	54,752,250.58
Effect on profit or loss for the current period from one-off adjustments to profit or loss for the current period made pursuant to taxation and accounting laws and regulations, etc.		
Entrustment fees received from entrusted business		
Non-operating gains and losses other than the above items	31,840,643.86	5,913,389.74
Other profit or loss items within the definition of non-recurrent profit or loss		
Sub-total	368,471,265.65	153,276,316.94

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

### XVI. SUPPLEMENTARY INFORMATION (Cont'd)

#### 1. Breakdown of extraordinary gains and losses (Cont'd)

Unit: RMB

Item	Amounts during the year	Amounts during the prior year
Effect of income tax	-32,413,333.65	-4,961,885.60
Effect of minority interests (after tax)	-12,908,587.34	-19,207,126.59
<b>Total</b>	<b>323,149,344.66</b>	<b>129,107,304.75</b>

Note: 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).

#### 2. 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	4.50%	0.29	0.29
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	2.11%	0.14	0.14

Note: (1)  $\text{Weighted average return on net assets} = \frac{\text{Net profit attributable to holders of ordinary shares of the Company} + 2 \times \text{Cash dividend}}{\text{Net assets at beginning of period} + 2 \times \text{Change in net assets arising from other transactions or matters}} \times \frac{\text{Number of months accumulated from the month following the change in net assets to the end of the reporting period} + 12}{12} = \frac{608,271,256.29 + 2 \times 285,121,911.63}{13,530,615,556.74} = 4.50\%$  (2.11%)

(2) See Note VII. 50 for the calculation of basic earnings per share and diluted earnings per share.

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

### XVI. SUPPLEMENTARY INFORMATION (Cont'd)

#### 3. 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 2011 was RMB3,529,938,211.47, up by 80.85% as compared with the opening balance mainly due to increased demand for liquidity resulting from new construction projects of the Company being gradually brought into operation and the greater expansion in the scale of production and operation as compared to the prior period;
- ② The amount of closing balance of accounts receivable as at 31 December 2011 was RMB2,886,437,754.69, up by 35.99% as compared with the opening balance mainly due to the increase of sales revenue of the Company resulting from the expanded scale of the Company;
- ③ The amount of closing balance of other receivables as at 31 December 2011 was RMB325,550,913.72, up by 176.75% as compared with the opening balance mainly due to the amounts arising from disposal of a subsidiary in accordance with the contracted terms not yet completely collected and a payment of tender deposit of RMB108 million by a subsidiary;
- ④ The amount of closing balance of inventory as at 31 December 2011 was RMB5,586,472,121.37, up by 83.34% as compared with the opening balance mainly due to the increase of the closing balance of finished goods and raw materials in stock resulting from the effects of market conditions and the expanded scale of the Company upon operation of its projects;
- ⑤ The amount of closing balance of other current assets as at 31 December 2011 was RMB1,698,362,261.63, up by 157.89% as compared with the opening balance mainly due to the increase of input tax of non-credited value added tax resulting from the increase of construction in progress of the Group and the significant increase of input tax of equipment purchase;
- ⑥ The amount of closing balance of fixed assets as at 31 December 2011 was RMB 22,740,904,031.02, up by 76.53% as compared with the opening balance mainly due to the transfer of construction in progress into fixed assets resulting from gradual completion of new projects of the Company;
- ⑦ The amount of closing balance of construction in progress as at 31 December 2011 was RMB2,618,039,624.85, down by 66.74% as compared with the opening balance mainly due to the transfer of construction in progress into fixed assets upon completion of major projects during the year;
- ⑧ The amount of closing balance of consumable biological assets as at 31 December 2011 was RMB959,061,500.85, up by 31.97% as compared with the opening balance mainly due to the purchase and growing of timber assets by the Company and the change in their fair value.
- ⑨ The amount of closing balance of short-term borrowings as at 31 December 2011 was RMB12,086,984,606.69, up by 236.30% as compared with the opening balance mainly due to the greater demand for liquidity resulting from the increased investment in construction-in-progress and the expansion of production capacity and operating scale;

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

### XVI. SUPPLEMENTARY INFORMATION (Cont'd)

#### 3. 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)

- ⑩ The amount of closing balance of accounts payable as at 31 December 2011 was RMB4,685,585,997.60, up by 73.02% as compared with the opening balance mainly due to the significant increase of construction cost payable and equipment payable for project construction and the increase of raw material payable resulting from the expansion of operating scale;
- ⑪ The amount of closing balance of advance receipts as at 31 December 2011 was RMB231,428,013.45, down by 43.59% as compared with the opening balance mainly due to the decrease of advance payment by the customers resulting from the market environment;
- ⑫ The amount of closing balance of interest payable as at 31 December 2011 was RMB106,854,702.74, up by 131.71% as compared with the opening balance mainly due to the increase of interest payable by RMB62,113,952.74 as at the end of the year resulting from the issue of corporate bonds of RMB2.5 billion during the year;
- ⑬ The amount of closing balance of other payables as at 31 December 2011 was RMB763,621,538.95, up by 31.19% as compared with the opening balance mainly due to receipt of amounts with external parties by the subsidiaries of the Company and the increase of project deposits;
- ⑭ The amount of closing balance of other current liabilities as at 31 December 2011 was RMB10,227,001.60, down by 99.70% as compared with the opening balance mainly due to repayment in full of the short-term debentures issued in the prior year during the year;
- ⑮ The amount of closing balance of bonds payable as at 31 December 2011 was RMB2,476,942,694.79 as compared with the opening balance of 0 and all of the bonds were corporate bonds issued during the year.

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

### XVI. SUPPLEMENTARY INFORMATION (Cont'd)

#### 3. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)

##### (2) Income statement items:

- ① Revenue from operations in 2011 amounted to approximately 17,747,489,900.87, up by 3.16% as compared to the prior period mainly due to: the year-on-year increase of sales volume by 2.83% during the year and the flat increase of the average selling price during the year as compared to the prior year;
- ② Operating costs in 2011 amounted to RMB14,931,153,175.89, up by 9.12% as compared to the prior period mainly due to: the increase of raw material prices and labour costs during the year;
- ③ Finance expenses in 2011 amounted to approximately RMB432,022,027.84, up by 85.06% as compared to the prior period mainly due to: the increase of bank loans resulting from the expanded production and operation scale and project investments and the significant increase of interest expenses resulting from the rise in interest rate during the period;
- ④ Business taxes and surcharges in 2011 amounted to RMB 75,717,528.59, up by 151.41% as compared to the prior period mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises since 1 December 2010;
- ⑤ Loss on impairment of assets in 2011 amounted to RMB41,216,449.59, down by 62.67% as compared to the prior period mainly due to: (1) a change in the age of the amounts with customers arising from the efforts to collect amounts with customers of the prolonged credit period stepped up by the Company, which resulted in a decrease of RMB107 million bad debt provision in the current period as compared to the prior year; (2) RMB56 million inventory impairment provisions made by the Company in the current period as compared to the prior year arising from changes in the market environment; (3) RMB22.48 million of impairment provisions made in 2010 based on the balance between the recovery amount and the carrying amount of the machinery and equipment related to the suspended production of subsidiaries, Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd.;
- ⑥ Gain on investment in 2011 amounted to RMB7,871,420.17, up by 157.19% as compared to the prior period mainly due to gain on investment from disposal of subsidiaries;
- ⑦ Non-operating income in 2011 amounted to RMB364,826,920.31, up by 103.34% as compared to the prior period mainly due to: the significant increase of government grants during the year;
- ⑧ Income tax expenses in 2011 amounted to RMB110,263,113.88, down by 57.70% as compared to the prior period mainly due to: the decrease of income tax by 51.34% resulting from the decrease of total profit by 55% during the year.

## 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  
28 March 2012





山東晨鳴紙業集團股份有限公司  
SHANDONG CHENMING PAPER HOLDINGS LIMITED\*