



山東晨鳴紙業集團股份有限公司

SHANDONG CHENMING PAPER HOLDINGS LIMITED*

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

Stock Code: 1812

Annual Report
2014



I Important Notice, Table of Contents and Definitions

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 the truthfulness, accuracy and completeness of the contents of the annual report (the “Report”), guarantee that there are no false representations, misleading statements or material omissions contained in this Report, and are jointly and severally responsible for the liabilities of the Company.

All Directors were present in person at the Board meeting to consider and approve this Report.

The proposed profit distribution plan of the Company was considered and passed by the Board: based on the number of the shares as at the dividend distribution registration date, a dividend of RMB1.40 (tax inclusive) per 10 shares was to be paid and no bonus shares (tax inclusive) were to be delivered to all shareholders without increase of share capital from reserves.

Chen Hongguo, head of the Company, Dong Lianming, head in charge of accounting and Liu Jun, head of the accounting department (Accounting Officer), declare that they warrant the truthfulness, accuracy and completeness of the financial statements in the annual report.

I Important Notice, Table of Contents and Definitions

Table of contents

I	Important Notice, Table of Contents and Definitions	3
II	Company Profile	4
III	Summary of Accounting Data and Financial Indicators	6
IV	Chairman’s Report.....	9
V	Directors’ Report	12
VI	Material Matters.....	51
VII	Changes in Share Capital and Shareholders.....	65
VIII	Preference Shares	73
IX	Directors, Supervisors, Senior Management and Staff	74
X	Corporate Governance	84
XI	Internal Control	104
XII	Financial Report.....	110
XIII	Documents Available for Inspection.....	266

I Important Notice, Table of Contents and Definitions

Definitions

Item	means	Definition
Company or Chenming Paper	means	Shandong Chenming Paper Holdings Limited
Group	means	Shandong Chenming Paper Holdings Limited and its subsidiaries
Chenming Holdings	means	Shouguang Chenming Holdings Company Limited
Shenzhen Stock Exchange	means	Shenzhen Stock Exchange
Stock Exchange	means	The Stock Exchange of Hong Kong
CSRC	means	China Securities Regulatory Commission
Shandong CSRC	means	Shandong branch of China Securities Regulatory Commission
Zhanjiang Chenming	means	Zhanjiang Chenming Pulp & Paper Co., Ltd.
Jiangxi Chenming	means	Jiangxi Chenming Paper Co., Ltd.
Wuhan Chenming	means	Wuhan Chenming Hanyang Paper Holdings Co., Ltd.
Chenming (HK)	means	Chenming (HK) Limited
Haiming Mining	means	Haicheng Haiming Mining Company Limited
Jilin Chenming	means	Jilin Chenming Paper Co., Ltd.
Shouguang Meilun	means	Shouguang Meilun Paper Co., Ltd.
Chenming Sales Company	means	Shandong Chenming Paper Sales Company Limited
Chenming Power	means	Shandong Chenming Power Supply Holdings Co., Ltd.
Finance Company	means	Shandong Chenming Group Finance Co., Ltd.
Financial Leasing Company	means	Shandong Chenming Financial Leasing Co., Ltd.
reporting period	means	The period from 1 January 2014 to 31 December 2014

Important Risk Notice

The Company is exposed to various risk factors such as macro-economic fluctuation, adjustment of state policy, intensified competition in the industry, as well as change in exchange rate. Investor should be aware of investment risks. For further details, please refer to the risk factors likely to be faced and the measures to be taken to address them as set out in the outlook on the future development of the Company in Directors' Report.

II Company Profile

I. Company profile

Stock abbreviation	晨鳴紙業	Stock Code	000488
Stock abbreviation	晨鳴B	Stock Code	200488
Stock abbreviation	Chenming Paper	Stock Code	01812
Stock exchanges on which the shares are listed	Shenzhen Stock Exchange and The Stock Exchange of Hong Kong		
Legal name in Chinese of the Company	山東晨鳴紙業集團股份有限公司		
Legal short name in Chinese of the Company	晨鳴紙業		
Legal name in English of the Company (if any)	SHANDONG CHENMING PAPER HOLDINGS LIMITED		
Legal short name in English of the Company (if any)	SCPH		
Legal representative of the Company	Chen Hongguo		
Registered address	No. 595 Shengcheng Road, Shouguang City, Shandong Province		
Postal code of registered address	262700		
Office address	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province		
Postal code of office address	262705		
Website of the Company	http://www.chenmingpaper.com		
Email address	chenmmingpaper@163.com		

II. Contact persons and contact methods

	Secretary to the Board	Securities Affairs Representative	Hong Kong Company Secretary
Name	Wang Chunfang	Xiao Peng	Poon Shiu Cheong
Correspondence Address	No. 2199 East Nongsheng Road, Shouguang City, Shandong Province	No. 2199 East Nongsheng Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong
Telephone	(86)-0536-2158008	(86)-0536-2158008	(852)-25010088
Facsimile	(86)-0536-2158977	(86)-0536-2158977	(852)-25010028
Email address	chenmmingpaper@163.com	chenmmingpaper@163.com	kentpoon_1009@yahoo.com.hk

III. Information disclosure and places for inspection

Designated newspapers for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and Hong Kong Commercial Daily
Designated websites for the publication of the Annual Report as approved by CSRC	Domestic: http://www.cninfo.com.cn ; Overseas: http://www.hkex.com.hk
Places for inspection of the Company's Annual Report	Securities and investment management department of the Company

II Company Profile

IV. Change in registration

	Date of Registration	Address of Registration	Legal Person Business License Registration Number	Taxation Registration Number	Organisation Code
First Registration	5 May 1993	No. 595 Shengcheng Road, Shouguang City, Shandong Province	16568230-2	370783613588986	61358898-6
Registration at the end of the reporting period	28 May 2014	No. 595 Shengcheng Road, Shouguang City, Shandong Province	370000400001170	370783613588986	61358898-6
Change of principal activities since its listing		No			
Change of the controlling shareholder		Please refer to III. Company Overview of section XII of this report.			

V. Other relevant information

CPAs engaged by the Company

Name of CPAs	Ruihua Certified Public Accountants (Special General Partnership)
CPAs' Office Address	8-9/F, Block A, Corporation Building, No. 35 Finance Street, Xicheng District, Beijing
Name of the Signing Certified Public Accountants	Wang Chuanshun and Jing Chuanxuan

Sponsors engaged by the Company to continuously perform its supervisory function during the reporting period

Applicable Not applicable

Financial Advisors engaged by the Company to continuously perform its supervisory function during the reporting period

Applicable Not applicable

III Summary of Accounting Data and Financial Indicators

I. Major accounting data and financial indicators

Retrospective adjustment to or restatement of the accounting data for prior years by the Company due to change of accounting policies and correction of accounting errors

Yes No

	2014	2013	Increase/decrease for the year as compared to the prior year (%)	2012
Revenue (RMB)	19,101,677,077.69	20,388,890,067.41	-6.31%	19,761,679,230.05
Net profit attributable to shareholders of the Company (RMB)	505,204,384.73	710,655,331.72	-28.91%	221,034,822.54
Net profit after extraordinary gains or losses attributable to shareholders of the Company (RMB)	130,445,644.83	406,170,148.25	-67.88%	-159,777,900.37
Net cash flows from operating activities (RMB)	985,399,735.85	1,122,616,800.91	-12.22%	1,956,866,477.99
Basic earnings per share (RMB per share)	0.26	0.35	-25.71%	0.11
Diluted earnings per share (RMB per share)	0.26	0.35	-25.71%	0.11
Rate of return on net assets on weighted average basis	3.62%	5.11%	-1.49%	1.63%

	As at the end of 2014	As at the end of 2013	Increase/decrease as at the end of the year compared to the end of the prior year (%)	As at the end of 2012
Total assets (RMB)	56,822,026,545.21	47,521,883,569.18	19.57%	47,725,421,927.39
Net assets attributable to shareholders of the Company (RMB)	13,917,343,301.15	14,039,888,226.11	-0.87%	13,759,496,179.85

III Summary of Accounting Data and Financial Indicators

II. Differences in accounting data under domestic and overseas accounting standards

1. Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report

Applicable Not applicable

There was no difference between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report during the reporting period.

2. Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report

Applicable Not applicable

There was no difference between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report during the reporting period.

III. Five-year financial summary under Hong Kong Financial Reporting Standards

Unit: RMB'0,000

	For the year ended 31 December					
	2014	2013	2012	2011	2010	2009
Revenue	1,910,168	2,038,889	1,976,168	1,774,749	1,720,312	1,481,525
Profit before tax	56,101	86,629	-1,614	69,899	156,235	120,838
Tax	10,770	17,594	-6,283	11,026	26,070	21,901
Profit for the current period attributable to shareholders of the parent company	50,520	71,066	22,103	60,827	116,334	86,295
Minority interests	-5,190	-2,030	-17,435	-1,954	13,832	12,643
Basic earnings per share (RMB/share)	0.26	0.35	0.11	0.29	0.56	0.41
Rate of return on net assets on weighted average basis (%)	3.62%	5.11%	1.63%	4.50%	8.59%	6.63%

Unit: RMB'0,000

	For the year ended 31 December					
	2014	2013	2012	2011	2010	2009
Total assets	5,682,203	4,752,188	4,772,542	4,563,083	3,507,713	2,812,613
Total liabilities	4,247,396	3,288,353	3,338,000	3,064,305	1,981,693	1,371,842
Minority interests	43,073	59,847	58,592	145,915	172,441	173,570
Equity interest attributable to shareholders of the parent company	1,391,734	1,403,989	1,375,950	1,352,862	1,353,579	1,267,202
Net current assets/(liabilities)	-452,549	-106,347	24,638	-268,280	-107,760	347,612
Total assets less current liabilities	2,872,637	2,823,321	2,775,419	2,571,188	2,241,506	2,106,131

III Summary of Accounting Data and Financial Indicators

IV. Items and amounts of extraordinary gains or losses

Applicable Not applicable

Unit: RMB

Item	Amounts for 2014	Amounts for 2013	Amounts for 2012	Explanation
Profit or loss from disposal of non-current assets (including write-off of provision for assets impairment)	65,276,190.37	-6,367,477.99	26,092,788.22	
Government grants (except for the government grants closely related to the normal operation of the company and granted constantly at a fixed amount or quantity in accordance with a certain standard based on state policies) accounted for in profit or loss for the current period	260,000,612.10	174,947,619.19	235,157,521.57	
Payment for use of funds from non-financial institutions accounted for in profit or loss for the current period	82,833,581.81			
Gain arising from investment costs for acquisition of subsidiaries, associates and joint-ventures by the corporation being less than its share of fair value of identifiable net assets of the investees on acquisition		2,408,368.37		
Gain or loss from changes in fair value of consumable biological assets subsequently measured at fair value	6,856,815.32	11,221,828.76	47,882,076.87	
Profit or loss from debt restructuring	1,725,797.17	268,577.19	941,444.43	
Non-operating gains and losses other than the above items	49,781,358.66	299,225,913.46	114,342,091.81	
Less: Effect of income tax	81,221,136.75	98,299,197.38	40,604,179.01	
Effect of minority interests (after tax)	10,494,478.78	78,920,448.13	2,999,020.98	
Total	374,758,739.90	304,485,183.47	380,812,722.91	--

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses defined as its recurring gain or loss items

Applicable Not applicable

No extraordinary gain or loss items as defined or illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses were defined by the Company as its recurring gain or loss items during the reporting period.

IV Chairman's Report

Dear Shareholders,

I am pleased to present to all shareholders the report of the Company for the financial year ended 31 December 2014. On behalf of the Board, I express my sincere gratitude to all shareholders for their concern and support rendered to Chenming Paper.

During the reporting period, on the one hand, with the impact of macroeconomic slowdown, demand was continuously weak in the paper making industry. On the other hand, new production capacity of the paper making industry had been released over the past few years, resulting in the current transitional capacity saturation and excess capacity. Due to fierce competition, the profitability of the paper making industry stood at a low level, and the Company was facing unprecedented difficulties.

Meanwhile, 2014 was a key year for reform and innovation for China's paper making industry as the industry was entering into a new stage of transformation and upgrade. Elimination of outdated production capacity in the paper making industry and increasingly stringent environmental policies were forcing some small and medium-sized enterprises out of the market. To some extent, this eased the pressure of new capacity on the supply of the industry, which was conducive to a higher concentration ratio and a healthy and long-term development of the larger paper making enterprises. Meanwhile, the impact of the macroeconomic slowdown implied raw material prices were hovering at a low level, easing the pressure of operating costs on paper making enterprises.

During the reporting period, the Company clearly adopted "Team Building, Strict Management, Outstanding Business Performance, Achieving Good Results" as its guiding direction of the year, while enhancing execution and implementation. Being market-oriented, the Company constantly adjusted its product mix, increasing the production ratio of high value-added high-end products, shifting to the concept of "High-end Positioning, Production of First-class Products". During the year, the Company completed restructuring of more than 30 products and successfully launched a series of new products into the market, such as thermal paper, glassine paper and environmentally friendly writing paper, achieving excellent branding effect in society.

During the reporting period, through vigorous management and assessment and strict quality and cost control, the Company ensured the timely completion, commissioning and operation of several projects. These projects included Shouguang Chenming thermal paper upgrade project, Wuhan Chenming glassine paper upgrade project, Zhanjiang Chenming 180,000 tonne paper cup sheet project, and Shouguang Chenming railroad extension works. These projects played an important role in the Company's restructuring, cost reduction and efficiency enhancement. With the launching of a series of products into the market such as thermal paper, glassine paper and "Forest Love" household paper, the Company's market responsiveness was further enhanced.

During the reporting period, through setting up a financial leasing company and a finance company and investment in an online finance company, the Company was beginning to achieve positive results in the financial sector, opening up new sources of profit growth for the Company.

The adjustment of product mix injected new driving force for our corporate restructuring and development, while continuous management refinement opened up our growth bottleneck, releasing vigour to the Company. Our diversified development brought new sources of profit growth for the Company, accelerating the process of the Company to becoming a world-class paper making enterprise.

I. Results of Operations

During the reporting period, the Company conducted sales of machine-made paper of 4.19 million tonnes, a year-on-year increase of 0.86%. The Company achieved revenue of RMB19.102 billion, a year-on-year decrease of 6.31%, with operating costs of RMB15.323 billion, a year-on-year decrease of 7.98%. Total profit and net profit attributable to equity holders of the Company were respectively RMB561 million and RMB505 million, down by 35.24% and 28.91% from the prior year.

IV Chairman's Report

II. Corporate Governance

During the reporting period, the Company regulated its operation under the requirements of 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 provisions of the China Securities Regulatory Commission. The Company kept on improving and optimising its legal person governance structure and regulating its operation in practice. The Board considered the state of the Company's corporate governance was substantially in compliance with the requirements and requests of the regulatory documents such as Code of Corporate Governance for Listed Companies.

During the reporting period, the Board strived to regulate the operation of the Company by improving its corporate governance. It improved corporate governance system in a timely manner and formulated and optimised management systems including the amended Decision Making System to Substantial Transaction and amended Articles of Association in accordance with the regulatory requirements.

Strict enforcement of relevant internal control systems had promoted a regulated operation and healthy development of the Company, protecting the legitimate rights and interests of our investors. The overall state of corporate governance was in compliance with the requirements of the China Securities Regulatory Commission. As the Company's development strives forward, its state of regulated operation and internal control will continue to improve.

III. Dividend Distribution

Consistent with our long-term goal of pursuing the maximisation of corporate values, the Company has always placed much emphasis on the benefits of and returns to our shareholders. In view of the operating results realised in 2014 and after considering the overall financial position and cash flow condition of the Company, the Board of Directors recommended a proposed profit distribution plan for 2014 as follows: Based on the number of shares as at the dividend distribution registration date, a cash dividend of RMB1.40 (tax inclusive) was to be paid to all shareholders for every 10 shares held. Based on the total share capital of 1,936,405,467 shares of the Company as at 31 December 2014, cash dividend for 2014 amounted to RMB271,096,765.38 (tax inclusive), which represented 53.66% of the net profit attributable to shareholders of the Company as set out in the 2014 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises. After such profit distribution, the undistributed profit would be rolled over for distribution in subsequent years. As always, the Company will continue to stay focused on its long-term development and maximise returns for our shareholders by delivering better results.

IV. Future Development

The Company is engaged in the paper making industry, which is a light industry. The business sentiments of the industry are highly related to the macroeconomic growth. In recent years, on the one hand, with the impact of macroeconomic slowdown, demand was continuously weak in the paper making industry. On the other hand, new production capacity of the paper making industry had been released over the past few years, resulting in the transitional overcapacity of some paper types. Due to fierce competition, the overall profitability of the paper making industry hovered around at a low level. However, in the long run, the development conditions of the paper making industry are gradually improving. As 2015 is the last year of the Twelfth Five-Year Plan, elimination of outdated production capacity in the paper making industry and increasingly stringent environmental policies are forcing some small and medium-sized enterprises out of the market. To some extent, this eases the pressure of new capacity on the supply of the industry, which is conducive to a higher concentration ratio and a healthy and long-term development of the larger paper making enterprises. Meanwhile, the impact of the macroeconomic slowdown implies raw material prices have been hovering at a low level, easing the pressure of operating costs on paper making enterprises.

IV Chairman's Report

IV. Future Development (Cont'd)

Faced with increasingly fierce competition in the industry, the Company gains competitive edge by leveraging on its strong corporate strength to improve equipment and technologies, enrich product mix, enhance product quality, and focus on research and development of high-end products. The adjustment of product mix has injected new driving force for our corporate restructuring and development, while continuous management refinement opened up our growth bottleneck, releasing vigour to the Company. Our diversified development brought new sources of profit growth for the Company, accelerating the process of the Company to becoming a world-class paper making enterprise. As the economic situation improves and the industry is gradually recovering, the Company's performance will grow steadily.

2015 will be a year that the Company proactively adapts to the "New Normal" macroeconomic development, speeding up transformation and upgrading and focusing on improving its quality of operation. The Company will continue to implement the guideline of "Team Building, Strict Management, Outstanding Business Performance, Achieving Good Results". Through strengthening measures in team building, basic management, operating focus, production management, procurement efficiency, project progress, financial benefits and service operation and management to comprehensively improve the quality of our corporate operation. The ultimate aim is to establish a growth trend that features a prominent main business with diversified development, with emphasises on environmental protection and operates under a sound management, striving to become a first class growth enterprise.

Chen Hongguo
Chairman

26 March 2015

V Directors' Report

I. Overview

During the reporting period, on the one hand, with the impact of macroeconomic slowdown, demand was continuously weak in the paper making industry. On the other hand, new production capacity of the paper making industry had been released over the past few years, resulting in the current transitional capacity saturation and excess capacity. Due to fierce competition, product prices continued to decline, profit margins were narrowed, and profitability of the paper making industry stood at a low level.

During the reporting period, the Company achieved revenue of RMB19,101.6771 million with a year-on-year decrease of 6.13% and incurred operating costs of RMB15,323.1028 million with a year-on-year decrease of 7.98%. Total profit and net profit attributable to equity holders of the Company were respectively RMB561,008,300 and RMB505,204,400, down by 35.24% and 28.91% from the prior year.

Currently, with basically stable production capacity, excess capacity has become the primary problem to be resolved in the industry. 2015 is a key year for reform and innovation for China's paper making industry as the industry was entering a new stage of transformation and upgrade. Elimination of outdated production capacity and increasingly stringent environmental policies are forcing some small and medium-sized enterprises out of the market. To some extent, this eases the pressure of new capacity on the supply of the industry. For major paper making enterprises, fully utilising advantages of capital, technology and scale to achieve a change in the growth pattern may help them gain new market share. Meanwhile, with the impact of a weak demand, raw material prices have been hovering at a low level, easing the pressure of operating costs on paper making enterprises. Eliminating outdated production capacity will remove obstacles for the industry's development, while replenishment of and substitution of advanced production capacity will bring fresh blood and drive to the industry, conducive to a higher concentration ratio to creating a favourable industry lifecycle. China's paper making industry is embarking on the road of rebirth.

During the reporting period, the Company clearly adopted "Team Building, Strict Management, Outstanding Business Performance, Achieving Good Results" as its guiding direction of the year, while enhancing execution and implementation. During the reporting period, the Company improved the existing management systems and team building and strengthened its stringent management style and incentive mechanism to further mobilise the enthusiasm of our cadre employees. Through optimising product mix, investments in high-efficiency businesses were increased. Performance appraisal processes were improved to fully arouse sales enthusiasm. Through market research, appropriate marketing strategies and other measures were timely adopted to reduce inventory and gain market initiative. With innovative research and development, the Company increased its efforts to promote new products, establishing a professional sales force for high value-added products, such as "Forest Love" household paper, thermal paper and glassine paper to increase the Company's earnings.

During the reporting period, the Company abandoned the past practices of only focusing on cost control in order to change the unfavourable limitation on cost-benefit improvement by forging into the high-end paper product market. Strengthening basic management and accelerating the pace of innovation became the necessary means of the Company to respond quickly to changing market dynamics. Working around an in-depth and detailed cost benefit analysis, the Company pushed forward management refinement, constantly optimising its product mix adjustment to ensure an efficient operation of production. Being market-oriented, the Company constantly adjusted its product mix, increasing the production ratio of high value-added, high-end products, shifting to the concept of "High-end Positioning, Production of First-class Products". During the year, the Company completed restructuring of more than 30 products and successfully launched a series of new products into the market, such as thermal paper, glassine paper and environmentally friendly writing paper, achieving excellent branding effect in society. Some national publications and printed matter of world-renowned enterprises used our paper products.

V Directors' Report

I. Overview (Cont'd)

During the reporting period, through vigorous management and assessment and strict quality and cost control, the Company ensured the timely completion, commissioning and operation of several projects. These projects included Shouguang Chenming's thermal paper upgrade project, Wuhan Chenming's glassine paper upgrade project, Zhanjiang Chenming's 180,000 tonne paper cup sheet project and Shouguang Chenming's railroad extension works. These projects played an important role in the Company's restructuring, cost reduction and efficiency enhancement. With the launching of a series of products into the market such as thermal paper, glassine paper and "Forest Love" household paper, the Company's market responsiveness was further enhanced. Those projects under construction were steadily carried out according to planning, speeding up the Company's restructuring and transformation and further enhancing the overall competitiveness of the Company. These projects included Jiangxi Chenming's 350,000 tonne high-grade packaging paper project, Zhanjiang Chenming's 190,000 tonne high-grade cultural paper project, Huanggang Chenming's integrated forestry, pulp and paper project, Shouguang's 400,000 tonne chemical pulp project, Haicheng Haiming's magnesite mining project, Guangdong Huirui's Haidong New District Waterfront comprehensive regulation works and property development project of Wan Xing Real Estate in Wuhan.

During the reporting period, through setting up a financial leasing company and a finance company and investment in an online finance company, the Company was beginning to achieve positive results in the financial sector, opening up new sources of profit growth for the Company. For the Financial Leasing Company, it not only achieved higher financing efficiency in internal services, but also had higher profitability in external business. It is certainly that it is more profitable and has more flexible performance compared to the traditional paper making business. The main goal of the Finance company is to improve capital efficiency within the Group. With the approval for operation of the new business, the Finance Company will make progress in external equity investments and quoted securities investments, thus providing new impetus for our earnings growth.

The adjustment of product mix injected new driving force for our corporate restructuring and development, while continuous management refinement opened up our growth bottleneck, releasing vigour to the Company. Our diversified development brought new sources of profit growth for the Company, accelerating the process of the Company to becoming a world-class paper making enterprise.

II. Analysis of principal operations

1. Overview

Review of the development strategy disclosed before and the progress of the operating plan during the reporting period

Please refer to I. Overview of this section.

Whether the Company's actual operation results were lower or higher than the publicly disclosed profit forecast for the year by more than 20%

Applicable Not applicable

Change in principal business model

Applicable Not applicable

V Directors' Report

II. Analysis of principal operations (Cont'd)

2. Revenue

During the reporting period, the Company completed machine-made paper production of 4.26 million tonnes, representing an increase of 160,000 tonnes or 3.96% as compared to last year. Sales were recorded at 4.19 million tonnes, representing an increase of 36,000 tonnes or 0.86% as compared to last year. Revenue from principal operations amounted to RMB18,998.4229 million, down by RMB1,154.3727 million or 5.73% from last year.

Whether revenue from sales in kind is higher than revenue from services

Yes No

By industry	Item	Unit	2014	2013	Increase/ decrease (%)
Machine-made paper	Sales	'0,000 tonnes	419	416	0.86%
	Production output	'0,000 tonnes	426	410	3.96%
	Inventories	'0,000 tonnes	46	39	17.95%

Explanation on why the related data varied by more than 30%

Applicable Not applicable

Material orders in hand of the Company

Applicable Not applicable

Significant change in or adjustment of the products or services of the Company during the reporting period

Applicable Not applicable

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	1,420,196,436.94
Total sales to top 5 customers as a percentage of the total sales for the year	7.43%

Information on top 5 customers of the Company

Applicable Not applicable

No.	Name of customer	Sales (RMB)	As a percentage of the total sales for the year (%)
1	INTERNATIONAL FOREST PRODUCTS CORPORATION	399,448,051.38	2.09%
2	SHANGHAI YAOJI PLAYING CARD CO., LTD.	347,429,451.05	1.82%
3	ANHUI TIME SOURCE CORPORATION	291,246,150.87	1.52%
4	GUANGZHOU KEERUN PAPER CO., LTD.	205,159,983.53	1.07%
5	SUN HING PAPER COMPANY LIMITED	176,912,800.11	0.93%
Total	—	1,420,196,436.94	7.43%

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost

By industry

Unit: RMB

By industry	Item	2014		2013		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Machine-made paper	Raw materials	8,270,309,911.65	56.68%	8,583,818,150.47	56.89%	-0.21%
	Depreciation	798,497,976.35	5.47%	750,553,780.31	4.97%	0.50%
	Labour costs	146,157,235.36	1.00%	196,062,500.42	1.30%	-0.30%
	Energy and power	1,710,914,100.72	11.73%	1,968,304,028.05	13.04%	-1.32%
	Chemicals	2,364,613,555.39	16.21%	2,285,170,540.42	15.14%	1.06%
	Other production costs	1,300,267,209.62	8.91%	1,304,715,360.94	8.65%	0.26%
	Subtotal	14,590,759,989.08	100.00%	15,088,624,360.61	100.00%	
Power and steam	Raw materials	285,462,227.22	82.28%	950,923,905.71	84.23%	-1.95%
	Depreciation	27,982,337.63	8.07%	90,305,114.81	8.00%	0.07%
	Labour costs	10,256,856.25	2.96%	33,117,524.88	2.93%	0.02%
	Energy and power	3,090,405.29	0.89%	725,994.07	0.06%	0.83%
	Chemicals	1,270,455.70	0.37%	808,268.78	0.07%	0.29%
	Other production costs	18,857,391.98	5.44%	53,068,781.97	4.70%	0.73%
	Subtotal	346,919,674.07	100.00%	1,128,949,590.22	100.00%	
Construction materials	Raw materials	140,409,930.75	77.58%	168,137,137.30	82.39%	-4.81%
	Depreciation	4,532,363.38	2.50%	2,411,328.71	1.18%	1.32%
	Labour costs	6,756,070.59	3.73%	7,425,294.19	3.64%	0.09%
	Energy and power	18,611,421.65	10.28%	15,233,571.16	7.46%	2.82%
	Chemicals	2,424,223.60	1.34%	2,069,485.59	1.01%	0.33%
	Other production costs	8,247,964.35	4.56%	8,792,137.98	4.31%	0.25%
	Subtotal	180,981,974.32	100.00%	204,068,954.93	100.00%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

By product

Unit: RMB

Product	Item	2014		2013		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Light weight coated paper	Raw materials	286,492,598.75	47.52%	403,151,069.97	50.57%	-3.05%
	Accumulated depreciation	37,727,682.94	6.26%	43,101,737.46	5.41%	0.85%
	Labour costs	5,873,965.87	0.97%	9,700,447.50	1.22%	-0.24%
	Energy and power	83,705,242.97	13.88%	106,700,158.31	13.39%	0.50%
	Chemicals	131,760,400.13	21.86%	162,546,030.80	20.39%	1.46%
	Other production costs	57,312,115.16	9.51%	71,944,219.52	9.03%	0.48%
	Subtotal	602,872,005.81	100.00%	797,143,663.55	100.00%	
Duplex press paper	Raw materials	1,431,120,330.70	60.60%	1,214,355,314.27	57.79%	2.81%
	Accumulated depreciation	117,995,749.14	5.00%	100,689,154.79	4.79%	0.20%
	Labour costs	31,482,403.02	1.33%	31,483,824.40	1.50%	-0.17%
	Energy and power	307,530,040.63	13.02%	291,066,793.05	13.85%	-0.83%
	Chemicals	253,441,402.97	10.73%	245,562,795.30	11.69%	-0.95%
	Other production costs	220,156,629.20	9.32%	218,190,658.91	10.38%	-1.06%
	Subtotal	2,361,726,555.66	100.00%	2,101,348,540.72	100.00%	
Writing paper	Raw materials	109,740,963.17	68.60%	149,910,988.47	60.16%	8.45%
	Accumulated depreciation	5,193,423.62	3.25%	10,907,314.44	4.38%	-1.13%
	Labour costs	1,549,293.17	0.97%	3,413,557.43	1.37%	-0.40%
	Energy and power	16,740,303.39	10.47%	30,077,128.15	12.07%	-1.60%
	Chemicals	13,648,365.90	8.53%	33,090,532.19	13.28%	-4.75%
	Other production costs	13,088,908.93	8.18%	21,803,390.81	8.75%	-0.57%
	Subtotal	159,961,258.19	100.00%	249,202,911.49	100.00%	
Newsprint paper	Raw materials	568,322,353.02	69.61%	771,076,094.95	69.90%	-0.28%
	Accumulated depreciation	54,356,715.72	6.66%	70,407,567.04	6.38%	0.28%
	Labour costs	2,599,692.29	0.32%	3,102,670.61	0.28%	0.04%
	Energy and power	89,496,873.96	10.96%	135,995,525.13	12.33%	-1.37%
	Chemicals	23,593,647.04	2.89%	23,578,983.71	2.14%	0.75%
	Other production costs	78,021,226.40	9.56%	98,992,990.19	8.97%	0.58%
	Subtotal	816,390,508.43	100.00%	1,103,153,831.64	100.00%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

By product (Cont'd)

Unit: RMB

Product	Item	2014		2013		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Paperboard	Raw materials	429,621,351.03	60.04%	504,717,758.73	61.90%	-1.87%
	Accumulated depreciation	49,048,109.98	6.85%	50,755,273.73	6.23%	0.63%
	Labour costs	4,542,028.90	0.63%	6,288,010.63	0.77%	-0.14%
	Energy and power	111,667,466.62	15.60%	149,627,956.09	18.35%	-2.75%
	Chemicals	59,923,191.98	8.37%	56,329,994.64	6.91%	1.46%
	Other production costs	60,805,160.82	8.50%	47,623,145.79	5.84%	2.66%
	Subtotal	715,607,309.32	100.00%	815,342,139.62	100.00%	
White paper board	Raw materials	831,217,330.55	51.30%	1,100,225,284.60	63.30%	-12.00%
	Accumulated depreciation	132,949,669.39	8.20%	75,261,256.47	4.33%	3.87%
	Labour costs	10,949,647.02	0.68%	42,515,456.75	2.45%	-1.77%
	Energy and power	142,437,643.87	8.79%	260,320,599.03	14.98%	-6.19%
	Chemicals	315,737,844.04	19.49%	130,815,953.92	7.53%	11.96%
	Other production costs	187,061,558.40	11.54%	128,908,644.65	7.42%	4.13%
	Subtotal	1,620,353,693.26	100.00%	1,738,047,195.43	100.00%	
Electrostatic paper	Raw materials	795,083,818.48	60.72%	957,819,100.57	64.00%	-3.28%
	Accumulated depreciation	79,203,023.64	6.05%	80,479,976.88	5.38%	0.67%
	Labour costs	15,260,381.41	1.17%	17,797,747.75	1.19%	-0.02%
	Energy and power	106,137,537.57	8.11%	122,190,311.18	8.16%	-0.06%
	Chemicals	143,218,565.70	10.94%	156,499,910.35	10.46%	0.48%
	Other production costs	170,473,764.42	13.02%	161,740,629.39	10.81%	2.21%
	Subtotal	1,309,377,091.22	100.00%	1,496,527,676.12	100.00%	
Coated paper	Raw materials	1,585,739,644.72	44.01%	1,698,992,285.99	43.98%	0.04%
	Accumulated depreciation	168,330,214.28	4.67%	173,117,736.81	4.48%	0.19%
	Labour costs	30,933,196.98	0.86%	38,811,650.49	1.00%	-0.15%
	Energy and power	416,226,099.23	11.55%	497,682,186.82	12.88%	-1.33%
	Chemicals	1,115,632,506.76	30.97%	1,123,166,129.58	29.07%	1.89%
	Other production costs	285,975,072.90	7.94%	331,667,388.72	8.58%	-0.65%
	Subtotal	3,602,836,734.87	100.00%	3,863,437,378.40	100.00%	
Other machine-made paper	Raw materials	2,179,994,585.57	64.09%	1,750,554,092.69	59.86%	4.23%
	Accumulated depreciation	157,515,932.11	4.63%	140,766,220.97	4.81%	-0.18%
	Labour costs	41,222,937.00	1.21%	45,331,938.71	1.55%	-0.34%
	Energy and power	421,947,392.20	12.40%	352,474,902.16	12.05%	0.35%
	Chemicals	354,280,591.75	10.42%	395,378,019.07	13.52%	-3.10%
	Other production costs	246,673,393.68	7.25%	239,915,850.05	8.20%	-0.95%
	Subtotal	3,401,634,832.32	100.00%	2,924,421,023.65	100.00%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

By product (Cont'd)

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	2,678,073,327.38
Total purchases from top 5 suppliers as a percentage of the total purchases for the year	17.49%

Information on top 5 suppliers of the Company

√ Applicable □ Not applicable

No.	Name of supplier	Purchases (RMB)	As a percentage of the total purchases for the year (%)
1	JIANGXI COAL SALES CO., LTD.	662,833,621.30	4.33%
2	GUANGDONG LEPENG TRADING CO., LTD	564,931,903.79	3.69%
3	ZHANJIANG MINGLI TRADING CO., LTD	492,844,126.50	3.22%
4	SHANDONG HEXIN CHEMICAL GROUP CO., LTD.	488,485,049.02	3.19%
5	MANZHOULI JINFA TRADING CO.,LTD	468,978,626.77	3.06%
Total	—	2,678,073,327.38	17.49%

4. Expenses

Item	Accrued during the year	Accrued during the prior year	Increase/decrease (%)
Selling and distribution expenses	1,148,055,535.23	1,129,145,035.51	1.67%
General and administrative expenses	1,160,542,907.39	1,198,704,556.00	-3.18%
Finance expenses	1,229,259,157.47	930,604,174.96	32.09%
Loss on impairment of assets	59,540,362.11	24,104,912.81	147.01%
Income tax expenses	107,699,410.64	175,938,431.91	-38.79%

- (1) Finance expenses for 2014 increased by 32.09% from the prior year mainly due to the depreciation of RMB and the increase in foreign exchange loss and interest expenses.
- (2) Loss on impairment of assets for 2014 increased by 147.01% from the prior year mainly due to the increase in accounts receivable and provision for bad debts.
- (3) Income tax expenses for 2014 decreased by 38.79% from the prior year mainly due to the year on year decrease of the profitability of the Company as affected by the factors such as the markets and exchange rate.

V Directors' Report

II. Analysis of principal operations (Cont'd)

5. Research and development expenditure

The research and development expenditure for 2014 totalled RMB469.8265 million, representing an increase of RMB90.5653 million or 23.88% as compared with RMB379.2612 million of the corresponding period of the prior year. The research and development expenditure accounted for 3.27% of the net assets, representing an increase of 0.68% as compared with 2.59% of the corresponding period of the prior year. The research and development expenditure accounted for 2.46% of the revenue from operations, representing an increase of 0.60% as compared with 1.86% of the corresponding period of the prior year.

In 2014, the development of the Twelve Five Year Plan was reaching its finale. The Company actively carried out research and development of new products and technologies, and promoted product portfolio adjustment. It launched the research and development of new products and new technologies, including bio-pulping technology (National Programs for Science and Technology Development, "863 Project"), the provincial innovation projects of durable adhesive base paper, high-end glassine paper, strong linerboard, quality thermal paper technology, holographic paper, film coated base paper, fluorescence-free coated kraft linerboard and high-efficiency sizing technology, which optimised the product portfolio, improved the product quality and enhanced market competitiveness, thus injecting new impetus into the Company's new development.

6. Cash flows

Item	2014	2013	Unit: RMB
			Increase/ decrease
Subtotal of cash inflows from operating activities	17,924,508,169.86	20,363,176,118.78	-11.98%
Subtotal of cash outflows from operating activities	16,939,108,434.01	19,240,559,317.87	-11.96%
Net cash flows from operating activities	985,399,735.85	1,122,616,800.91	-12.22%
Subtotal of cash inflows from investing activities	1,022,916,113.63	1,926,791,350.79	-46.91%
Subtotal of cash outflows from investing activities	4,096,185,535.33	3,837,739,389.14	6.73%
Net cash flows from investing activities	-3,073,269,421.70	-1,910,948,038.35	-60.82%
Subtotal of cash inflows from financing activities	25,487,820,197.15	23,126,276,064.56	10.21%
Subtotal of cash outflows from financing activities	23,159,468,612.66	23,958,313,170.73	-3.33%
Net cash flows from financing activities	2,328,351,584.49	-832,037,106.17	379.84%
Net increase in cash and cash equivalents	249,563,932.34	-1,617,017,256.49	115.43%

Explanation on why the related data varied by more than 30%

- (1) Net cash flows from operating activities decreased by 12.22% as compared to the corresponding period of the prior year mainly due to the decrease in cash inflow as a result of the decrease in prices of machine-made paper.
- (2) Net cash flows from investing activities decreased by 60.82% as compared to the corresponding period of the prior year mainly due to the decrease in relocation compensation and the consideration of equity transfer received.
- (3) Net cash flows from financing activities increased by 379.84% as compared to the corresponding period of the prior year mainly due to increase in loans for project investment and other purposes.

Explanation on main reasons leading to the material difference between cash flows from operating activities during the reporting period and net profit for the year

Applicable Not applicable

V Directors' Report

III. Components of principal operations

						Unit: RMB
	Revenue	Operating costs	Gross profit margin	Increase/decrease of revenue as compared to the corresponding period of the prior year	Increase/decrease of operating costs as compared to the corresponding period of the prior year	Increase/decrease of gross profit margin as compared to the corresponding period of the prior year
By industry						
Machine-made paper	17,975,118,165.42	14,590,759,989.08	18.83%	-1.47%	-3.30%	1.53%
Electricity and steam	513,786,969.44	346,919,674.07	32.48%	-66.18%	-69.27%	6.79%
Construction materials	225,322,331.60	180,981,974.32	19.68%	-6.64%	-11.31%	4.23%
Chemicals	59,945,519.46	54,847,129.21	8.51%	—	—	—
Hotel	26,793,066.32	5,434,372.02	79.72%	-26.24%	-36.73%	3.36%
Others	197,456,816.45	97,210,468.84	50.77%	76.59%	56.04%	6.48%
By products						
Light weight coated paper	693,819,246.02	602,872,005.81	13.11%	-27.68%	-24.37%	-3.80%
Duplex press paper	2,967,684,563.34	2,361,726,555.66	20.42%	15.33%	12.39%	2.08%
Writing paper	211,560,370.68	159,961,258.19	24.39%	-31.26%	-35.81%	5.37%
Coated paper	4,428,510,204.03	3,602,836,734.87	18.64%	-1.68%	-6.75%	4.42%
Newsprint paper	1,091,419,636.72	816,390,508.43	25.20%	-27.32%	-25.99%	-1.34%
Paperboard	754,167,430.95	715,607,309.32	5.11%	-7.16%	-12.23%	5.48%
White paper board	1,991,690,191.45	1,620,353,693.26	18.64%	-7.86%	-6.77%	-0.95%
Electrostatic paper	1,742,073,088.67	1,309,377,091.22	24.84%	-8.64%	-12.51%	3.32%
Other machine-made paper	4,094,193,433.56	3,401,634,832.32	16.92%	16.42%	16.32%	0.07%
Electricity and steam	513,786,969.44	346,919,674.07	32.48%	-66.18%	-69.27%	6.79%
Construction materials	225,322,331.60	180,981,974.32	19.68%	-6.64%	-11.31%	4.23%
Chemicals	59,945,519.46	54,847,129.21	8.51%	—	—	—
Hotel	26,793,066.32	5,434,372.02	79.72%	-26.24%	-36.73%	3.36%
Others	197,456,816.45	97,210,468.84	50.77%	76.59%	56.04%	6.48%
By geographical segment						
Mainland China	14,552,115,907.65	11,488,109,021.61	21.06%	-6.18%	-9.60%	2.99%
Other countries and regions	3,423,002,257.77	3,102,650,967.47	9.36%	25.24%	30.34%	-3.55%

Under the circumstances that the statistics specification for the Company's principal operations data experienced adjustment in the reporting period, the principal operations data upon adjustment of the statistics specification at the end of the reporting period in the latest year.

Applicable Not applicable

V Directors' Report

IV. Analysis of assets and liabilities

1. Material changes of asset items

Unit: RMB

	As at the end of 2014		As at the end of 2013		Change in percentage	Description of major changes
	Amounts	As a percentage of total assets	Amounts	As a percentage of total assets		
Monetary funds	5,475,658,186.10	9.64%	2,547,729,794.24	5.36%	4.28%	Mainly due to the increase in bankers' acceptances issued by the Company, letters of guarantee and the deposits for loans.
Accounts receivable	3,489,409,369.20	6.14%	3,102,643,083.54	6.53%	-0.39%	Mainly due to the increase in sales as at the year end.
Long-term equity investments	36,087,848.12	0.06%	32,216,789.33	0.07%	-0.01%	Mainly due to new equity investments in Shouguang Chenming Huisen New-style Construction Materials Co., Ltd. and Jiangxi Chenming Port Co., Ltd.
Fixed assets	24,744,731,705.04	43.55%	21,181,647,488.39	44.57%	-1.02%	Mainly due to the increase in assets reclassified upon completion of the environmental protection relocation project of Jilin Chenming, the household paper and specialty paper projects of Wuhan Chenming, the 180,000 tonne paper cup raw paper project of Zhanjiang Chenming and the paper additives projects of Meilun.
Construction in progress	3,709,270,828.53	6.53%	5,266,031,817.60	11.08%	-4.55%	Mainly due to the decrease in assets reclassified upon completion of the environmental protection relocation project of Jilin Chenming, the household paper and specialty paper projects of Wuhan Chenming, the 180,000 tonne paper cup raw paper project of Zhanjiang Chenming and the paper additives projects of Meilun.
Bills receivable	3,047,541,556.15	5.36%	2,870,443,681.49	6.04%	-0.68%	Mainly due to the increase in amounts receivable settled through bills as at the end of the year.

V Directors' Report

IV. Analysis of assets and liabilities (Cont'd)

1. Material changes of asset items (Cont'd)

	As at the end of 2014		As at the end of 2013		Change in percentage	Description of major changes
	Amounts	As a percentage of total assets	Amounts	As a percentage of total assets		
Prepayments	1,838,017,454.90	3.23%	1,589,021,331.24	3.34%	-0.11%	Mainly due to the increase in prepayments for raw materials as at the year end.
Other receivables	1,776,467,886.07	3.13%	1,331,900,749.84	2.80%	0.33%	Mainly due to the increase in borrowings from Wuhan Chenming to Wuhan Chenming Wan Xing Real Estate Co., Ltd., an unconsolidated related party, and the leaseback payment due within a year from Financial Leasing Company.
Available-for-sale financial assets	73,000,000.00	0.13%	83,260,425.53	0.18%	-0.05%	Mainly due to realisation of the equity investments in Weifang Xinye Capital Investment Co., Ltd. and Shanghai Forest & Paper E-Commerce Co., Ltd.
Long-term receivables	1,420,598,667.99	2.50%			2.50%	Mainly due to the new financial leasing business of Shandong Chenming Financial Leasing Co., Ltd., a company newly established by Chenming (HK), a subsidiary of the Company.
Construction materials	22,955,982.38	0.04%	63,968,067.62	0.13%	-0.09%	Mainly due to the asset reclassification of the environmental protection relocation project of Jilin Chenming.
Deferred income tax assets	620,267,636.44	1.09%	507,653,388.38	1.07%	0.02%	Mainly due to the provision made for deferred income tax assets as a result of temporary losses of some companies under the current market conditions.
Other non-current assets	1,094,124,242.00	1.93%			1.93%	Mainly due to new external entrusted loans.

V Directors' Report

IV. Analysis of assets and liabilities (Cont'd)

2. Material changes of liability items

Unit: RMB

	As at the end of 2014		As at the end of 2013		Change in percentage	Description of major changes
	Amounts	As a percentage of total assets	Amounts	As a percentage of total assets		
Short-term borrowings	20,470,296,592.92	36.03%	9,818,885,237.85	20.66%	15.37%	Mainly due to higher liquidity needs resulting from increased investment in construction in progress, production capacity and operation scale.
Long-term borrowings	4,378,290,245.19	7.71%	3,723,865,807.90	7.84%	-0.13%	Mainly due to new long-term financing.
Bills payable	1,598,110,792.85	2.81%	290,403,790.59	0.61%	2.20%	Mainly due to the increase in bank acceptance bills issued by the Company for payment of goods.
Accounts payable	3,408,366,113.93	6.00%	2,695,169,927.14	5.67%	0.33%	Mainly due to increased raw material purchase.
Advance receipts	270,056,726.88	0.48%	442,432,261.58	0.93%	-0.45%	Mainly due to the decrease in advance receipts resulting from intensified market competition.
Staff remuneration payables	153,926,042.30	0.27%	130,271,812.18	0.27%	0.00%	Mainly due to the increase in outstanding remuneration payable to chief executives.
Tax payable	161,100,088.94	0.28%	130,192,936.87	0.27%	0.01%	Mainly due to the increase in outstanding value-added tax payable.
Other payables	783,790,884.61	1.38%	486,836,595.89	1.02%	0.36%	Mainly due to the borrowings from Shouguang Chenming Holdings Co., Ltd.
Non-current liabilities due within one year	1,099,968,900.00	1.94%	1,287,804,452.66	2.71%	-0.77%	Mainly due to the payment of RMB bonds of RMB500 million due for repayment.
Other current liabilities			3,853,488,888.90	8.11%	-8.11%	Mainly due to the short-term commercial paper of RMB3.8 billion of the Company due for repayment.
Special payables	161,983,516.66	0.29%	971,805,561.39	2.04%	-1.75%	Mainly due to the surplus funds upon completion of environmental protection relocation projects of Jilin Chenming and Wuhan Chenming reclassified to deferred income.

V Directors' Report

IV. Analysis of assets and liabilities (Cont'd)

3. Assets and liabilities measured at fair value

Applicable Not applicable

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Impairment provided during the period	Purchases during the period	Disposal during the period	Closing balance
Financial assets							
Consumable biological assets	1,317,141,123.77	6,856,815.32	195,900,457.48		165,058,534.84	81,468,244.47	1,407,588,229.46
Total	1,317,141,123.77	6,856,815.32	195,900,457.48		165,058,534.84	81,468,244.47	1,407,588,229.46
Financial liabilities							
	0.00	0.00	0.00		0.00	0.00	0.00

Whether there were any material changes on the measurement attributes of major assets of the Company during the reporting period

Yes No

4. Major assets overseas

Applicable Not applicable

V. Analysis of Core Competitiveness

The Company is a large enterprise which primary engages in forestry, pulping and paper making operations. It is also the only listed company with three types of listed shares (i.e. A shares, B shares and H shares) in China. Compared with other enterprises in the industry, the Company has the following advantages:

- (1) Scale advantages: As China's largest state-owned paper making enterprise, after years of development, the Company has achieved annual pulp and paper production capacity of 8.00 million tonnes and is capable to compete with international paper making enterprises in scale. Large-scale centralised production has provided the Company with obvious economic benefits, which are reflected not only in the manufacturing costs of products, but also in its strong market influence in raw material procurement, product pricing and industry policymaking.
- (2) Product advantages: While the production scale of the Company expanded rapidly, its product mix also continued to optimise. In recent years, the Company has built the production lines for high-end coated paper, high-end light weight coated paper, high-end white paper board and high-end duplex press paper, and achieved higher technological content of products and added values as well as a higher gross profit margin. The product mix of the Company has changed from one that focused mainly on ordinary offset paper to a wide product range including electrostatic paper, duplex press paper, light weight coated paper, newsprint paper, coated paper, white paper board and household paper, and thus the Company has become the enterprise that offers the widest and fullest product range in China's paper making industry. Proportion of the Company's high-end products will further increase in the future. Diversification and gentrification of the product mix has not only greatly enhanced the Company's ability to withstand market risks, but also enabled the Company to maintain a relatively high profitability.

V Directors' Report

V. Analysis of Core Competitiveness (Cont'd)

- (3) Advantages in technical equipment: The Company's overall technical equipment has reached the advanced international level. The main production equipment have been imported from internationally renowned manufacturers, including Metso and Ahlstrom of Finland, Fuyite of Germany, Andritz of Austria and ABB of the United States. The technical equipment used by the Company generally reflects the characteristics of being technology-intensive and the integration of mechanical and electrical in the paper making industry nowadays. The degassing technology, wet end chemical technology, intelligent sheet lateral control technology, coating preparation technology, free-jet coating technology, multi-nip pressure balanced burnishing technology and independent developed processes of the slurry system have all reached, or stood above, the international advanced level.
- (4) Research and innovation advantages: Leveraging its research strengths and relied on state-level enterprise technical centres and post-doctoral research stations, the Company has established a comprehensive intellectual property rights system, and has continuously enlarged its technological innovation capacity and research and development efforts to actively develop new products and proprietary technology with high technology content and added values. Meanwhile, Chenming Paper Technology Centre is actively engaged in technological cooperation with universities, research units and international advanced enterprises. The above have helped the Company establish a research and development network leveraging both the domestic and international advanced paper making research bases, and guaranteed Company's leading position in industry research in China.
- (5) Comprehensive cost advantages: The Company has a relative advantage in comprehensive cost, which is mainly reflected in: first, the Company has optimised the operation of the production lines through stringent management, which has substantially lowered the waste of resources in evaporating, emitting, dripping or leaking, and the Company's energy consumption per ton of paper was also controlled at a relatively low level; secondly, striving for the integrated development of forestry, pulp and paper, the Company has built up forest land of approximately 2.00 million mu and established several advanced pulp production lines, thus increasing the supply of major raw materials; thirdly, the Company has reduced costs through the construction of the captive power plant to ensure energy supply.
- (6) Funding advantages: The paper making industry is a capital-intensive industry, and funding is one of the most important factors influencing the development of the industry. The Company has high profitability and credit status, and has maintained long-term stable cooperative relations with its bankers, which provide the Company with an unobstructed financing capacity. In recent years, the Company has made full use of indirect financing channels to accelerate its development. While the Company has increased borrowings, it has maintained higher returns on net assets, improved its earnings ratio, and leveraged the advantage of financial leverage. All these are in line with the goal of maximisation of shareholders' wealth. Since its listing, the Company has maintained good operating results and a sound corporate governance structure. It has conducted several financing activities in domestic and foreign stock markets. The funds obtained have been applied effectively and has provided the Company with stronger abilities in direct financing in the stock market. The establishment of the Finance Company and Financial Leasing Company has diversified the development of the Company.
- (7) Advantages in environmental regulation capacity: Over the years, the Company has firmly established "environmental protection first, scale expansion second" as the concept of development. The Company has ensured the enhancement of economic and environmental benefits simultaneously by giving equal importance to environmental protection and production. In recent years, the Company and its subsidiaries have constructed the pollution treatment facilities including the alkali recovery system, middle water treatment system, white water recovery system, black liquor comprehensive utilisation system, desulfurisation and denitrification system and the sewage treatment plants, which guarantee that the environmental protection facilities can meet the demand of the rapid expansion of the Company.

V Directors' Report

VI. Analysis of Investments

1. External equity investments

(1) External investments

√ Applicable □ Not applicable

Investments during the reporting period (RMB)	External investments Investments during the corresponding period of prior year (RMB)	Change
6,714,267,162.28	519,337,235.00	1,192.85%

Names of the companies	Investees Principal activities	The Company's share of interest in investees
Shandong Chenming Financial Leasing Co., Ltd.	Financial leasing business, operating leasing business, domestic and overseas leased assets acquisition, disposal and maintenance of leased assets, and consultation on leasing transactions.	100.00%
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	Manufacture and sale of desulphurised gypsum, construction gypsum powder, gypsum board, gypsum block and light gauge steel frame	50.00%
Shandong Chenming Investment Limited	Investment in sectors which the Chinese government encourages and allows foreign investment in accordance with the laws; maintaining foreign exchange balance among investees under the approval and supervision of foreign exchange management department; assisting investees in getting loans and providing guarantee; providing consulting services for investors, and providing consulting services such as market information related to investment and investment policies for related party companies; undertaking outsourcing activities from foreign companies and related party companies of its parent company.	100.00%
Jilin Chenming New-style Wall Materials Co., Ltd.	Production and sales of new-style wall materials, and comprehensive utilisation of coal ash.	100.00%
Chenming Arboriculture Co., Ltd.	Forestry, saplings growing, processing and sale of timber and processing and sales of forestry by-products	100.00%
Qingdao Chenming International Logistics Co., Ltd.	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency services	100.00%
Shandong Chenming Group Finance Co., Ltd.	Financial service business as approved by China Banking Regulatory Commission	100.00%
Huanggang Chenming Pulp & Paper Co., Ltd.	Construction of raw material bases and wood procurement; manufacture, production, processing of paper pulp and related products, project construction and related import and export business.	100.00%

V Directors' Report

VI. Analysis of Investments (Cont'd)

1. External equity investments (Cont'd)

(1) External investments (Cont'd)

Names of the companies	Principal activities	Investees	The Company's share of interest in investees
Jiangxi Chenming Port Co., Ltd.	Engaged in handling and transportation of goods and storage operation.		40.00%
Chenming (HK) Limited	Export and import trade of paper products and market research.		100.00%
Shouguang Meilun Paper Co., Ltd.	Production and sale of coated paper, paperboard, paper product, paper making raw materials and paper making machines; sale of fibre feeds, wheat germ and protein powder; operation of export and import of goods and technologies within the scope approved by the State.		100.00%

(2) Shareholding in financial companies

Applicable Not applicable

Name of company	Type	Initial investment (RMB)	Initial number of shares held (share)	Shareholding as at the beginning of the period	Number of shares held as at the end of the period (share)	Shareholding as at the end of the period	Carrying amount as at the end of the period (RMB)	Gain or loss for the reporting period (RMB)	Accounting treatment	Source of share
Shandong Chenming Group Finance Co., Ltd.	Other	1,000,000,000.00	-	100.00%	-	100.00%	1,274,741,873.93	6,713,646.36	Long-term equity investment	Capital contribution
Total		1,000,000,000.00	-	-	-	-	1,274,741,873.93	6,713,646.36	-	-

(3) Security investments

The Company did not have any security investments during the reporting period.

(4) Equity interest in other listed companies

The Company did not have any equity interest in other listed companies during the reporting period.

V Directors' Report

VI. Analysis of Investments (Cont'd)

2. Entrusted wealth management, derivative investments and entrusted loans

(1) Entrusted wealth management

The Company did not have any entrusted wealth management during the reporting period.

(2) Derivatives investments

The Company did not have any derivative investments during the reporting period.

(3) Entrusted loans

Unit: RMB'0,000

Borrower	Related parties	Loan amount	Interest rate of loans	Guarantor or Collateral	Use of proceeds by borrowers
Shouguang Jin Choi Public Assets Management Co., Ltd.	No	100,000	10.00%	Shouguang Infrastructure Fund Management Centre shall pledge 20% of the equity interest of the Shouguang Jin Choi Public Assets Management Co., Ltd. held by it.	Construction, investment and operation of urban and rural infrastructure.
Jiangxi Chenming Paper Co., Ltd	Yes	20,000	5.60%	N/A	Replenishment of working capital
Total	—	120,000	—	—	—
Disclosure date of approval of entrusted loans in board meeting				18 January 2014 29 March 2012	
Disclosure date of approval of entrusted loans at a general meeting				30 May 2012	

V Directors' Report

VI. Analysis of Investments (Cont'd)

3. Analysis of major subsidiaries and investees

Information on major subsidiaries and investees

Unit: RMB'0,000

Name of companies	Type of companies	Industry	Principal products or services	Registered capital	Total assets	Net assets	Revenue from operations	Operating profit	Net profit
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Subsidiary	Paper making	Pulp, duplex press and electrostatic paper	RMB3,000 million	1,305,169.27	344,726.54	420,120.75	44,788.04	39,024.45
Shandong Chenming Paper Sales Company Limited	Subsidiary	Trading of paper products	Sales of paper products	RMB100 million	929,924.97	15,954.37	1,465,099.04	5,192.89	3,565.20
Chenming (HK) Limited	Subsidiary	Trading of paper products	Sales of paper products, import of raw materials and processing	US\$29.9 million	949,932.63	39,679.59	665,838.49	14,961.28	12,498.66
Jiangxi Chenming Paper Co., Ltd.	Subsidiary	Paper making	Duplex press paper and coated paper	US\$272 million	523,346.50	207,254.45	151,965.29	934.25	8,430.95
Shouguang Meilun Paper Co., Ltd.	Subsidiary	Paper making	Coated paper, white coated linerboard and household paper	RMB3,000 million	1,305,390.26	377,413.12	496,844.62	-14,378.53	-8,564.43
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiary	Paper making	Writing paper, news press paper and household paper	RMB211.3670 million	297,864.42	34,901.23	92,848.50	-15,914.27	-10,645.70

Particulars of major subsidiaries and investees:

1. Wuhan Chenming's specialty paper project and household paper project were reclassified at assets. The gross profit of the products was relatively low because their market was in a development stage. Meilun's loss decreased due to the increase in the gross profit of its coated paper and the decrease in its costs resulting from the contribution in kind (Power Plant III) from Shandong Chenming.
2. The sentiment for Zhanjiang Chenming's major products, including pulp and high-end duplex press paper, was high, resulting in high gross profit margin and better returns. However, Zhanjiang Chenming's net profit dropped due to the year-on-year increase in finance expenses. The gross profit of Jiangxi Chenming's paper products decreased compared to the prior year due to the macro-economic environment. Jiangxi Chenming's gain on disposal of non-current assets grew..
3. The Financial Leasing Company invested and established by Chenming (HK) had good profitability. The Sales Company's profit drop due to the increase in interest expenses and bad debts allowance for accounts receivable.

V Directors' Report

VI. Analysis of Investments (Cont'd)

3. Analysis of major subsidiaries and investees (Cont'd)

Information on major subsidiaries and investees (Cont'd)

Acquisition and disposal of subsidiaries during the reporting period

Name of companies	Purpose to acquire and dispose of subsidiaries during the reporting period	Methods to acquire and dispose of subsidiaries during the reporting period	Impact on overall production and results
Shandong Chenming Financial Leasing Co., Ltd.	To promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, develop new sources of profit growth.	Capital contribution for establishment	Net profit for 2014 was RMB84.0834 million.
Shandong Chenming Investment Limited	To facilitate operation, maximise the edges of integrated sale and strengthen market expansion	Capital contribution for establishment	Net profit for 2014 was -RMB134,500.
Shandong Chenming Group Finance Co., Ltd.	To enhance the centralised management of the Group's fund, improve the efficiency of capital use, further increase the Group's fund settlement, management, investment and financing capability and reduce its financing cost.	Capital contribution for establishment	Net profit for 2014 was RMB6.7136 million.
Qingdao Chenming International Logistics Co., Ltd.	To promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, develop new sources of profit growth.	Capital contribution for establishment	No impact on 2014 results.
Chenming Arboriculture Co., Ltd.	To exercise the strategic integrated development of forestry, pulp and paper to improve the organisation and professionalism of the Company's forestry segment, better apply technology in forestry, further extend the industry chain and increase technology application in forestry, increase the segment's economic value and maximise market competitiveness and profitability of the Company.	Capital contribution for establishment	Net profit for 2014 was -RMB1.2778 million.
Jilin Chenming New-style Wall Materials Co., Ltd.	To strengthen comprehensive utilisation of resources, proactively respond to state policy on comprehensive utilisation of resources and meet the local demand.	Capital contribution for establishment	No impact on 2014 results.

V Directors' Report

VI. Analysis of Investments (Cont'd)

3. Analysis of major subsidiaries and investees (Cont'd)

Information on major subsidiaries and investees (Cont'd)

Acquisition and disposal of subsidiaries during the reporting period (Cont'd)

Name of companies	Purpose to acquire and dispose of subsidiaries during the reporting period	Methods to acquire and dispose of subsidiaries during the reporting period	Impact on overall production and results
Shandong Chenming Xinli Power Co., Ltd.	Due to the prolonged use of Xinli Power's equipment as well as higher costs arising from replacement with environmental protection equipment relating to desulfurisation and denitration, the Company disposed of its equity interest in Xinli Power to increase its cash flow, which allowed the Company to centralise its resources for developing high-end niche products to further improve its results.	Transfer of equity interest	Loss on disposal was RMB8.5169 million.
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	To consolidate resources and enhance overall economic efficiency.	Cancelled	No impact on 2014 results.
Shouguang Hengfeng Storage Co., Ltd.	To consolidate resources and enhance overall economic efficiency.	Cancelled	No impact on 2014 results.

4. Highlights of major investments not financed by the proceeds

Unit: RMB'0,000

Name of project	Total planned investment	Investment made during the reporting period	Accumulated actual investment made as of the end of the reporting period	Progression of projects	Revenue from projects	Date of disclosure	Disclosure index
350,000 tonne high-end packaging paper project of Jiangxi Chenming	124,800	79,692.67	91,955.21	74.00%	Not completed	28 June 2013	http://www.cninfo.com.cn/
190,000 tonne high-end cultural paper project	309,700	66,518.44	95,014.34	31.00%	Not completed	30 September 2013	http://www.cninfo.com.cn/
Forestry paper integration project of Huanggang Chenming	348,510	18,875.45	31,954.99	9.00%	Not completed	2 August 2013	http://www.cninfo.com.cn/
Total	783,010	165,086.56	218,924.54	-	-	-	-

V Directors' Report

VII. Estimate of the operating results from January to March 2015

Warning of cumulative net profit for the period between the beginning of the year to the end of the next reporting period being projected to be at a loss or expected to have material changes as compared to the corresponding period of prior year and its explanation

Applicable Not applicable

VIII. Special purpose vehicle controlled by the Company

Applicable Not applicable

IX. Outlook on the future development of the Company

(I) Competition overview and development trend of the industry

The Company is engaged in the paper making industry, which is a light industry. The business sentiments of the industry are highly related to the macroeconomic growth. In recent years, on the one hand, with the impact of macroeconomic slowdown, demand was continuously weak in the paper making industry. On the other hand, new production capacity of the paper making industry had been released together over the past few years, resulting in the transitional overcapacity of some paper types. Due to fierce competition, product prices continued to decline, narrowing profit margins of papermaking enterprises.

In the long run, the development conditions of the paper making industry are gradually improving. Currently, with basically stable production capacity, excess capacity has become the primary problem to be resolved in the industry. 2014 was a key year for reform and innovation for China's paper making industry as the industry was entering a new stage of transformation and upgrading. As 2015 is the last year of the "Twelfth Five-Year" Plan, elimination of outdated production capacity and increasingly stringent environmental policies are forcing some small and medium-sized enterprises out of the market. To some extent, this eases the pressure of new capacity on the supply of the industry, which is conducive for enterprises to initiate a price rise. For major paper making enterprises, fully utilising advantages of capital, technology and scale to achieve a change in the growth pattern may help them gain new market share. Meanwhile, with the impact of a weak demand, raw material prices have been hovering at a low level, easing the pressure of operating costs on paper making enterprises. Eliminating outdated production capacity will remove obstacles for the industry's development, while replenishment of and substitution of advanced production capacity will bring fresh blood and drive to the industry, conducive to a higher concentration ratio to creating a favourable industry lifecycle.

Faced with increasingly fierce competition in the industry, the Company gains competitive edge by leveraging on our strong corporate strength to improve equipment and technologies, enrich product mix, upgrade product quality, and focus on research and development of high-end products. The adjustment of product mix has injected new driving force for our corporate restructuring and development, while continuous management refinement has opened up our growth bottleneck, releasing vigour to the Company. Our diversified development brought new sources of profit growth for the Company, accelerating the process of the Company to becoming a world-class paper making enterprise. As the economic situation improves and the industry is gradually recovering, the Company's performance will have steady growth.

V Directors' Report

IX. Outlook on the future development of the Company (Cont'd)

(II) Development strategy of the Company

Adhering to our development philosophy of “creating innovative ideas, maintaining our leading position and becoming an international enterprise”, the Company strives to become a leading international paper maker which focuses on environmental protection and sustainable development. The Company accelerates our transformation and upgrade process, and implements our new round of strategic planning. Hence, a development trend focusing on principal operations as well as diversification, and environmental protection and standardised management takes shape. We also promote detailed management. Being market-oriented, the Company has been optimising our product mix with an increasing proportion of high value-added and high-end products. The Company strives to become a world-class paper making enterprise with rapid growth based on the philosophy of “High-end Positioning, Production of First-class Products”.

(III) Operating plan for 2015

In 2015, the Company will proactively adapt to the “new normal” of economic development, accelerate transformation and upgrade process, as well as enhance operation efficiency. The Company will consistently implement our working direction of “Team Building, Strict Management, Outstanding Business Performance, Achieving Good Results”. To achieve our operating goals, the Company will pay special attention to the following aspects:

1. Team building. The Company will optimise our human resources allocation mechanism through various means such as management work reporting, management assessment, and training and examination, thus making our team building move on to a new stage.
2. Basic management. The Company will ensure comprehensive optimisation and implementation on the system establishment and improvement. We will put greater efforts into system inspection and appraisal in order to strengthen policy implementation.
3. Operating focus. The Company will focus on solving major issues on, among other things, efficiency management, risk control, capital utilisation, slow-moving product and foreign operations management, aiming to achieve great improvement.
4. Production management. The Company will strengthen our system optimisation and execution: In respect of trial operation of new systems, the Company will conduct verification and make conclusion. We will identify areas for further improvement under the system and make rectification as soon as possible, and strictly implement such rectification. The Company will also standardise equipment operating parameters: With reference to the operation of similar advanced equipment in local and overseas markets, the Company will conduct comparison and adjustment in order to ensure the best operation of the equipment. The Company will accelerate adjustment on product portfolio: In order to complete the development of new products such as high-bulk white paper board, food paper and liquid packaging paper, the Company will introduce high quality technical talents. In accordance with the human resources allocation standard in leading local enterprises, the Company will continue to work on position establishment and appointment through position consolidation, automation and other measures. The Company will highly focus on our environmental protection, safety and fire prevention works. We will learn from the past experience of overseas leading enterprises or our peers, aiming to reach the highest standard in the industry.
5. Procurement efficiency. Leveraging the commencement of operation of the railroad of Shouguang Chenming, the Company will enhance the procurement at source of materials in bulk in order to lower procurement costs. With sufficient capital reserved, the Company aims to lower procurement price through advance payment and other means, thereby maximising our return. We will increase trade volume through import and export companies, and establish strategic partnerships with quality customers, thus securing quality supplies. In addition, the Company will enhance logistics management and optimise operating mode, thereby optimising logistics efficiency.

V Directors' Report

IX. Outlook on the future development of the Company (Cont'd)

(III) Operating plan for 2015 (Cont'd)

6. Project progress. For projects under construction such as Jiangxi Chenming's 350,000 tonne high-end packaging paper and Zhanjiang Chenming's 190,000 tonne culture paper projects, the Company will have control and assessment at key points to ensure timely commencement of operation. For Huanggang Chenming's integrated forestry, pulp and paper project, the Company will improve its preparation works and it is going to commence construction during the year. The Company will also proactively facilitate Shouguang Chenming's 400,000 tonne chemical pulp project, aiming to achieve substantive progress in a short period of time.
7. Financial benefits. The Financial Leasing Company will strictly control its risk exposures, aiming to achieve growth amid stability. The Finance Company will strengthen its management to provide impetus for our results growth. The Company will expand our financing channels through various means including issue of preference shares, thus lowering the finance expenses and improve our liabilities structure.
8. Service operation. The Company nurtures new sources of profit growth through the measures such as improving procurement at source to reduce the raw material procurement price, and proactive external business expansion to further optimise our industry chain.

(IV) Future capital requirements, source of funds and plan for use

With the extension of the Company's industry chain and expansion of business scale, some of the new projects are unable to make profit contribution in a timely manner due to market reasons, and therefore the Company has greater demand for working capital. To this end, the Company has identified the following measures:

Firstly, the Company will raise fund through non-public offering of preference shares. This will help the Company meet our financing needs together with our business development. Issue of preference shares which may be accounted for in equity will also help reduce the Company's gearing ratio, improving the Company's capital structure and enhancing the Company's risk aversion capability.

Secondly, the Company will establish diversified financing channels. Various financing methods, such as increasing direct financing and issuing super and short term commercial paper and perpetual notes, will be used to reduce the Company's finance expenses, improve the Company's liabilities structure and ensure funding for the Company's sustainable and healthy development.

Thirdly, the Company will make progress in cross-border financing. Leveraging the financing platform of the Hong Kong market, the Company will make effort to increase the credit line of Hong Kong Chenming, avert exchange rate risks through multi-currency financing and improve the efficiency of capital use so as to reduce finance expenses.

Fourthly, the Company will capitalise on the financial advantages of our Finance Company and the Financial Leasing Company to expand the Group's financing channels. They will grow amid stability and provide new impetus for the Company's earnings growth, opening up new sources of profit growth for the Company.

Fifthly, the Company will further improve our international and domestic sales and marketing network, expand our export sales and increase our investment in products of high profit so as to increase economic benefits. The Company will take strict control measures to reduce inventories and improve contract compliance rate in order to reduce use of funds, further reducing the finance expenses. The Company will strengthen our management in household paper products, making it the Company's new source of profit growth as soon as possible.

V Directors' Report

IX. Outlook on the future development of the Company (Cont'd)

(V) Risk factors likely to be faced and the measures to be taken

Industry risk

As a basic raw materials industry of the national economy, the paper making industry's overall efficiency has a strong correlation with economic cycles, and is therefore a cyclical industry fluctuating with the national macroeconomic performance, which will further affect the profitability of paper making enterprises. With the rapid growth of the national economy, economic globalisation and China's accession to the WTO, China's paper making industry has been facing increasingly fierce competition, and overcapacity and lower demand will have certain impact on the operating results of the Company in the future.

In light of the above, the Company will enhance the level of its equipment and technology, enrich its product portfolio, raise its product quality and put emphasis on developing high-end products to increase its competitiveness.

Policy risk

At present, the industry has entered into an important transitional period, and the mode which supported the rapid development of the paper making industry in the past has currently faced the dual pressures of resources and environment. From the point of view of China's policy, China will change the mode of growth through optimising the layout of the paper making industry and the raw material structure and product structure, in order to promote a modern paper making industry based on recycling by integrating the forestry and paper making industry, and adjust the industry through entry requirements, environmental standards and energy saving. The development of the Company will be affected by the direction of such policies.

Elimination of outdated production capacity and stricter environment protection policy has forced some of the SMEs exited the industry. Hence, the Company is expected to record long-term revenue.

Operational risk

The major raw materials used by the Company are wood pulp and waste paper. The Company's products are mainly comprised of high-end paper, and as the State encourages the increase of the proportion of wood pulp used by the industry, wood pulp, thus, has accounted for a higher proportion of the production cost. The market price fluctuations of raw material have significantly affected the production cost of the Company. In addition to intensified market competition resulting from surging capacity in the industry in recent years, the market price fluctuation of raw materials will have an impact on the performance of the Company.

Hence, the Company will remain steadfast in the "forestry-pulp-paper integration" development path and focus on the construction of Zhanjiang Chenming pulp project, Huanggang Chenming pulp project and Shouguang chemical pulp project, thereby eliminating the limitations of upper-stream resources on the Company's development and enhancing Company's sustainable development.

Environmental protection risk

The new Environmental Protection Law took effect on 1 January 2015. More stringent environmental protection policies of the industry have been implemented. A multi-pronged approach has been adopted to promote industrial restructuring, and the paper making industry has entered into an important transitional period of development. The higher emission standard is bound to increase the Company's environmental protection cost and high entry standards may result in the slowing down of scale expansion, thus affecting its production and operation.

The Company always strive to achieve harmonious development with energy consumption and emission reduction. The Company will endeavour to develop the recycle economy through waste exchange and recycling and strive to maximise its resource utilisation. Meanwhile, the Company will make greater efforts to construct environmental friendly projects and strive to achieve its waste emission target.

V Directors' Report

IX. Outlook on the future development of the Company *(Cont'd)*

(V) Risk factors likely to be faced and the measures to be taken *(Cont'd)*

Exchange rate risk

The value of Renminbi is affected by the domestic and international economic and political environment, and the supply and demand for Renminbi. As an import and export enterprise, the exchange rate of Renminbi against other currencies in future will affect the Company's operating results. The foreign currency transactions of the Company are mainly denominated in US dollar. The operations of raw material imports, product exports and US\$ borrowings of the Company will face the risk of exchange rate changes.

The finance department of the Company is responsible for monitoring and controlling the Group's foreign currency transactions and scale of assets and liabilities denominated in foreign currency through import and export hedging, usance letter of credit, trade finance and interest rate swap, aiming to minimise exchange rate risk.

X. Opinions of the Board of Directors and the Supervisory Committee regarding the "modified auditor's report" for the reporting period issued by the accountants

Ruihua Certified Public Accountants had audited the 2014 financial report of the Company and issued a standard unqualified auditors' report.

V Directors' Report

XI. Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year

Applicable Not applicable

In early 2014, the Ministry of Finance issued "Accounting Standard for Business Enterprises No. 39 – Fair Value Measurement", "Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements (as amended in 2014)", "Accounting Standard for Business Enterprises No. 9 – Employee Benefits (as amended in 2014)", "Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements (as amended in 2014)", "Accounting Standard for Business Enterprises No. 40 – Joint Arrangements", "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments (as amended in 2014)" and "Accounting Standard for Business Enterprises No. 41 – Disclosure of Interest in Other Entities" in Cai Kuai [2014] No. 6, No. 7, No. 8, No. 10, No. 11, No. 14 and No. 16, requiring the above to be adopted among companies applying the Standards from 1 July 2014, and encouraging entities listed overseas to early adopt the above. Furthermore, the Ministry issued "Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (as amended in 2014)" (the "Financial Instrument Presentation Standard") in Cai Kuai [2014] No. 23, requiring the adoption of the above standard for accounting periods starting in or after 2014.

As resolved at the fourth meeting of the Board of the seventh session held on 19 March 2014, the Company has adopted since the accounting period starting from 1 January 2013 the above five new or revised standards save for those on long-term equity investments and disclosure of interest in other entities and the Financial Instrument Presentation Standard, the first two of which has been adopted from 1 July 2014 and the last one will be first adopted in the annual report for 2014. During the year, adjustment made to current and previous items and amounts in financial statements according to application guides and transitional arrangements subsequently issued by the Ministry were as follows:

Standard	Changes and impact	Impact on amounts in financial statements as at 1 January 2014/for 2013	
		Item	Increase/decrease
Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments	Prior to adoption of the standard as amended in 2014, the equity investment in an investee that is not under common control or significant influence of the Company and not quoted in an active market, and whose fair value is unable to be reliably measured was accounted for as a long-term equity investment at cost. After the adoption, such investee is accounted for as available-for-sale financial assets. Retrospectively adjustment is made based on the above accounting policy change.	Available-for-sale financial assets	83,260,425.53
		Long-term equity investments	-83,260,425.53

V Directors' Report

XI. Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year (*Cont'd*)

Standard	Changes and impact	Impact on amounts in financial statements as at 1 January 2014/for 2013	
		Item	Increase/decrease
Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements	The standard as amended in 2014 divides other comprehensive income into two categories: (1) items not to be reclassified into profit or loss in subsequent accounting periods; and (2) items to be reclassified into profit or loss in subsequent accounting periods when certain criteria have been satisfied, and provides for presentation of held-for-sales items, current items and non-current items. The financial statements are presented in accordance with such standard and corresponding adjustments have been made to the presentation of the financial statements for comparable years.	Other comprehensive income	16,934,073.59
		Foreign currency translation differences	-16,934,073.59
		Other current liabilities	-25,246,647.62
		Deferred income	493,600,712.15
		Other non-current liabilities	-468,354,064.53

XII. Reason for retrospective restatement to correct major accounting errors during the reporting period

No retrospective restatement was made to correct major accounting errors during the reporting period.

V Directors' Report

XIII. Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year

Applicable Not applicable

1. During the year, six more companies were consolidated as compared to the prior year and the details are as follows:

During the reporting period, the Company established six companies through investments, namely Shandong Chenming Financial Leasing Co., Ltd., Shandong Chenming Investment Limited, Shandong Chenming Group Finance Co., Ltd., Chenming Arboriculture Co., Ltd., Qingdao Chenming International Logistics Co., Ltd. and Jilin Chenming New-style Wall Materials Co., Ltd.

In order to promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, and develop new sources of profit growth, the Company convened the fourth extraordinary meeting of the seventh session of the Board, at which it resolved to establish in the PRC Shandong Chenming Financial Leasing Co., Ltd. ("Financial Leasing Company") through Chenming (HK), a wholly-owned subsidiary of the Company, with paid-up registered capital of RMB300.00 million, which was subsequently increased to RMB2,700.00 million due to business needs. It has been consolidated into the financial statements of the Company since March 2014.

In order to promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, and develop new sources of profit growth, the Company convened the fourth meeting of the seventh session of the Board, at which it resolved on the establishment of Shandong Chenming Investment Limited ("Investment Company") by Chenming (HK) Limited ("Chenming (HK)"), a wholly-owned subsidiary of the Company, with paid-up registered capital of RMB200.00 million. It has been consolidated into the financial statements of the Company since June 2014. In addition, the Company, together with its wholly-owned subsidiary Chenming (HK), established in PRC Qingdao Chenming International Logistics Co., Ltd. ("Qingdao Chenming"), with a shareholding of 30% and 70% respectively and paid-up registered capital of RMB3.00 million. It has been consolidated into the financial statements of the Company since November 2014.

In order to cope with current difficult market environment and diversify its development, the Company decided to start financial business. It received the Approval from Shandong CBRC of the Operation of Shandong Chenming Group Finance Co., Ltd. (Lu Yin Jian Zhun [2014] No. 233) issued by China Banking Regulatory Commission Shandong office on 30 June 2014 approving the establishment of Shandong Chenming Group Finance Co., Ltd. ("Finance Company"), which had paid-up registered capital of RMB1,000 million and has been consolidated into the financial statements of the Company since July 2014.

In order to exercise the strategic integrated development of forestry, pulp and paper to improve the organisation and professionalism of the Company's forestry segment and further extend the industry chain and increase technology application in forestry, the Company convened the sixth meeting of the seventh session of the Board, at which it resolved to establish Chenming Arboriculture Co., Ltd. ("Chenming Arboriculture") with paid-up registered capital of RMB45.00 million. It has been consolidated into the financial statements of the Company since August 2014.

In order to strengthen comprehensive utilisation of resources and actively respond to state policy for resource utilisation, the Company decided to, based on local needs, set up Jilin Chenming New-style Wall Materials Co., Ltd. ("Jilin Wall Materials"), which was invested by Zhanjiang Chenming, a wholly-owned subsidiary of the Company, with its paid-up registered capital amounting to RMB10.00 million. The company has been consolidated into the financial statements of the Company since July 2014.

V Directors' Report

XIII. Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year *(Cont'd)*

2. During the year (period), three companies were deconsolidated as compared to the prior year due to the reasons as follows:

During the reporting period, the Company lost its control over Shandong Chenming Xinli Power Co., Ltd. due to disposal of equity interest during the period. Therefore, the above company ceased to be included in the scope of consolidation. The registration of Shouguang Chenming Tianyuan Arboriculture Co., Ltd. and Shouguang Hengfeng Storage Co., Ltd. were cancelled according to actual needs of operations during the period. Therefore, the above two companies ceased to be included in the scope of consolidation.

On 15 November 2013, the Company convened the third extraordinary meeting of the seventh session of the Board and approved the Resolution on Disposal of Equity Interest in Xinli Power". On 4 March 2014, Chenming Power entered into an equity interest contract with Guangdong Dejun Investment Co., Ltd. to transfer its 51% equity interest in Shandong Chenming Xinli Power Co., Ltd. at a consideration of RMB76.1940 million. After such transfer, the Company lost its control over Xinli Power, which ceased to be included in the scope of consolidation.

To consolidate resources and enhance overall economic efficiency, the Company cancelled the registration of Shouguang Chenming Tianyuan Arboriculture Co., Ltd. and Shouguang Hengfeng Storage Co., Ltd. according to actual production and operational needs. The above two companies ceased to be included in the scope of consolidation with effect from the date of such cancellation.

XIV. Distribution of profit and dividend payment by the Company

During the reporting period, formulation, implementation or adjustment of profit distribution policy

The Company implemented its profit distribution policy in strict compliance with the Articles of Association. Its cash dividend policy was formulated and implemented in compliance with the requirements of the Articles of Association and the resolution of the general meeting with well-defined and clear dividend distribution criteria and proportion. The legal interests of the small shareholders were fully protected as the related decision making process and mechanism were in place, the duties of independent Directors were well-defined so that they played a role, and the small shareholders were given opportunities to sufficiently voice their opinion and make requests.

Implementation of the 2013 profit distribution plan: Based on the number of the shares as at the dividend distribution registration date of 1,936,405,467 shares, a cash dividend of RMB3.00 (tax inclusive) was to be paid to all shareholders for every 10 shares held. The total cash dividend to be distributed amounted to RMB580,921,640.10 (tax inclusive). The dividend distribution was implemented and completed on 8 July 2014. For details, please refer to the announcement on payment of final dividend and withholding and payment of enterprise income tax for non-resident enterprise shareholders published on the Hong Kong Stock Exchange on 27 June 2014, and the announcement on the implementation of the 2013 profit distribution plan for A share and B share published on <http://www.cninfo.com.cn> on 28 June 2014.

V Directors' Report

XIV. Distribution of profit and dividend payment by the Company (Cont'd)

Particulars of Cash Dividend Policy

Was it in compliance with the requirements of the Articles of Association and the resolution of the general meeting?	Yes
Was the dividend distribution criteria and proportion well-defined and clear?	Yes
Was the related decision making process and mechanism in place?	Yes
Did independent Directors fulfill their duties and play their role?	Yes
Were the small shareholders given opportunities to sufficiently voice their opinion and make requests and were the legal interests of the small shareholders fully protected?	Yes
Were conditions and procedures legal and transparent in respect of cash dividend policy with adjustments and changes?	Yes

The proposed profit distribution plans or profit distribution plans and the proposals on conversion of capital reserves into share capital over or the conversion plans in the past three years (the reporting period inclusive)

(1) The 2014 proposed profit distribution plan

Based on the number of the total shares as at the dividend distribution registration date, a cash dividend of RMB1.40 was to be paid to all shareholders for every 10 shares held (tax inclusive). Based on the total share capital of 1,936,405,467 shares of the Company as at 31 December 2014, cash dividend for 2014 amounted to RMB271,096,765.38 (tax inclusive), which represented 53.66% of the net profit attributable to shareholders of the Company as set out in the 2014 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises.

(2) 2013 profit distribution plan

The 2013 profit distribution plan was considered and approved in the 2013 annual general meeting convened by the Company on 9 May 2014. Based on the number of the shares as at the dividend distribution registration date of 1,936,405,467 shares, a cash dividend of RMB3.00 (tax inclusive) was to be paid to all shareholders for every 10 shares held. The total cash dividend to be distributed amounted to RMB580,921,640.10 (tax inclusive).

V Directors' Report

XIV. Distribution of profit and dividend payment by the Company (Cont'd)

(3) The 2012 profit distribution plan

On 15 May 2013, the Company convened 2012 annual general meeting and considered and approved the 2012 profit distribution plan. There were 2,062,045,941 shares in the total share capital of the Company as at 31 December 2012. After deduction of treasury shares of 86,573,974 shares to be cancelled under the repurchase of B shares of the Company, the total share capital entitled to this distribution amounted to 1,975,471,967 shares which were entitled to this distribution. Based on the 1,975,471,967 shares and a cash dividend of RMB0.60 (tax inclusive) to be paid to shareholders for every 10 shares held, a total cash dividend of RMB118,528,318.02 (tax inclusive) was distributed.

Cash dividends of the Company over the past three years

Unit: RMB

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the consolidated financial statements during the year of distribution	As a percentage of net profit attributable to shareholders of the Company in the consolidated financial statements	Cash for share repurchase offer under cash dividend	Ratio of cash for share repurchase offer under cash dividend
2014	271,096,765.38	505,204,384.73	53.66%	0.00	0.00%
2013	580,921,640.10	710,655,331.72	81.74%	0.00	0.00%
2012	118,528,318.02	221,034,822.54	53.62%	0.00	0.00%

The Company made a profit and had positive retained profit during the reporting period without cash dividend being proposed

Applicable Not applicable

V Directors' Report

XV. Proposals on profit distribution and conversion of capital reserves into share capital during this reporting period

Applicable Not applicable

Numbers of bonus share per 10 shares (share(s))	0
Dividend distribution per 10 shares (RMB) (tax inclusive)	1.40
Conversion per 10 shares (share(s))	0
Share base of the distribution proposal (shares)	1,936,405,467
Total cash dividend (RMB) (tax inclusive)	271,096,765.38
Distributable profits (RMB)	4,665,921,686.21
Percentage of cash dividend to total profits distribution	100.00%

Cash dividend policy:

The Company proactively implemented cash dividend. The Company shall distribute dividend by way of cash providing that there are sufficient cash flow to meet the Company's normal operations and long-term development. Accumulated profit distribution in cash over the recent three years shall not be less than 30% of profit distributable annually realised over the past three years.

Particulars of profit distribution and conversion of capital reserves into share capital

Please refer to XIV. herein for particulars of profit distribution proposal for 2014.

XVI. Fulfilment of Social Responsibility

The Company established its corporate governance structure in accordance with the requirements of the Companies Law, Securities Law, Articles of Association and other relevant laws and regulations and the actual situations of the Company. There is a clear separation of powers and responsibilities between the general meeting, the Board, the Supervisory Committee and the management which is accountable to the general manager. The management system under the structure is characterised by a separation of ownership and operation, a separation of the decision-making, execution and supervisory powers, as well as the co-existence of the general meeting, the Board and the Supervisory Committee. Strict provisions on the rights, duties and responsibilities of the general meeting, the Board, the Supervisory Committee and general manager have been stipulated. The Company has placed great emphasis on the fulfilment of social responsibility and goes beyond the concept of "profit as the only goal". While creating value for shareholders during the process of production, operation and business development, the Company, in line with the development of the State and the society, has strived to reach a compromise between economic benefits and social benefits, short-term benefits and long-term benefits, as well as corporate development and social development, with the aim to achieve a healthy and harmonious development between the Company and its employees, the Company and the society, and the Company and the environment.

The mission of the Company is to produce the top quality paper and pay back the society faithfully. The Company is committed to becoming a first-class international paper making enterprise, and persists in leveraging science for innovation and development. The Company has continued to promote innovative corporate management, enhance product quality and strengthen new product development efforts, in order to produce high quality paper product with high technology content to meet the demand of the society, and ultimately building a world-class national paper brand and creating environment friendly and quality social wealth. "Pay back the society faithfully" is the best interpretation of the Company's efforts in fulfilling social responsibilities and a realisation of the Company's mission of "building a world-class paper manufacturing enterprise". While striving for outstanding operating results, the Company insists on sharing its achievements with the society, and is committed to maintain harmony and unity in line with the development of the society and continuously promote the economic development and progress of the society, in order to pay back and contribute to the society with outstanding operating performance.

V Directors' Report

XVI. Fulfilment of Social Responsibility (Cont'd)

The Company is committed to building an ecological friendly first-class international paper making enterprise with sustainable development. As the leading paper making enterprise in China, the Company is always committed to the development of green ecological paper, actively eliminating outdated production capacity, introducing highly efficient, energy-saving and environmental friendly world-class high-end production lines, as well as promoting corporate transformation and upgrade. Meanwhile, the Company has also installed high standard, high quality environmental protection facilities and vigorously developed raw material forest base, which highlights the concept of promoting green ecology and recycling economy.

“Good faith, Win-Win and Sharing” is the most solemn commitment of the Company to the society and its customers. It is also the criteria for enterprises to adapt to market competition, the key to obtain the highest market share and the cornerstone for the Company to achieve greater development. The Company always upholds its faith and strives to reach a win-win situation by considering problems from the point of view of customers and upholding the principle of management, operation and service with integrity. All these have enabled the Company to give full play to the brand impact and continue to improve product quality and service standards, thereby gaining the trust of and achieving long-term cooperation with customers and business partners, and achieving the effective unity of economic benefits and social benefits.

The Company adheres to the core values of “good faith, win-win and sharing”. Chenming regards good faith as the cornerstone of development and the Company’s brand. The Company puts its brand reputation foremost and adheres to the principle of customer first, quality first, and continuously improves product quality and provides quality services to seek to establish a mutual trust and harmonious social relations and build a good corporate image. Chenming participates in the national paper making industry with a high degree of social responsibility. It participates in market competition and seeks opportunities for development, which leads to mutually beneficial resources sharing with customers, employees and society, thus achieving mutual progress and mutual development as well as the win-win strategy of environmental benefits, social benefits and economic benefits.

The Company adheres to the principle of leaving a blue sky and clean water for the future generations while creating wealth for the society. To keep corporate development in line with environment and resources protection, the Company is committed to integrated development of forestry, pulp and paper by promoting recycling economy and the development of green ecological paper, thus gaining the support of the society and creating the conditions for the healthy and sustainable development for the Company. The Company always adheres to the mission of “environmental protection first, scale expansion second” guideline and makes the pollution treatment as our “live or die project”. Thus, we have invested heavily in technology innovation to fully implement cleaner production and resource recycling. In recent years, with a total investment of more than RMB3,000 million, the Company introduced the world’s most advanced technology of environmental protection, and built the facilities of alkali recovery, water recycle and other environmental protection projects. Among them, the alkali recovery system which supports the 3,000 kWh generators with daily capacity of treating 450 tonnes of black liquor, a daily capacity of treating 135,000 cubic metres middle water and 130,000 cubic metres of water reuse. All the emission indicators are superior to the relevant emission standard required by the government. The Company is the first in the industry in China which passes ISO14001 environmental management system certification. The Company has been named the environmental friendly enterprise, the recycling economy exemplary enterprise, the outstanding energy efficiency unit and the outstanding unit in comprehensive utilisation of resources of Shandong province, which reflects its outstanding achievements in both economic development and environment protection. The Company will further strengthen environmental construction, increase investments in scientific research, ensure the proper operation of environmental protection facilities and fully improve the supervision and management, with the aim of achieving a stable development on the basis of a simultaneous development of production and ecology.

The support and practice of charity has become a tradition of the Company. Over the years, in the face of major sudden onset natural disasters, the Company responded promptly by making charitable donations. In addition to charitable donations, the Company’s care for and responsibility towards the society are also demonstrated by its active participation in public welfare activities. In recent years, the amount of charitable donations made by the Company totalled more than RMB20.00 million and the Company was honoured with the title “Most Caring Donating Enterprise” for several times.

V Directors' Report

XVI. Fulfilment of Social Responsibility (Cont'd)

Are the Company and its subsidiaries within the heavily-polluted industry as specified by the national environmental protection authority?

Yes No Not applicable

1. During the reporting period, there were no significant environmental problems and rectification.
2. During the reporting period, major pollutants such as wastewater, waste gas and factory noise were emitted in compliance with the required standards.
3. During the reporting period, the environmental protection facilities operated properly.
4. During the reporting period, in accordance with relevant provisions set out in "Clean Production Promotion Law" and "Disclosure of Environmental Information (Trial)", the Company, combined with its actual situation, had prepared environmental pollution emergency plans, hazardous waste emergency plans and radioactive emergency plans. Data related to major pollutants' emission in compliance with the required standards were published in the environmental protection column of the Company's website in a timely manner. The Company's environmental work has been at the forefront of the industry over the past years.
5. During the reporting period, the Company's environmental protection facilities and production facilities performed properly. Currently, environmental protection facilities being operated mainly include anaerobic reactor, primary sedimentation tank, aeration tank, secondary settling tank, sludge thickener, depth treatment works (wastewater treatment); desulfurisation and denitrification equipment, and electrostatic precipitators (gas treatment). We set up a specific post for facilities, which are managed and maintained by a designated person. Operational and examination records are complete and the operation is normal.

Do the Company and its subsidiaries have other significant social security issues?

Yes No Not applicable

Any administrative penalties during the reporting period?

Yes No Not applicable

V Directors' Report

XVII. Registration report on reception of research investigations, communications and interviews during the reporting period

√ Applicable □ Not applicable

Date of reception	Place of reception	Manner of reception	Class of parties accommodated	Parties accommodated	Main topics of discussion and information provided
11 February 2014	The Company's conference room	On-site research investigation	Institution	E Fund Management Co., Ltd.	Recent production and operation of the Company and development of the industry
27 March 2014	The Company's conference room	Conference call	Institution	First Beijing Investment Limited	Recent production and operation of the Company and development of the industry
28 March 2014	The Company's conference room	On-site research investigation	Institution	Taikang Asset Management Co., Ltd.	Recent production and operation of the Company and development of the industry
23 May 2014	The Company's conference room	On-site research investigation	Institution	ICBC Credit Suisse Asset Management (International) Company Limited	Recent production and operation of the Company and development of the industry
2 July 2014	The Company's conference room	On-site research investigation	Institution	Shanghai Chongyang Investment Co., Ltd	Recent production and operation of the Company and development of the industry
23 July 2014	The Company's conference room	Conference call	Institution	Everbright Pramerica Fund Management Company Limited	Recent production and operation of the Company and development of the industry
23 July 2014	The Company's conference room	On-site research investigation	Institution	Dongxing Securities Co., Ltd.	Recent production and operation of the Company and development of the industry
1 December 2014	The Company's conference room	On-site research investigation	Institution	CIMB Bank Berhad	Recent production and operation of the Company and development of the industry
1 December 2014	The Company's conference room	Conference call	Institution	CLSA Asia-Pacific Markets	Recent production and operation of the Company and development of the industry
Number of reception					9
Number of institutions received					9
Number of individuals received					0
Number of other entities received					0
Disclosure, leakage or divulgence of undisclosed significant information					No

V Directors' Report

XVIII. Securities interests held by Directors, Supervisors and Chief Executives under the SFO of Hong Kong

As at 31 December 2014, 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 Chief Executives of the Company under section 352 of the SFO are set out as follows:

Name	Position	Number of shares (A shares) held as at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Chairman and General Manager	6,434,527
Yin Tongyuan	Executive Director and Vice Chairman	2,423,640
Li Feng	Executive Director	471,818
Geng Guanglin	Executive Director	437,433
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Yang Guihua	Non-Executive Director	—
Wang Xiaoqun	Non-Executive Director	—
Wang Aiguo	Independent Non-Executive Director	—
Zhang Zhiyuan	Independent Non-Executive Director	—
Zhang Hong	Independent Non-Executive Director	—
Pan Ailing	Independent Non-Executive Director	—
Supervisors		
Gao Junjie	Supervisor	39,606
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—
Yin Qixiang	Supervisor	—
Guo Guangyao	Supervisor	—

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 Co., Ltd (note 2)	231,000,000	—	231,000,000

Note 1: Save for the 6,434,527 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.

V Directors' Report

XVIII. Securities interests held by Directors, Supervisors and Chief Executives under the SFO of Hong Kong (Cont'd)

Save as disclosed above, as at 31 December 2014, none 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 2014, none 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.

XIX. The Company's substantial shareholders' and other persons' interest in shares or debentures under the SFO of Hong Kong

As at 31 December 2014, 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 SFO (Chapter 571 of the Laws of Hong Kong):

Name	Number of shares held (shares)	Approximate shareholding as a percentage of	
		Total share capital (%)	Class of shares (%)
SHOUGUANG CHENMING HOLDINGS CO., LTD	293,003,657 A shares(L)	15.13	26.32
THE NATIONAL SOCIAL SECURITY FUND COUNCIL	35,570,000 H shares(L)	1.84	10.10

(L) – Long position

(S) – Short position

(P) – Lending pool

Save as disclosed above, as at 31 December 2014, 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.

XX. Interests in competing business

None of the Directors or controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Company and its subsidiaries.

XXI. Directors' interests in material contracts

None of the Company or any of its subsidiaries entered into any material contracts, in which Directors had significant interests (either directly or indirectly), that subsisted at the end of the financial year or at any time during the reporting period.

V Directors' Report

XXII. Directors and Senior Management's Remuneration and the Five Highest Paid Individuals

Details of directors and senior management's remuneration and those of the five highest paid individuals in the Company and its subsidiaries are set out in part III of section IX and part XII of section XII.

In 2014, the Company has 25 senior management in total, which include directors, supervisors and senior management. The remuneration of senior management falls within the following ranges:

Range of remuneration	Number
RMB4.8 million to RMB5.2 million	1
RMB3.6 million to RMB4.0 million	
RMB3.2 million to RMB3.6 million	1
RMB2.8 million to RMB3.2 million	1
RMB2.4 million to RMB2.8 million	
RMB2.0 million to RMB2.4 million	
RMB1.6 million to RMB2.0 million	1
RMB1.2 million to RMB1.6 million	2
RMB0.8 million to RMB1.2 million	4
Below RMB0.8 million	15

XXIII. Directors' rights to purchase shares or debentures

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

XXIV. Transfer into reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act. As of 31 December 2014, the Company's reserves available for cash distribution and/or distribution in specie amounted to RMB5,313,936,425.86 (2013: RMB5,379,887,056.23) are set out in part II Financial Statements of section XII Financial Report.

XXV. Gearing ratio

As at 31 December 2014, the Company's gearing ratio (including minority interest) was 60.45%, representing an increase of 3.57 percentage points from 56.88% for 2013, mainly due to the increase in borrowings for more project investments during the period.

The ratio was calculated as: total borrowings/total assets (whereas total borrowings represent borrowings due within one year, borrowings due after one year, short-term commercial paper and medium and long-term notes and others).

XXVI. Purchase, sale and redemption of shares

During the year ended 31 December 2014, the Company repurchased on Hong Kong Stock Exchange 39,066,550 H shares in total, at a consideration of HK\$133,556,245.00. The highest repurchase price was HK\$3.60 per share, while the lowest price was HK\$3.17 per share. All these shares have been cancelled upon the repurchase.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the reporting period.

V Directors' Report

XXVII. 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.

XXVIII. 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.

XXIX. Review of the Audit Committee

The audited consolidated financial statements of the Company for the year ended 31 December 2014 has been reviewed by the Audit Committee of the Company.

XXX. Going Concern Basis

The Company is a major conglomerate focusing on forestry, pulp and paper, with comparative advantages in scale, product, technology and equipment, research and innovation, overall costs, capital and environmental management capabilities. In recent years, the Company has been committed to the development of integrated forestry, pulp and paper development, with a longer industry chain and a more comprehensive range of paper products. The development path of the Company is in line with development planning requirements of the entire paper making industry. The Company has also established a finance company and a finance leasing company. Its financial business is bearing fruit and open up new source of profit, further rationalising its business portfolio and enhancing its going concern ability.

The company has a good sustained profitability. In 2014, the Company achieved operating income of RMB19.1 billion, net profit attributable to shareholders of listed company was RMB505 million and net cash flow from operating activities was RMB985 million. Meanwhile, the Company always places emphasis on the interests of and return to shareholders, and has paid generous cash dividends for several years. With the improvement of the economic situation, the future performance of the Company is worth looking forward to.

In addition, as of the end of December 2014, the Company obtained a comprehensive credit line of RMB46.9 billion from major financial institutions, of which unused credit line amounted to RMB24.7 billion, which provided important support to the Company's business development. As an A-share, B-share and H-share listed company, the Company has convenient financing channels. The establishment of Finance Company and Finance Leasing Company is bearing fruit and will 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 its financing cost and improve its debt structure.

The auditors of the Company have prepared the 2014 annual financial report on a going concern basis, and have issued a standard unqualified audit opinion (see Financial Report section).

Therefore, the Board believes the Company has the ability to continue as a going concern.

XXXI. Closure of register of members

The register of members of the Company will be closed from 13 April 2015 (Monday) to 15 May 2015 (Friday), (both days inclusive), during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting to be held on 15 May 2015 (Friday), all transfer documents accompanied by the relevant share certificate(s) must be lodged for registration not later than 4:30 p.m. on 10 April 2015 (Friday).

Besides, the register of members of the Company will also be closed from 21 May 2015 to 27 May 2015 (both days inclusive) for the purpose of determining the entitlement to the proposed final cash dividend in respect of the year ended 31 December 2014 (subject to the approval of shareholders at the annual general meeting). In order to be qualified for the proposed final cash dividend, H Share Shareholders should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's Hong Kong share registrar and transfer office, 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 20 May 2015.

VI Material Matters

I. Material litigation and arbitration

Applicable Not applicable

The Company was not involved in any material litigation and arbitration during the reporting period.

II. Questioning from the Media

Applicable Not applicable

There was no questioning from the media during the reporting period.

III. Appropriation of funds of the Company by the controlling shareholder and its related parties for non-operating purposes

Applicable Not applicable

There was no appropriation of funds of the Company by the controlling shareholder and its related parties for non-operating purposes during the reporting period.

IV. Matter related to bankruptcy and reorganisation

Applicable Not applicable

There was no matter related to bankruptcy and reorganisation during the reporting period.

V. Asset transactions

1. Acquisition of assets

Applicable Not applicable

There was no acquisition of assets during the reporting period.

VI Material Matters

V. Asset transactions (Cont'd)

2. Disposal of assets

Applicable Not applicable

Counterparty(ies)	Asset disposed of	Disposal Date	Transaction consideration (RMB'0,000)	Net profit contribution to the Company from the beginning of the period up to the disposal date (RMB'0,000)	Effect of disposal on the Company (note 3)	Ratio of the net profit contribution to the Company of disposal of assets over total net profit (%)	Pricing basis of asset disposal	Related party transaction or not	Relationship with counterparty (ies) (applicable to related party transaction)	Relevant asset title fully transferred or not	Relevant liability fully transferred or not	Disclosure date	Disclosure index
Guangdong Dejun Investment Co., Ltd.	51% equity interest in Xinli Power held by Chemming Power	4 March 2014	7,619.4	435.83	To increase cash flow of the Company and allow the Company to centralise resources for developing high-end niche products.	-1.69%	Arrived at after valuation and based on the quoted price on an equity exchange	No	Not applicable	Yes	Yes	5 March 2014	http://www.cninfo.com.cn

3. Business merger

Applicable Not applicable

There was no business merger during the reporting period.

VI. Implementation of the equity incentive plan of the Company and its effect

Applicable Not applicable

There was no implementation of the equity incentive plan of the Company during the reporting period.

VII. Significant related party transactions

1. Related party transactions associated with day-to-day operation

Applicable Not applicable

Related party	Related party relationship	Types of the related party transactions	Subject matter of the related party transactions	Pricing basis of the related party transactions	Price of related party transactions	Amount of related party transactions (RMB'0000)	Percentage as the amount of similar transaction (%)	Settlement of related party transactions	Market price of available similar transaction	Disclosure date	Disclosure index
Anhui Time Source Corporation	Associate	Sale	Machine-made paper	Market price	Market price	29,124.62	1.52%	Bank acceptance and telegraphic transfer	Not applicable	Not applicable	Not applicable
Total				-	-	29,124.62	-	-	-	-	-

VI Material Matters

VII. Significant related party transactions (Cont'd)

2. Related party transaction connected to purchase or sale of assets

Applicable Not applicable

There was no related party transaction of the Company connected to purchase or sale of assets during the reporting period.

3. Related party transaction connected to joint external investment

Applicable Not applicable

There was no related party transaction of the Company connected to joint external investment during the reporting period.

4. Related creditors' rights and debts transactions

Applicable Not applicable

Whether non-operating related creditors' rights and debts transactions existed?

Yes No

There was no non-operating related creditors' rights and debts transaction of the Company during the reporting period.

5. Other related party transactions

Applicable Not applicable

There was no other related party transaction of the Company during the reporting period.

VIII. Material contracts and implementation

1. Custody, contracting and leasing

(1) Custody

Applicable Not applicable

There was no custody of the Company during the reporting period.

(2) Contracting

Applicable Not applicable

There was no contracting of the Company during the reporting period.

(3) Leasing

Applicable Not applicable

There was no leasing of the Company during the reporting period.

2. Guarantees

Applicable Not applicable

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

VI Material Matters

VIII. Material contracts and implementation (Cont'd)

2. Guarantees (Cont'd)

During the reporting period, the Company provided guarantee to its subsidiaries with respect to application of bank loans. The guarantee amount incurred was RMB10,258.0076 million. As at 31 December 2014, the balance of the guarantee provided by the Company to its subsidiaries amounted to RMB10,679.8155 million, representing 76.74% of the equity attributable to shareholders of the Company for 2014.

Unit: RMB'0,000

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)								
Name of obligor	Date 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		Total amount of external guarantee provided during the reporting period (A2)				0
Total amount of external guarantee approved as at the end of the reporting period (A3)		0		Total balance of external guarantee provided as at the end of the reporting period (A4)				0
Guarantees provided by the Company for subsidiaries								
Name of obligor	Date 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
Zhanjiang Chenming Pulp & Paper Co., Ltd.	28 March 2012	270,000	27 June 2012	185,144.16	General guarantee	3 years	No	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	27 October 2014	650,000			General guarantee	3 years	No	No
Jiangxi Chenming Paper Co., Ltd.	27 March 2013	45,000	29 May 2014	17,660.01	General guarantee	3 years	No	No
Jiangxi Chenming Paper Co., Ltd.	27 October 2014	200,000			General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	28 March 2012	2,600	27 June 2012	2,600	General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	27 October 2014	10,000	18 December 2014	2,000	General guarantee	3 years	No	No
Jilin Chenming Paper Co., Ltd.	27 October 2014	150,000			General guarantee	3 years	No	No
Chenming (HK) Limited	28 March 2012	500,000	8 January 2014	248,763.54	General guarantee	3 years	No	No
Chenming (HK) Limited	27 October 2014	500,000	4 November 2014	129,503.51	General guarantee	3 years	No	No
Shandong Chenming Paper Sales Company Limited	27 October 2011	200,000	6 June 2014	147,007.37	General guarantee	3 years	No	No
Shandong Chenming Paper Sales Company Limited	27 October 2014	400,000	29 October 2014	245,308.57	General guarantee	3 years	No	No
Shouguang Chenming Import and Export Trade Co., Ltd.	27 October 2014	200,000			General guarantee	3 years	No	No
Shandong Chenming Financial Leasing Co., Ltd.	27 August 2014	100,000	26 September 2014	85,994.39	General guarantee	3 years	No	No
Haicheng Haiming Mining Company Limited	27 August 2014	60,000			General guarantee	3 years	No	No
Shandong Chenming Group Finance Co., Ltd.	29 December 2014	400,000			General guarantee	3 years	No	No
Guangdong Huihui Investment Co., Ltd.	16 November 2013	4,000	28 November 2013	4,000	General guarantee	2 years	No	No
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)		2,670,000		Total amount of guarantee provided for subsidiaries during the reporting period (B2)				1,025,800.76
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)		3,691,600		Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)				1,067,981.55
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)		2,670,000		Total amount of guarantee provided during the reporting period (A2+B2)				1,025,800.76
Total amount of guarantee approved as at the end of the reporting period (A3+B3)		3,691,600		Total balance of guarantee provided as at the end of the reporting period (A4+B4)				1,067,981.55
The percentage of total amount of guarantee provided (A4+B4) to the net assets of the Company								76.74%
Of which:								
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)								0
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)								779,182.99
Total amount of guarantee provided in excess of 50% of net assets (E)								372,114.38
Sum of the above three amount of guarantee (C+D+E)								1,151,297.37

VI Material Matters

VIII. Material contracts and implementation (Cont'd)

2. Guarantees (Cont'd)

(1) External guarantees against the rules and regulations

There was no external guarantee provided by the Company which was against the rules and regulations during the reporting period.

3. Other material contracts

Applicable Not applicable

Name of the company entering into contract	Name of party involved in the contract	Date of the contract entered into	Book value of subject asset of the contract (RMB'0,000)	Appraised value of the subject asset of the contract (RMB'0,000)	Name of appraisal institute	Appraisal date	Pricing basis	Transaction price (RMB'0,000)	Related party transaction or not	Related party relationship	Progress as at the end of the reporting period
Shandong Chenming Paper Holdings Limited	Jinan Hi-Tech Holding Group Co., Ltd	9 May 2014	Not applicable	Not applicable	Not applicable	Not applicable	Market price	36,000	No	Not applicable	In progress

4. Other material transactions

Applicable Not applicable

There was no other material transaction of the Company during the reporting period.

VI Material Matters

IX. Performance of undertakings

1. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or prior periods but subsisting to the reporting period

√ Applicable Not applicable

Undertaking	Party involved in undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertaking on shareholding structure reformation					
Undertaking made in offering documents or shareholding alternation documents					
Undertaking made during asset reconstruction					
Undertaking made on initial public offering or refinancing	Shouguang Chenming Holdings Co., Ltd.	(1) Shouguang Chenming Holdings Co., Ltd. ("Shouguang Chenming Holdings") shall not engage, whether solely, jointly, or by representing itself or any other persons or companies, and shall not procure its associates (as defined in The Listing Rules of Hong Kong Stock Exchange) to engage, in any business which competes with the business of the Company and its subsidiaries ("Chenming Group" or "we") directly or indirectly, in any country and region which our business exists (or any part of the world if in any form of electronics business), or in any business that directly or indirectly competes with Chenming Group's business which we operate from time to time (including but not limited to any business in the form of sole proprietorship, joint ventures or acquisitions, or holding interests directly or indirectly in such enterprises, or by any other means); (2) in the event that Shouguang Chenming Holdings is required by its business to, whether solely, jointly, or by representing itself or any other persons or companies, engage in business which directly or indirectly competes against the business of Chenming Group, or obtain any business opportunity which directly or indirectly competes against the business of Chenming Group, it shall endeavour to procure that Chenming Group shall have priority to obtain the right to operate such business or to obtain such business opportunity; (3) if Shouguang Chenming Holdings is in breach of the abovementioned undertakings, it shall indemnify the Company for any loss caused by such breach and the Company shall have the right to acquire all businesses of Shouguang Chenming Holdings, which directly or indirectly compete with the businesses of our Group, at market price or cost price (whichever price is lower); (4) Shouguang Chenming Holdings shall not make use of its position as the controlling shareholder (as defined in The Listing Rules of Hong Kong Stock Exchange) of our Group to jeopardise the legal interests of Chenming Group and its shareholders with other persons or companies or on their behalf.	22 May 2008	During the period when Chenming Holdings was the major shareholder of the Company	Strictly implemented

VI Material Matters

IX. Performance of undertakings (Cont'd)

1. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or prior periods but subsisting to the reporting period (Cont'd)

Undertaking	Party involved in undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
	Shouguang Chenming Holdings Co., Ltd.	(1) According to the plan on defective properties of the Company, Shouguang Chenming Holdings Co., Ltd. ("Shouguang Chenming Holdings") has guaranteed and undertaken that: according to the application of the Company, for defective property(ies) owned by the Company and its holding subsidiary company which situated in the administrative area of Shouguang city, Shouguang Chenming Holdings will purchase it(them) and have it(them) being transferred to itself pursuant to the law in accordance with the result of the related asset valuation if the Company decides to transfer and dispose of it(them) and there is no other transferee; (2) before the Company transfers and disposes of the defective properties pursuant to the law, if the Company suffers any economic losses due to the defects of the title (including but not limited to damages, penalties and relocation costs), Shouguang Chenming Holdings will bear such economic losses; (3) during the regulatory process taken to the defective properties of buildings and land of subsidiaries of the Company situated outside the local areas (outside the administrative area of Shouguang city), the economic losses such as penalties or relocation costs imposed by competent administrative authorities to be borne by the subsidiaries arising from defects of insufficient title documents shall be paid pursuant to the law by Shouguang Chenming Holdings after verification.	16 January 2008	During the period when Chenming Holdings was the major shareholder of the Company	Strictly implemented

Other undertakings made to minority shareholders of the Company

Does the undertaking performed timely?

Yes

2. As there is profit forecast for assets and items of the Company, and reporting period is still within the profit forecast period, description on Company's assets and items in meeting original profit forecast and its explanation

Applicable Not applicable

VI Material Matters

X. Engagement or dismissal of accounting firms

Current accounting firm engaged

Name of the domestic accounting firm	Ruihua Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm (RMB' 0,000)	260
Continued term of service of the domestic accounting firm	2
Name of certified public accountants of the domestic accounting firm	Wang Chuanshun and Jing Chuanxuan

Whether to appoint another accounting firm during the period

Yes No

Particulars on recruitment of accounting firms, financial consultants or sponsors for internal control and auditing purposes

Applicable Not applicable

During the year, the Company engaged RSM China Certified Public Accountants as the internal control and auditing firm of the Company. The Company paid RMB600,000 for internal control and auditing fees during the period. The Company engaged King & Wood Mallesons (Qingdao) Law Firm as its annual legal advisor and paid RMB100,000 for legal advisory fees during the period.

XI. Opinions of the Supervisory Committee and Independent Shareholders (if applicable) regarding the “modified auditor’s report” for the reporting period issued by the accounting firm

Applicable Not applicable

XII. Punishment and rectification

Applicable Not applicable

There was no punishment and rectification of the Company during the reporting period.

XIII. Suspension in trading or delisting upon publication of annual report

Applicable Not applicable

VI Material Matters

XIV. Other matters of significance

Applicable Not applicable

1. Non-public offer of preference shares

For details, please refer to “VIII. Particulars on preference shares” of this report.

2. Commencement of operation of the Finance Company upon approval by China Banking Regulatory Commission Shandong office

The Company received the Approval from Shandong CBRC of the Operation of Shandong Chenming Group Finance Co., Ltd. (Lu Yin Jian Zhun [2014] No. 233) issued by China Banking Regulatory Commission Shandong office on 30 June 2014. Please refer to the related announcement (Announcement No.: 2014-034) disclosed by the Company on <http://www.cninfo.com.cn> on 1 July 2014.

3. Information disclosure index for 2014

Announcement No.	Subject matter	Date of publication	Publication website and index
2014-001	Announcement on Amendment to Articles of Association	4 January 2014	http://www.cninfo.com.cn
2014-002	Announcement on Resolutions of the Fourth Extraordinary Meeting of the Seventh Session of the Board	18 January 2014	http://www.cninfo.com.cn
2014-003	Announcement on External Investment	18 January 2014	http://www.cninfo.com.cn
2014-004	Announcement on change of Securities Affairs Representative	18 January 2014	http://www.cninfo.com.cn
2014-005	Announcement on External Investment	18 January 2014	http://www.cninfo.com.cn
2014-006	Discloseable Transaction - Entrusted Loan Arrangement	18 January 2014	http://www.cninfo.com.cn
2014-007	Announcement on Estimated Annual Results for 2013	21 January 2014	http://www.cninfo.com.cn
2014-008	Announcement on Repurchase of Shares by a Shareholder through Agreed Repurchase Type Securities Trading	21 January 2014	http://www.cninfo.com.cn
2014-009	Indicative Announcement on Receipt of Subsidies	23 January 2014	http://www.cninfo.com.cn
2014-010	Indicative Announcement on Receipt of Special Subsidies by Subsidiaries	29 January 2014	http://www.cninfo.com.cn
2014-011	Announcement on the Performance of Undertakings by the Company and Relevant Entities	13 February 2014	http://www.cninfo.com.cn
2014-012	Announcement on disposal of equity interest in Xinli Power	5 March 2014	http://www.cninfo.com.cn
2014-013	Announcement on Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors	21 March 2014	http://www.cninfo.com.cn
2014-014	Notice of 2013 Annual General Meeting	21 March 2014	http://www.cninfo.com.cn
2014-015	Announcement of Annual Results for the Year Ended 31 December 2013	21 March 2014	http://www.cninfo.com.cn
2014-016	Announcement on financial assistance to controlling subsidiaries	21 March 2014	http://www.cninfo.com.cn

VI Material Matters

XIV. Other matters of significance (Cont'd)

3. Information disclosure index for 2014 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2014-017	Announcement on External Investment	21 March 2014	http://www.cninfo.com.cn
2014-018	Announcement on External Investment	21 March 2014	http://www.cninfo.com.cn
2014-019	Announcement on Resolutions of the Fifth Meeting of the Seventh Session of the Supervisory Committee	21 March 2014	http://www.cninfo.com.cn
2014-020	Indicative Announcement on Increase of Shareholding in the Company by Senior Management	25 March 2014	http://www.cninfo.com.cn
2014-021	Indicative Announcement on Receipt of Subsidies by Subsidiary	1 April 2014	http://www.cninfo.com.cn
2014-022	Announcement on Resignation of Director	16 April 2014	http://www.cninfo.com.cn
2014-023	Announcement on Additional Resolution of 2013 Annual General Meeting	23 April 2014	http://www.cninfo.com.cn
2014-024	Supplemental Notice of 2013 Annual General Meeting	23 April 2014	http://www.cninfo.com.cn
2014-025	2014 First Quarterly Report	30 April 2014	http://www.cninfo.com.cn
2014-026	Results of the 2013 Annual General Meeting	10 May 2014	http://www.cninfo.com.cn
2014-027	Announcement on Completion of Repurchase of Part of H Shares	10 May 2014	http://www.cninfo.com.cn
2014-028	Indicative Announcement in respect of Change in Shareholdings of Controlling Shareholder	10 May 2014	http://www.cninfo.com.cn
2014-029	Discloseable Transaction: Entrusted Construction Agreement	10 May 2014	http://www.cninfo.com.cn
2014-030	Announcement on Participation in 2014 Collective Online Reception Day for Investors of Shandong Listed Companies	13 May 2014	http://www.cninfo.com.cn
2014-031	Announcement on Amendment to Articles of Association	30 May 2014	http://www.cninfo.com.cn
2014-032	Announcement on the Implementation of Equity Distribution to Holders of A Shares and B Shares for 2013	28 June 2014	http://www.cninfo.com.cn
2014-033	Announcement on 2014 Dividend Payment in respect of "11 Chenming Bond"	28 June 2014	http://www.cninfo.com.cn
2014-034	Announcement on Approval from Shandong CBRC of the Operation of the Finance Company	1 July 2014	http://www.cninfo.com.cn
2014-035	Indicative Announcement on Receipt of Subsidies	2 July 2014	http://www.cninfo.com.cn
2014-036	Announcement on Resolutions of the Sixth Meeting of the Seventh Session of the Board	28 August 2014	http://www.cninfo.com.cn
2014-037	Shandong Chenming Paper Holdings Limited 2014 Interim Report Summary	28 August 2014	http://www.cninfo.com.cn
2014-038	Announcement on External Investment	28 August 2014	http://www.cninfo.com.cn
2014-039	Announcement on External Investment	28 August 2014	http://www.cninfo.com.cn

VI Material Matters

XIV. Other matters of significance (Cont'd)

3. Information disclosure index for 2014 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2014-040	Announcement in respect of Provision of Guarantee for the Comprehensive Credit Line of Controlling Subsidiaries and Wholly-owned Sub-subsidiaries	28 August 2014	http://www.cninfo.com.cn
2014-041	Announcement on Resolutions of the Seventh Meeting of the Seventh Session of the Supervisory Committee	28 October 2014	http://www.cninfo.com.cn
2014-042	2014 Third Quarter Report	28 October 2014	http://www.cninfo.com.cn
2014-043	Announcement on External Investment	28 October 2014	http://www.cninfo.com.cn
2014-044	Announcement on Provision of Guarantee for Comprehensive Credit Line of Certain Controlling Subsidiaries	28 October 2014	http://www.cninfo.com.cn
2014-045	Notice of the 2014 First Extraordinary General Meeting	28 October 2014	http://www.cninfo.com.cn
2014-046	Indicative Announcement of 2014 First Extraordinary General Meeting	29 November 2014	http://www.cninfo.com.cn
2014-047	Announcement on Additional Resolutions Proposed at the 2014 First Extraordinary General Meeting	2 December 2014	http://www.cninfo.com.cn
2014-048	Supplemental Notice of 2014 First Extraordinary General Meeting	2 December 2014	http://www.cninfo.com.cn
2014-049	Indicative Announcement on Receipt of Subsidies	3 December 2014	http://www.cninfo.com.cn
2014-050	Announcement on Resolutions of the 2014 First Extraordinary General Meeting	17 December 2014	http://www.cninfo.com.cn
2014-051	Announcement on 2014 Dividend Payment in respect of "12 Chenming Bond"	20 December 2014	http://www.cninfo.com.cn
2014-052	Suspension of Trading	25 December 2014	http://www.cninfo.com.cn
2014-053	Announcement on Resolutions of the Fifth Extraordinary General Meeting of the Seventh Session of the Board	30 December 2014	http://www.cninfo.com.cn
2014-054	Announcement on Proposed Issue of Non-public Preference Shares	30 December 2014	http://www.cninfo.com.cn
2014-055	Announcement on External Investment	30 December 2014	http://www.cninfo.com.cn
2014-056	Announcement on Provision of Guarantee for Comprehensive Credit Line of Wholly-owned Subsidiaries	30 December 2014	http://www.cninfo.com.cn
2014-057	Notice of the 2015 First Extraordinary General Meeting	30 December 2014	http://www.cninfo.com.cn
2014-058	Announcement on Stock-pledged Repurchase Transactions by Shareholders	30 December 2014	http://www.cninfo.com.cn
2014-059	Announcement on Resumption of Trading	30 December 2014	http://www.cninfo.com.cn
2014-060	Notice of the 2015 First Domestic Listed Share Class Meeting and 2015 First Overseas Listed Share Class Meeting	30 December 2014	http://www.cninfo.com.cn

VI Material Matters

XV. Significant matters of the subsidiaries of the Company

Applicable Not applicable

1. Establishment of Shandong Chenming Financial Leasing Co., Ltd. by Chenming (HK)

In order to promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, as well as develop new sources of profit growth, Chenming (HK), a wholly-owned subsidiary of the Company, has established a domestic company, Shandong Chenming Financial Leasing Co., Ltd. For more details, please refer to the related announcements (Announcement No.: 2014-003, 2014-038 and 2014-043) disclosed by the Company on <http://www.cninfo.com.cn/> on 18 January 2014, 28 August 2014 and 28 October 2014, respectively.

2. Proposed issue of USD bonds by Chenming (HK)

In order to fully utilise its financing platform in Hong Kong, expand the financing channels of the Company, lower the Company's financing cost, as well as increase the Company's reputation in overseas capital market, Chenming (HK) Limited intended to issue US\$500 million bond. For more details, please refer to the related announcement (Announcement No.: 2014-041) disclosed by the Company on <http://www.cninfo.com.cn/> on 28 October 2014.

3. Investment in Shanghai Leadbank Asset Management Co., Ltd. by Shandong Chenming Financial Leasing Co., Ltd., a wholly-owned subsidiary, and commencement of online banking operation

To facilitate the diversified development strategy of the Company, further expand its business scope, create a better environment for the development of financing operation, increase the economic value of financing operation thereby maximising the competitiveness and profitability of the Company. Shandong Chenming Financial Leasing Co., Ltd. commenced online banking operation by acquisition of 3% of the additional registered share capital of Shanghai Leadbank Asset Management Co., Ltd. for a consideration of RMB36 million. For more details, please refer to the related announcement (Announcement No.: 2014-055) disclosed by the Company on <http://www.cninfo.com.cn/> on 30 December 2014.

XVI. Issuance of corporate bonds by the Company

Applicable Not applicable

- (1) As approved by the securities regulatory approval No. [2011] 1019 issued by China Securities Regulatory Commission on 27 June 2011, the Company was authorised to issue corporate bonds with an aggregate value not more than RMB2,000 million. The corporate bonds had a tenor of 5 years with fixed interest rate. The coupon rate of the bond was 5.95%, with interest paid annually in simple interest (without compound interest). The value date started from 6 July 2011, and 6 July of each of the year 2012 to 2016 was and would be the interest payment date for the previous interest-bearing year. The principal amount and last interest payment were to be paid on the maturity date. The Company published "Announcement on 2012 interest payment of 2011 corporate bonds" on 30 June 2012, with interest payment being implemented.
- (2) As approved by the securities regulatory approval No. [2012] 1612 issued by China Securities Regulatory Commission on 30 November 2012, the Company was authorised to issue corporate bonds with an aggregate value not more than RMB3,800 million. The corporate bonds had a tenor of 5 years, accompanied by an option for issuer to increase the coupon rate and a repurchase option for investors at the end of the third year. The bonds had fixed interest rate. The coupon rate of the bonds was 5.65%, with interest paid annually in simple interest (without compound interest). The value date started from 26 December 2012, and 26 December of each of the year 2013 to 2017 would be the interest payment date for the previous interest-bearing year. If investors execute their repurchase option, the interest payment date of the repurchased bond is 26 December of each of the year 2013 to 2015. The principal amount and last interest payment were to be paid on the maturity date.

VI Material Matters

XVII. Repurchase of H shares

1. Background and purpose of repurchase

In light of the global financial crisis and domestic economic downturn, there has been huge adjustment of the domestic capital market since mid 2011. The share price of the Company's H shares has continued to fall. The performance of share price of Company's H shares is inconsistent with the Company's intrinsic value and its leading position in the industry, the investment value of the Company is underestimated. This not only adversely affected the image of the Company in the capital market, but also adversely affected the protection of interest of shareholder as a whole. Therefore, in order to strengthen investors' confidence in the Company, increase Company's value to a reasonable level and maximise shareholders' value, the Company intended to repurchase part of its H shares.

2. Procedures taken regarding repurchases

On 27 June 2013, the First Extraordinary Meeting of the Seventh Session of the Board of Directors approved the proposal concerning the granting of a general mandate to the Board for repurchase of part of H shares of the Company.

On 21 August 2013, the Company convened the 2013 First extraordinary shareholders' meeting, Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and Class Meeting for Holders of Overseas Listed Shares (H shares), on which proposals concerning the repurchase of H shares of the Company were approved. On the next day, the Company disclosed an announcement in respect of H shares repurchase and capital reduction.

On 10 October 2013, Shandong Province Commerce Department issued a Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2013] No. 705), which intended to agree that the Company repurchased no more than 39.127 million issued overseas listed foreign shares (H share). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 1 November 2013, the reply from Shouguang City Branch of the State Administration of Foreign Exchange consented to the foreign exchange purchase quota in respect of the H shares repurchased by the Company.

VI Material Matters

XVII. Repurchase of H shares (Cont'd)

3. Progress of Repurchase

The Company has commenced repurchase of its H shares since 11 December 2013. As of the end of the term of such repurchase on 9 May 2014, the Company repurchased 39,066,500 shares, representing 1.9776% of the Company's total share capital. The highest repurchase price was HK\$3.60 per share, while the lowest price was HK\$3.17 per share. The total amount paid amounted to HK\$133,556,245.00 (before stamp duty and commission).

On 15 May 2014, the Company has cancelled the repurchased 39,066,500 overseas listed foreign shares (H shares).

On 27 May 2014, the Company received the Reply on Capital Reduction of Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Z [2014] No. 158) issued by Shandong Province Commerce Department and Certificate of Approval for Foreign Investment Enterprise upon the capital reduction, which both agreed that the Company reduced its registered capital from RMB1,975,471,967 to RMB1,936,405,467.

On 28 May 2014, the Company completed filing procedures for capital reduction with Shandong Province Industry and Commerce Bureau and obtained its business license after capital reduction, with the registered capital of RMB1,936,405,467.

XVIII. Post balance sheet events

On 11 February 2015, the Company received the Reply on Issues Regarding the Non-public Offer of Preference Shares by Shandong Chenming Paper Holdings Limited (Lu Quo Zi Chan Quan Zi [2015] No. 4) issued by Stated-owned Assets Supervision and Administration Commission of Shandong Province, which agreed the non-public offer of not more than 45.00 million preference shares by the Company.

On 13 February 2015, the Company convened the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and the 2015 First Class Meeting for Holders of Overseas Listed Shares (H shares), at which the resolution on the non-public offer of preference share proposal was considered and approved respectively.

VII Changes in Share Capital and Shareholders

I. Changes in shares

1. Changes in shares

Unit: Share

	Opening balance		Change during the reporting period (+/-)					Closing balance	
	Amounts	Percentage	New issue	Bonus issue	Shares converted		Sub-total	Amounts	Percentage
					from reserve	Others			
I. Restricted shares	8,166,219	0.41%	0	0	0	75,000	75,000	8,241,219	0.42%
1. Shares held by other									
domestic investors	8,166,219	0.41%	0	0	0	75,000	75,000	8,241,219	0.42%
Shares held by domestic natural persons	8,166,219	0.41%	0	0	0	75,000	75,000	8,241,219	0.42%
II. Non-restricted shares	1,967,305,748	99.59%	0	0	0	-39,141,500	-39,141,500	1,928,164,248	99.58%
1. RMB ordinary shares	1,105,112,237	55.94%	0	0	0	-75,000	-75,000	1,105,037,237	57.07%
2. Domestic listed foreign shares	470,923,511	23.84%	0	0	0	0	0	470,923,511	24.32%
3. Overseas listed foreign shares	391,270,000	19.81%	0	0	0	-39,066,500	-39,066,500	352,203,500	18.19%
III. Total number of shares	1,975,471,967	100.00%	0	0	0	-39,066,500	-39,066,500	1,936,405,467	100.00%

The reasons for such changes

Applicable Not applicable

- Before and after the change, the restricted shares held by domestic natural persons changed by 75,000 shares from 8,166,219 shares to 8,241,219 shares. The reason for such change is as follows: during the reporting period, the senior management increased their shareholding in the Company, of which 75,000 shares were changed to restricted shares held by domestic natural persons from non-restricted RMB ordinary shares according to the Practical Guidelines on the Management of the Company's Shares Held by the Directors, Supervisors and Senior Management of the Listed Companies on Shenzhen Stock Exchange.
- Before and after the change, overseas listed foreign shares changed by 39,066,500 shares from 391,270,000 shares to 352,203,500 shares. The reason for such change is as follows: during the reporting period, the Company repurchased some overseas listed foreign shares (H shares). As of 9 May 2014, the Company had repurchased H shares amounting to 39,066,500 shares. Cancellation of repurchased shares was completed at Computershare Hong Kong Investor Services Limited on 14 May 2014.

VII Changes in Share Capital and Shareholders

I. Changes in shares (Cont'd)

1. Changes in shares (Cont'd)

Approval of changes in shareholding

Applicable Not applicable

On 27 June 2013, the First Extraordinary Meeting of the Seventh Session of the Board approved the proposal concerning granting a general mandate to the Board for repurchase of part of H shares of the Company.

On 21 August 2013, the Company convened the 2013 First extraordinary general meeting, Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and Class Meeting for Holders of Overseas Listed Shares (H shares), at each of which proposals concerning the repurchase of H shares of the Company were approved.

On 10 October 2013, Shandong Province Commerce Department issued a Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2013] No. 705), which intended to agree that the Company repurchased not more than 39.127 million issued overseas listed foreign shares (H shares). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 1 November 2013, the reply from Shouguang City Branch of the State Administration of Foreign Exchange consented to the foreign exchange purchase quota in respect of the H shares repurchased by the Company.

On 14 May 2014, the cancellation of the repurchased 39,066,500 H shares was completed at Computershare Hong Kong Investor Services Limited.

On 27 May 2014, the Company received the "Reply on Capital Reduction of Shandong Chenming Paper Holdings Limited" (Lu Shang Wu Wai Zi Zi [2014] 158) from the Department of Commerce of Shandong Province and the Certificate of Approval for Foreign Investment Enterprise upon the reduction of share capital, which both agreed that the Company reduced its registered capital from RMB1,975,471,967 to RMB1,936,405,467.

On 28 May 2014, the Company completed filing procedures for capital reduction with Shandong Province Industry and Commerce Bureau and obtained its business license after capital reduction, with the registered capital of RMB1,936,405,467.

Transfer of shares arising from changes in shareholding

Applicable Not applicable

The effects of changes in shareholding on financial indicators such as basic earnings per share, diluted earnings per share and net assets per share attributable to shareholders of ordinary shares of the Company for the latest year and the latest period

Applicable Not applicable

Other information considered necessary by the Company or required by the securities regulatory authorities to be disclosed

Applicable Not applicable

VII Changes in Share Capital and Shareholders

II. Issuance and listing of securities

1. As at the end of the reporting period, issuance of securities in the last three years

Applicable Not applicable

Name of share and its derivative	Issue date	Issue price (or interest rate)	Amount issued	Listing date	Amount approved for listing and trading	Termination date for transaction
Convertible corporate bonds, bonds with warrants and corporate bonds						
12 Chenming bond	26 December 2012	RMB100 each with a fixed rate of 5.65%	38,000,000	4 February 2013	38,000,000	26 December 2017

Explanation of issue of securities in the last three years

On 26 December 2012, the Company issued a total of 38 million corporate bonds totalling RMB3.8 billion with a face value of RMB100 each at an issue price of RMB100 and a coupon rate of 5.65%, raising a total of RMB3.8 billion. After deducting RMB27 million of expenses, the net proceeds raised amounted to RMB3.773 billion. As at the date of this report, RMB3.773 billion of the funds raised were accumulatively used, among which about RMB273 million for providing additional liquidity and about RMB3.5 billion for repaying bank loans, mainly of which were used for replacement of short-term bank borrowings.

2. Changes in the total number of shares and structure of shareholders and the structure of the assets and liabilities of the Company

Applicable Not applicable

- (1) During the reporting period, the Company repurchased some overseas listed foreign shares (H shares). As of 9 May 2014, the Company had repurchased H shares amounting to 39,066,500 shares. Cancellation of repurchased shares was completed at Computershare Hong Kong Investor Services Limited on 14 May 2014. The total number of shares of the Company decreased to 1,936,405,467 shares from 1,975,471,967 shares upon the cancellation of the repurchased H shares.
- (2) During the reporting period, the shareholding ratio of Shouguang Chenming Holdings Limited, the controlling shareholder of the Company increased to 15.13% from 14.83% due to the partial repurchase and cancellation of H shares. There were other minor effects on the shareholder structure. For the change in shareholder structure, please refer to the first part "Changes in shares" in this chapter.
- (3) During the reporting period, the share capital of the Company reduced by RMB39,066,500; the capital reserve decreased by RMB66,614,390.17 due to the partial repurchase and cancellation of H shares.

3. Existing staff shares

Applicable Not applicable

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers

1. Total number of shareholders and shareholdings

Unit: share

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shareholders of ordinary shares as at the end of the fifth trading day before the publication date of this annual report		Number of Restricted shares held	Number of non-restrict shares held	Share pledged or locked-up	
			Number of shares held at the end of the reporting period	Changes (increase or decrease) during the reporting period			Status of shares	Number
Total number of shareholders of ordinary shares as at the end of the reporting period	128,595, of which 101,044 were holders of A shares, 27,008 holders of B shares and 543 holders of H shares		122,870, of which 96,097 were holders of A shares, 26,232 holders of B shares and 541 holders of H shares.				Total number of shareholders of preference shares with restored voting right as at the end of the reporting period	0
Shareholdings of shareholders interested in more than 5% of the shares of the Company or Top 10 shareholders								
HKSCC NOMINEES LIMITED	Overseas legal person	18.11%	350,634,500	-39,182,000	0	350,634,500		0
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	15.13%	293,003,657	86,600,000	0	293,003,657	Pledged	146,500,000
PLATINUM ASIA FUND	Overseas legal person	1.67%	32,341,052	0	0	32,341,052		0
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Overseas legal person	0.62%	11,946,985	-90,000	0	11,946,985		0
BILL & MELINDA GATES FOUNDATION TRUST	Overseas legal person	0.52%	10,033,077	-12,724,314	0	10,033,077		0
JIN Xing	Domestic nature person	0.46%	8,856,400	768,100	0	8,856,400		0
RONGTONG NEW BLUE CHIP SECURITIES INVESTMENT FUND	Others	0.41%	8,000,012	8,000,012	0	8,000,012		0
CHINA CONSTRUCTION BANK-NANFANG SHENGYUAN DIVIDEND FUND	Others	0.41%	7,999,830	7,999,830	0	7,999,830		0
ZHONG Honglei	Domestic nature person	0.35%	6,845,568	6,845,568	0	6,845,568		0
CHEN Hongguo	Domestic nature person	0.33%	6,434,527	100,000	0	6,434,527		0
Connected relationship or connected party relationship among the above shareholders	Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the shareholders above. They are not persons acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Save for the above, it is not aware that any other shareholders of tradable shares are persons acting in concert and is also not aware that any other shareholders of tradable shares are connected with each others.							

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

1. Total number of shareholders and shareholdings (Cont'd)

Shareholdings of the top ten shareholders of non-restricted shares			
Name of shareholders	Number of non-restricted shares held as at the end of the reporting period	Class of shares	
		Class of shares	Number
HKSCC NOMINEES LIMITED	350,634,500	Overseas listed foreign shares	350,634,500
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	293,003,657	RMB ordinary shares	293,003,657
PLATINUM ASIA FUND	32,341,052	Overseas listed foreign shares	32,341,052
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	11,946,985	Overseas listed foreign shares	11,946,985
BILL & MELINDA GATES FOUNDATION TRUST	10,033,077	RMB ordinary shares	10,033,077
JIN Xing	8,856,400	RMB ordinary shares	2,000,000
		Overseas listed foreign shares	6,856,400
RONGTONG NEW BLUE CHIP SECURITIES INVESTMENT FUND	8,000,012	RMB ordinary shares	8,000,012
CHINA CONSTRUCTION BANK-NANFANG SHENGYUAN DIVIDEND FUND	7,999,830	RMB ordinary shares	7,999,830
ZHONG Honglei	6,845,568	RMB ordinary shares	6,845,568
CHEN Hongguo	6,434,527	RMB ordinary shares	6,434,527
Connected relationship or connected party relationship among the top ten shareholders of non-restricted shares, and between the top ten shareholders of non-restricted shares and the top ten shareholders		Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the shareholders above. They are not persons acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Save for the above, it is not aware that any other shareholders of tradable shares are persons acting in concert and is also not aware that any other shareholders of tradable shares are connected with each others.	

Whether an agreed repurchase transaction was entered into during the reporting period by the top 10 ordinary shareholders and top 10 shareholders of non-restricted shares of the Company

Yes No

The top 10 ordinary shareholders and top 10 shareholders of non-restricted shares of the Company did not enter any agreed repurchase transaction during the reporting period.

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

2. Controlling shareholders of the Company

Legal person

Name of controlling shareholders	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Registered capital	Principal business
Shouguang Chenming Holdings Company Limited	Chen Hongguo	30 December 2005	78348518-9	RMB1.685 billion	Investment in paper making, electricity, heat and arboriculture
Future development strategy	The Company will continue to be engaged in investment in paper making, electricity, steam and arboriculture projects.				
Operating results, financial condition and cash flows	In 2014, Chenming Holdings recorded revenue of RMB19.2 billion and operating cost of RMB15.4 billion. As at 31 December 2014, the total assets of Chenming Holdings amounted to RMB60.1 billion, total liabilities amounted to RMB43.9 billion, and net cash flow generated from operating activities amounted to RMB0.8 billion. The above amounts are not unaudited.				
Shareholdings of controlling shareholders who have control or hold shares in other overseas listed companies during the reporting period	Shouguang Chenming Holdings Company Limited is interested in 15.13% equity interest of the Company. Save for the above, it does not have control over or hold any equity interest of other domestic or overseas listed companies.				

The Change of controlling shareholders during the reporting period

Applicable Not applicable

There was no change of controlling shareholders of the Company during the reporting period.

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

3. Beneficial owner of the Company

Legal person

Name of beneficial owner	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Registered capital	Principal business
State-owned Assets Supervision and Administration Office of Shouguang City	Fu Xingang	1 August 1991	137078300401	RMB20,000	Responsible for the management and capital operation of the state-owned assets of enterprises and institutions in Shouguang city
Future development strategy	State-owned Assets Supervision and Administration Office of Shouguang City is responsible for the management and capital operation of the state-owned assets of the enterprises and institutions in Shouguang City with a view to protecting and enhancing the value of state-owned assets.				
Operating results, financial position and cash flows	Not applicable				
Shareholdings of controlling shareholders who have control or hold shares in other overseas listed companies during the reporting period	Save for the Company, State-owned Assets Supervision and Administration Office of Shouguang City does not have control over or hold any equity interest of other domestic or overseas listed companies.				

Change of beneficial owner during the reporting period

Applicable Not applicable

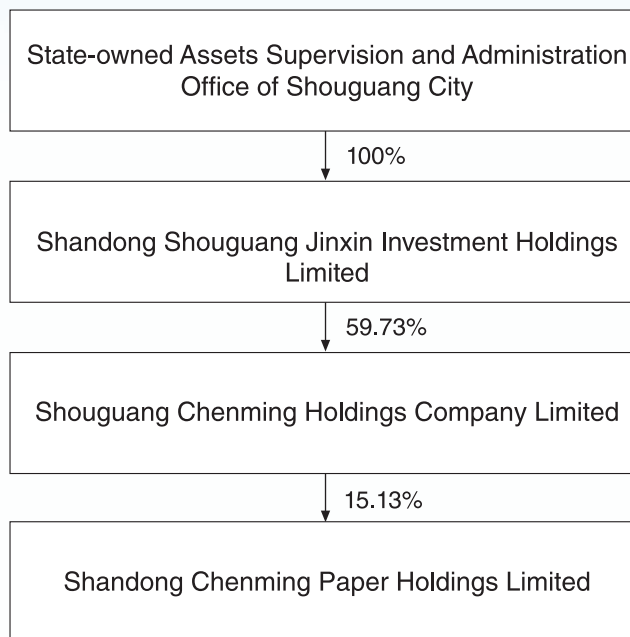
There was no change of beneficial owner of the Company during the reporting period.

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

3. Beneficial owner of the Company (Cont'd)

Chart illustrating the relationship between the Company and the beneficial owner



Beneficial owner controlling the Company through trust or other asset management method

Applicable Not applicable

4. Other legal person shareholders interested in over 10% of the shares of the Company

Applicable Not applicable

IV. Plan on increase of shareholding proposed or implemented by shareholders of the Company and their persons acting in concert during the reporting period

Applicable Not applicable

As far as the Company is aware, there was no plan on increase of shareholding proposed or implemented by shareholders of the Company and their persons acting in concert during the reporting period.

VIII Preference Shares

Descriptions on non-public offer of preference shares

On 29 December 2014, the resolution on the proposal on non-public offer of preference shares and related resolutions were considered and approved at the fifth extraordinary general meeting of the seventh session of the Board of the Company.

On 11 February 2015, the Company received the Reply on Issues Regarding the Non-public Offer of Preference Shares by Shandong Chenming Paper Holdings Limited (Lu Quo Zi Chan Quan Zi [2015] No. 4) issued by Stated-owned Assets Supervision and Administration Commission of Shandong Province, which agreed the non-public offer of not more than 45.00 million preference shares by the Company.

On 13 February 2015, the Company convened the 2015 First Extraordinary General Meeting, the 2015 First Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and the 2015 First Class Meeting for Holders of Overseas Listed Shares (H shares), at which the resolution on the non-public offer of preference share proposal and related resolutions were considered and approved respectively.

On 2 March 2015, the Company received CSRC Notice of acceptance of application for administrative approval (No. 150373) from China Securities Regulatory Commission (hereinafter referred to as "CSRC"). Having examined the information submitted by the Company in support of its application for administrative approval for Confirmation of Issue of Preference Shares by Listed Company, CSRC was of the opinion that the information in support of application was complete and complied with legal requirements, and decided to accept the said application for administrative approval.

As at the date of this report, the Company did not receive relevant reply from CSRC. The Company will perform its disclosure obligation in a timely manner according the progress of CSRC's approval.

IX Directors, Supervisors and Senior Management and Staff

I. Changes in shareholding of Directors, Supervisors and Senior Management

Name	Position	Status	Sex	Age	Start date of the term	End date of the term	Shares held as at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Shares held as at the end of the period (shares)
Chen Hongguo	Chairman and general manager	In office	M	50	16 May 2013	16 May 2016	6,334,527	100,000	0	6,434,527
Yin Tongyuan	Vice Chairman	In office	M	57	16 May 2013	16 May 2016	2,423,640	0	0	2,423,640
Li Feng	Director and deputy general manager	In office	M	42	16 May 2013	16 May 2016	471,818	0	0	471,818
Geng Guanglin	Director and deputy general manager	In office	M	41	16 May 2013	16 May 2016	437,433	0	0	437,433
Hou Huancai	Director	In office	M	53	16 May 2013	16 May 2016	628,915	0	0	628,915
Zhou Shaohua	Director and deputy general manager	In office	M	53	16 May 2013	16 May 2016	123,007	0	0	123,007
Cui Youping	Director	Retired	M	51	16 May 2013	9 May 2014	0	0	0	0
Yang Guihua	Director	In office	F	49	9 May 2014	16 May 2016	0	0	0	0
Wang Xiaoqun	Director	In office	M	59	16 May 2013	16 May 2016	0	0	0	0
Zhang Zhiyuan	Independent Director	In office	M	52	16 May 2013	16 May 2016	0	0	0	0
Wang Aiguo	Independent Director	In office	M	51	16 May 2013	16 May 2016	0	0	0	0
Zhang Hong	Independent Director	In office	F	50	16 May 2013	16 May 2016	0	0	0	0
Pan Ailing	Independent Director	In office	F	50	16 May 2013	16 May 2016	0	0	0	0
Gao Junjie	Chairman of Supervisory Committee	In office	M	44	16 May 2013	16 May 2016	39,606	0	0	39,606
Wang Ju	Supervisor	In office	F	49	16 May 2013	16 May 2016	0	0	0	0
Yang Hongqin	Supervisor	In office	F	47	16 May 2013	16 May 2016	0	0	0	0
Yin Qixiang	Supervisor	In office	M	77	16 May 2013	16 May 2016	0	0	0	0
Guo Guangyao	Supervisor	In office	M	72	16 May 2013	16 May 2016	0	0	0	0
Li Xueqin	Deputy general manager	In office	F	49	16 May 2013	16 May 2016	429,348	0	0	429,348
Wang Chunfang	Secretary to the Board and deputy general manager	In office	M	39	16 May 2013	16 May 2016	130,000	0	0	130,000
Hu Changqing	Deputy general manager	In office	M	49	16 May 2013	16 May 2016	1,238	0	0	1,238
Shao Zhenzhong	Deputy general manager	In office	M	54	16 May 2013	16 May 2016	0	0	0	0
Chang Liting	Deputy general manager	In office	M	61	16 May 2013	16 May 2016	0	0	0	0
Li Zhenzhong	Deputy general manager	In office	M	41	16 May 2013	16 May 2016	0	0	0	0
Poon Shiu Cheong	Company secretary and qualified accountant	In office	M	45	16 May 2013	16 May 2016	0	0	0	0
Total	--	-	-	-	-	-	11,019,532	100,000	0	11,119,532

IX Directors, Supervisors and Senior Management and Staff

II. Employment

Major working experiences of Directors, Supervisors and Senior Management during the past five years

1. Directors of the Company

(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 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, and chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. He is currently the executive Director and deputy general manager of the Company in charge of the operation of Wuhan Chenming. 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 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 a director of Shouguang Chenming Holdings Company Limited in charge of the operation of Shouguang Chenming.

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

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 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 operation of Zhanjiang Chenming.

IX Directors, Supervisors and Senior Management and Staff

II. Employment (Cont'd)

1. Directors of the Company (Cont'd)

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

Ms. Yang Guihua, aged 49, holds a doctoral degree. She served as a technician with Jinan Advanced Tissue Paper Factory (濟南高級薄頁紙廠), a teacher at Light Chemistry and Environmental Engineering College, Qilu University of Technology and the leader of the key laboratory for Green Chemistry Technology of Pulping and Papermaking and Utilization of Biomass (制漿造紙綠色化學技術與生物質資源化利用) of the Ministry of Education. Ms. Yang is a professor of Qilu University of Technology, a national class candidate of National Hundred, Thousand and Ten Thousand Talent Project (百千萬人才工程), a National Young and Middle-aged Expert with Outstanding Contributions (國家有突出貢獻中青年專家), a specialist who enjoys the State Council Special Allowance (國務院特殊津貼專家), a chief expert of Shandong higher education, a Tenth-batch Top Talent in Professional Technology of Jinan (濟南市第十批專業技術拔尖人才), a standing director of Shandong Technical Association of Paper Industry, a member of China Technical Association of Paper Industry, a member of American Chemical Society and a member of Society of Chemistry and Chemical Engineering of Forest Products, Chinese Society of Forestry. She has served as a non-executive Director of the Company since May 2014.

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, doctoral tutor and post doctorate in accounting, "Nationwide Excellent Teacher" (全國優秀教師), Shandong's Well-known Teacher (山東省教學名師), chief expert (accounting) of Shandong Institute (山東省高等學校首席專家(會計學)), Shandong's Young Expert with Outstanding Contribution (山東省有突出貢獻的中青年專家), previously held positions including deputy chief of Department of Accounting of Shandong Economic University, deputy chief of the Department of Post-graduate Students of Shandong Economic University, chief of Department of Accounting of Shandong Economic University and the Dean of the School of Accounting of Shandong University of Finance and Economics. He currently holds positions as the Dean of the School of Management of University of Jinan, 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 director of Shandong Iron and Steel Co., Ltd., and independent non-executive director of China Corn Oil Company Limited, Hisense Kelon Electrical Holdings Co. Ltd. and independent director of Shandong Zhanqiu Blower Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

IX Directors, Supervisors and Senior Management and Staff

II. Employment (Cont'd)

1. Directors of the Company (Cont'd)

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

Mr. Zhang Zhiyuan, professor, doctor of management, economics postdoctorate, previously served as the Dean of Department of Finance of Shandong Economics College and Dean of Shandong Regional Economic Research School. He currently holds positions as Dean of Shandong University of Finance and School of Finance, Dean of the Regional Economic Research Institute and a doctoral tutor. He is also the person in charge of National Special Professional Construction Point of Finance, chief expert of emphasised discipline of Shandong Province, chief scientist of the Collaborative Innovation Centre for Financial Optimisation and Regional Development, the person in charge of the Shandong provincial government decision-making research base, the person in charge and expert of the Shandong Regional Economic Development and Research Base, Shandong university academic leaders, expert for Shandong "Hundred People Project" and one of the top ten exemplary tertiary teachers of Shandong (金融學國家級特色專業建設點負責人,山東省重點學科首席專家,金融產業優化與區域發展管理協同創新中心首席科學家,山東省政府決策服務調研基地負責人,山東省區域經濟發展研究基地負責人兼首席專家,山東省高校學科帶頭人,山東省"百人工程"理論人才,山東省高校十大師德標兵). He is concurrently Vice-Dean and Chief Secretary of Shandong Regional Economic Society, Standing Director and Member of Academic Committee of Shandong Finance Association, Standing Director of China Finance Institute (山東區域經濟學會副會長兼秘書長、山東省金融學會常務理事兼學術委員會委員、中國區域經濟學會常務理事) and others. In recent years, he was commissioned 4 national projects and over 10 municipal projects and was granted several awards by the Ministry of Education and Shandong Research Institute for his achievements. He is an expert advisor to several municipal governments such as Shandong, Jinan and Rizhao. He is an independent director of Shandong Tyan Home Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

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 Sinoer Men's Clothes Co., Ltd. and Shandong Gettop Acoustic Co., Ltd. She has served as an independent nonexecutive Director of the Company since April 2010.

Ms. Pan Ailing is a Ph.D. in Economics and obtained a post-doctoral degree in Financial Management. She is currently a professor of the School of Management, an advisor to doctoral students, the chief of the Department of Accounting and the chief of the Investment and Financing Research Center (投融資研究中心) in Shandong University and a non-practising member of CICPA (Chinese Institute of Certified Public Accountants). She is also a director of the Accounting Institute, Shandong Province (山東省會計學會), a council member of Shandong Comparative Management Association, a visiting professor at Soochow University in Taiwan, a visiting scholar at University of Connecticut in the United States and a state-level candidate for New Century Ten Million Talent Project (新世紀「百千萬人才工程」). She is a specialist entitled to the State Council Special Allowance (國務院政府特貼專家), and a Yong and Middle-aged Expert with Outstanding Contributions in Shandong Province (山東省有突出貢獻的中青年專家). She is the chief expert of the Major Tender Projects of National Social and Science Fund (國家社科基金重大招標課題首席專家). She has finished various research projects at national and provincial level and published more than 80 academic papers. She is also an independent director of Sinotruck Jinan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司) and Inspir Software Co., Ltd. She has served as an independent non-executive director of the Company since May 2013.

IX Directors, Supervisors and Senior Management and Staff

II. Employment (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 security and investment management department, etc. He is currently the chairman of supervisory committee, assistant to general manager in charge of the department of inspection, 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 Economic and Trade Commission of Shouguang City (壽光市經濟貿易委員會), chief of Tizheng Department of Shouguang City, Shandong Province (山東省壽光市體政部), and head of Qinghua Bureau of Shouguang 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 (航空部太行儀錶廠) 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.

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 Labour Medal” (全國五一勞動獎章). She was a deputy of the Tenth, Eleventh and Twelfth 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. 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 chief of the finance department and the financial controller of the Company. He is currently the deputy general manager and secretary to the Board of the Company, and the chairman of the Finance Company and Financial Leasing Company.

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 Pulp and Paper project.

Mr. Shao Zhenzhong, aged 52, holds a bachelor’s degree from a university. He joined the Company in 2013. He had served as the marketing manager of Butler (Shanghai) Inc. and Asia Pacific regional sales and marketing vice president of UPM (China) Co., Ltd. He is currently the deputy general manager of the Company.

IX Directors, Supervisors and Senior Management and Staff

II. Employment (Cont'd)

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

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 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.

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.

Employment at the shareholder of the Company

Applicable Not applicable

Name of employee	Name of shareholder of the Company	Position at the shareholder of the Company	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from shareholder of the Company
Chen Hongguo	Shouguang Chenming Holdings Company Limited	Chairman	21 September 2013	21 September 2016	No
Yin Tongyuan	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Geng Guanglin	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Li Xueqin	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Gao Junjie	Shouguang Chenming Holdings Company Limited	Supervisor	21 September 2013	21 September 2016	No
Explanation of the employment at the shareholder of the Company		Nil			

IX Directors, Supervisors and Senior Management and Staff

II. Employment (Cont'd)

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

Employment at other units

Applicable Not applicable

Name of employee	Name of other unit	Position at the other unit	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from other unit
Wang Aiguo	Shandong Iron and Steel Co., Ltd.	Independent director	10 April 2012	10 April 2015	Yes
Wang Aiguo	China Corn Oil Company Limited	Independent director	23 November 2012	23 November 2015	Yes
Wang Aiguo	Hisense Kelon Electrical Holdings Co. Ltd.	Independent director	26 June 2012	25 June 2015	Yes
Wang Aiguo	Shandong Zhanqiu Blower Co., Ltd.	Independent director	12 July 2012	12 July 2015	Yes
Pan Ailing	Sinotruck Jinan Truck Co., Ltd.	Independent director	6 May 2013	5 May 2016	Yes
Pan Ailing	Inspir Software Co., Ltd.	Independent director	14 March 2014	13 March 2017	Yes
Zhang Hong	Sinoer Men's Clothes Co., Ltd.	Independent director	5 September 2014	4 September 2017	Yes
Zhang Hong	Shandong Gettop Acoustic Co., Ltd.	Independent director	16 September 2014	15 September 2017	Yes
Explanation of the employment at the other unit		All the above three persons were independent directors of the Company.			

III. Remunerations of Directors, Supervisors and Senior Management

Decision process, basis for determining the remuneration and actual payment for the remuneration of Directors, Supervisors and Senior Management

- The annual remuneration of each of the executive Directors and senior management of the Company was in the band of RMB0.20 million to 5.00 million (tax included) and the specific amount for each of them was determined based on the main financial indicators and operation target completed by 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 remuneration and assessment committee of the Board as well as considered and decided by the Board.
- The Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB40,000 to RMB100,000 (after tax). The travel expenses for attending board meetings and general meetings of the Company and fees reasonably incurred in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed.
- The details of the remunerations of Directors, Supervisors and Senior Management are set out in note (XII) "Remuneration of key management staff" in this Financial Report.

IX Directors, Supervisors and Senior Management and Staff

III. Remunerations of Directors, Supervisors and Senior Management (Cont'd)

Decision process, basis for determining the remuneration and actual payment for the remuneration of Directors, Supervisors and Senior Management (Cont'd)

Remunerations of Directors, Supervisors and Senior Management during the Reporting Period

Unit: RMB'0000

Name	Position	Sex	Age	Status	Total remuneration received from the Company	Total remuneration received from shareholder unit	Actual payment for the remuneration during the reporting period
Chen Hongguo	Chairman and general manager	M	50	In office	500	0	291.64
Yin Tongyuan	Vice-chairman	M	57	In office	300	0	181.92
Li Feng	Director and deputy general manager	M	42	In office	117.74	0	84.83
Geng Guanglin	Director and deputy general manager	M	41	In office	139.01	0	97.51
Hou Huancai	Director	M	53	In office	54.32	0	40.31
Zhou Shaohua	Director and deputy general manager	M	53	In office	109.25	0	78.7
Cui Youping	Director	M	51	Retired	1.67	0	1.34
Yang Guihua	Director	F	49	In office	3.33	0	2.66
Wang Xiaoqun	Director	M	59	In office	5	0	4
Zhang Zhiyuan	Independent Director	M	52	In office	5	0	4
Wang Aiguo	Independent Director	M	51	In office	5	0	4
Zhang Hong	Independent Director	F	50	In office	5	0	4
Pan Ailing	Independent Director	F	50	In office	5	0	4
Gao Junjie	Chairman of Supervisory Committee	M	44	In office	37.84	0	28.29
Wang Ju	Supervisor	F	49	In office	8.66	0	6.23
Yang Hongqin	Supervisor	F	47	In office	18.86	0	15.05
Yin Qixiang	Supervisor	M	77	In office	2.5	0	2
Guo Guangyao	Supervisor	M	72	In office	2.5	0	2
Li Xueqin	Deputy general manager	F	49	In office	146.58	0	104.16
Wang Chunfang	Secretary to the Board and deputy general manager	M	39	In office	108.06	0	78.05
Hu Changqing	Deputy general manager	M	49	In office	182.98	0	118.73
Shao Zhenzhong	Deputy general manager	M	54	In office	329.56	0	199.18
Chang Liting	Deputy general manager	M	61	In office	78.05	0	52.83
Li Zhenzhong	Deputy general manager	M	41	In office	105.94	0	78.23
Poon Shiu Cheong	Company secretary and qualified accountant	M	45	In office	11.93	0	11.93
Total	-	-	-	-	2,283.78	0	1,495.59

Directors, Supervisors and Senior Management of the Company granted share options as incentives during the reporting period

Applicable Not applicable

IX Directors, Supervisors and Senior Management and Staff

IV. Changes of Directors, Supervisors and Senior Management of the Company

Name	Position	Type	Date	Reason
Cui Youping	Director	Resigned	9 May 2014	Personal reason
Yang Guihua	Director	Elected	9 May 2014	Election at the general meeting

V. Changes in the information of Directors and Supervisors

Under Rule 13.51(B) of the Hong Kong Listing Rules, changes in the information of Directors and Supervisors since the date of the annual report for the year ended 31 December 2014 are set out below:

Name of Director	Details of the changes
Cui Youping	Resigned as non-executive director and member of audit committee on 9 May 2014
Yang Guihua	Appointed as non-executive director on 9 May 2014 and member of audit committee on 27 August 2014
Zhang Zhiyuan	Resigned as chairman of the nomination committee on 27 August 2014
Pan Ailing	Appointed as chairman of the nomination committee on 27 August 2014

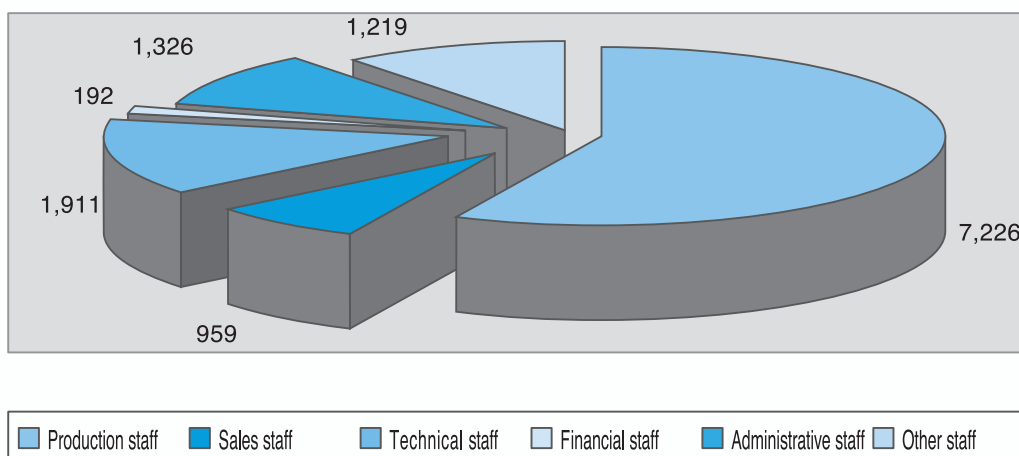
VI. Change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management)

During the reporting period, there was no change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management) and the Company's operation was not affected.

VII. Personnel of the Company

At the end of the reporting period, the Group had 12,833 employees in aggregate.

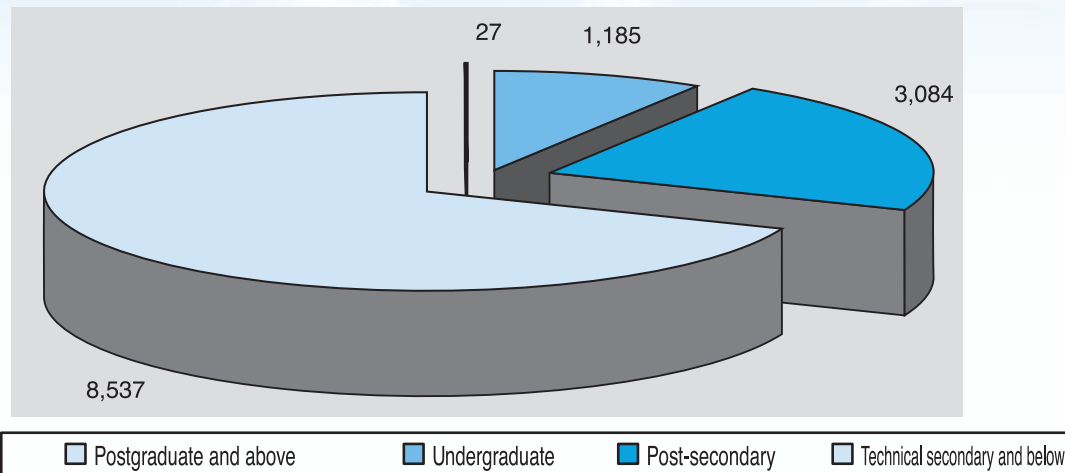
(1) Speciality composition



IX Directors, Supervisors and Senior Management and Staff

VII. Personnel of the Company (Cont'd)

(2) Education level



The Company had obligations for 12 ex-employees or retired employees, including employees of subsidiaries.

(3) Remuneration policies

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 2014 are set out in Note 27 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 27 of the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

(4) Training program

The Company attaches great importance to staff training and actively develops a learning atmosphere. Detailed annual training programs are prepared annually by all departments and subsidiaries to carry out multi-form and multi-channel training for staff at different levels of different profession. It has revised and improved its training management system and developed internal training materials to well define training processes and standards. Though development of internal resources, the Company has trained its internal lecturers and established an internal lecturer team, thereby encouraging self-learning and improve overall business skills of staff.

X Corporate Governance

I. Corporate Governance

(1) Corporate governance in practice

The Company operated in compliance with 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. Save for the details set out in subsection (IX) (I) of this section, 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.

(2) Corporate governance activities

During the Reporting Period, the Board strived to regulate the operation of the Company by improving corporate governance based on relevant special activities carried out in prior year. It improved corporate governance practice in a timely manner according to relevant regulations, and revised Decision-making Procedure on Significant Transaction and amendments to the Articles of Association and other systems. The Company carried out the following activities to continue to improve corporate governance:

1. To ensure that the decision-making on significant transactions was regulated and valid, the Company revised Decision-making Procedure on Significant Transaction in accordance with requirements of relevant laws, regulations, regulatory documents and the Articles of Association, which were considered and approved at the annual general meeting of 2013 and implemented thereafter.
2. According to relevant provisions of the Company Law of the People's Republic of China, the State Council Guidance Opinion on the launch of the preference shares pilot scheme and the Experimental Administrative Measures on Preference Shares, and based on the proposed issue of preference shares by the Company, the Company amended its Articles of Association and formulated the amendments to the Articles of Association. The proposal was considered and approved at the 2015 first extraordinary general meeting and implemented thereafter.

The Company strictly implemented its related system of internal control to facilitate its regulated operation and healthy development, thereby protecting the legal interests of investors. The corporate governance of the Company was exactly the same as what was required by the CSRC. The regulated operations and the internal control standards would grow with the development of the Company.

Any non-compliance of Companies Law and relevant requirements of CSRC in respect of corporate governance

Yes No

There is no non-compliance of Companies Law and relevant requirements of CSRC in respect of corporate governance.

X Corporate Governance

I. Corporate Governance (Cont'd)

(2) Corporate governance activities (Cont'd)

Progress of the corporate governance works and the formulation and implementation of the management policy on personnel with insider information

The Company revised the Insider Registration System (《内幕信息知情人登記制度》) in accordance with the “Rules on Establishment of Insider Registration Management System by Listed Companies” (CSRC Notice No. [2011] 30) issued by the China Securities Regulatory Commission and relevant requirements of the amended “Memorandum on Information Disclosure No. 34 – Management Matters Regarding Insider Registration” issued by Shenzhen Stock Exchange on 15 March 2011 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.

X Corporate Governance

II. Annual general meeting and extraordinary general meeting convened during the reporting period

1. Annual general meeting during the reporting period

Meeting	Convened Date	Name of the resolutions of the meeting	Resolutions	Disclosure date	Disclosure index
2013 annual general meeting	9 May 2014	1. To consider and approve the report of the board of directors for the year 2013; 2. To consider and approve the report of the supervisory committee for the year 2013; 3. To consider and approve the financial statements for the year 2013; 4. To consider and approve the full text and summary of the 2013 annual report; 5. To consider and approve the report of the independent directors for the year 2013; 6. To consider and approve the proposed profit distribution plan for the year 2013; 7. To consider and approve the application for a general bank credit line for 2014; 8. To consider and approve the provision of financial support to some controlling subsidiaries; 9. To consider and approve the appointment of the auditors for 2014; 10. To consider and approve the construction of a pulp project with an annual production capacity of 400,000 tonnes; 11. To consider and approve the amendments to the Decision Making System to Substantial Transaction; 12. To consider and approve the implementation of new accounting standards; 13. To consider and approve the issue of RMB bonds by Chenming (HK) Limited; and 14. To consider and approve the addition/replacement of a director in the seventh session of the Board of the Company.	All considered and approved	10 May 2014	http://www.cninfo.com.cn

X Corporate Governance

II. Annual general meeting and extraordinary general meeting convened during the reporting period (Cont'd)

2. Extraordinary general meeting during the reporting period

Meeting	Convened Date	Name of the resolutions of the meeting	Resolutions	Disclosure date	Disclosure index
2014 first extraordinary general meeting	16 December 2014	1. To consider and approve the capital increase of the Financial Leasing Company; 2. To consider and approve the Super & Short-term Commercial Paper issue; 3. To consider and approve the USD bond issue by Chenming (HK) Limited; 4. To consider and approve the cancellation of certain guarantees and provision of guarantee for comprehensive credit line of certain controlling subsidiaries; and 5. To consider and approve the medium-term notes issue.	All considered and approved	17 December 2014	http://www.cninfo.com.cn

3. Extraordinary general meeting requested by holders of the preference shares with voting rights restored

Applicable Not applicable

III. Performance of Independent Directors during the reporting period

1. Attendance of Independent Directors in board meetings and general meetings

Name of Independent Directors	Number of board meetings attended during the period	Attendance of Independent Directors in board meetings			Number of appointed attendance	Absence	Absence for two successive times (attend in person)
		Attend in person	Attend via communication channels	Absence			
Zhang Zhiyuan	6	0	5	1	0	No	
Wang Aiguo	6	1	5	0	0	No	
Zhang Hong	6	1	5	0	0	No	
Pan Ailing	6	1	5	0	0	No	
Number. of the general meetings attended by Independent Directors							0

Explanation on the absence from the Board meeting twice in a row:

None of the Independent Directors was absent from the Board meeting twice in a row.

X Corporate Governance

III. Performance of Independent Directors during the reporting period (Cont'd)

2. Objections from Independent Directors on related issues of the Company

Were there any objections on related issues of the Company from the Independent Directors

Yes No

There was no objection on related issues of the Company from the Independent Directors.

3. Other details about the performance of duties by the Independent Directors

Were there any suggestions from the Independent Directors adopted by the Company?

Yes No

Explanation on the adoption or non-adoption with related suggestions from the Independent Directors for prevention from occupational risks

The suggestion from the Independent Directors about arranging insurance cover for Directors and Senior Management on Liability Insurance for its Directors and Senior Management was adopted by the Company in order to prevent the professional risk.

During the reporting period, the Independent Directors of the Company focused on the operation of the Company and performed their duties strictly in accordance with relevant laws and regulations and the Articles of Association. They provided a lot of valuable professional recommendations on optimising the Company's system and decision on daily operation. They also issued independent and fair opinion on matters arising during the reporting period which requested opinions from Independent Directors. This helped optimising the supervising system of the Company, as well as protecting the legal rights of the Company and all shareholders.

Publication date	Subject matters	Opinion
17 January 2014	Matters relating to acquisition of office premise	Agree
20 March 2014	Matters relating to internal control self-assessment report of the Company, external guarantees, determination of remuneration of directors and senior management for 2013, provision of financial support to controlling subsidiaries, use of proceeds by related parties and related party transactions, appointment of accounting firm and appointment of senior management personnel etc.	Agree
22 April 2014	Matters relating to additional resolutions at the meeting of the seventh session of the Board of the Company	Agree
27 August 2014	Matters relating to provision of guarantees for Haiming Mining and the Financial Leasing Company, use of proceeds by controlling shareholders of the Company and other related parties, and external guarantees	Agree
27 October 2014	Matters relating to cancellation of certain guarantees and provision of guarantee for comprehensive credit line of certain controlling subsidiaries	Agree
29 December 2014	Matters relating to provision of guarantee for the Financial Company and non-public offer of preference shares	Agree

X Corporate Governance

IV. Performance of duties by special committees under the Board of Directors

(I) Audit committee

1. The following major tasks were completed in 2014:
 - (1) it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2013 financial report auditing on pre-auditing work, reviewed the 2013 auditing report and financial report and submitted such reports to the Board of the Company;
 - (2) it reviewed the first quarter report of the Company as of 31 March 2014, which was submitted to the Board for approval.
 - (3) it reviewed the interim financial statements for the six months ended 30 June 2014, which were submitted to the Board for approval.
 - (4) it reviewed the third quarter report of the Company as of 30 September 2014, which was submitted to the Board for approval.
2. Auditing work conducted on the 2014 financial report of the Company is as follows:
 - (1) it reviewed the 2014 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 2014 financial statements of the Company with Ruihua 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 2015, 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 2014.

(II) Remuneration and assessment committee

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 2013 remuneration package of the Directors and the Senior Management of the Company, which then was submitted to the Board for approval, based on the production and operation conditions of 2013 and assessment of the Directors and the Senior Management of the Company.

(III) Nomination committee

During the reporting period, the nomination committee held one meeting. The first meeting in 2014 considered the proposed resolution in relation to the appointment of senior management, which was submitted to the fourth meeting of the seventh session of the Board of the Company for consideration and approval.

X Corporate Governance

IV. Performance of duties by special committees under the Board of Directors *(Cont'd)*

(IV) Strategic committee

During the reporting period, the strategic committee held four meetings. The first meeting in 2014 considered the proposed resolutions in relation to the establishment of the Financial Leasing Company, the capital increase of Huanggang Chenming, the acquisition of office premise and the provision of external entrusted loans, which were submitted to the fourth extraordinary meeting of the seventh session of the Board of the Company for consideration and approval; the second meeting in 2014 considered the proposed resolutions in relation to the construction of a pulp project with an annual production capacity of 400,000 tonnes, the establishment of Shandong Chenming Investment Co., Ltd. and the establishment of Qingdao Chenming International Logistics Co., Ltd., which were submitted to the fourth meeting of the seventh session of the Board of the Company for consideration and approval; the third meeting in 2014 considered the proposed resolutions in relation to the capital increase of the Financial Leasing Company and the establishment of Chenming Arboriculture, which were submitted to the sixth meeting of the seventh session of the Board of the Company for consideration and approval; and the fourth meeting in 2014 considered the proposed resolutions in relation to the capital increase of Financial Leasing Company, which was submitted to the seventh meeting of the seventh session of the Board of the Company for consideration and approval.

Concerned about the authorisation on project development and financing from the Board, the strategic committee keeps constant communication with the management, and is fully aware of each issues within the scope of such authorisation.

V. Performance of duties by the Supervisory Committee

During the reporting period, the supervisory committee held four meetings.

The fifth meeting of the seventh session of the Supervisory Committee considered and approved eight proposed resolutions respectively in relation to the 2013 supervisors' report, the full text and summary of the 2013 annual report of the Company, the 2013 financial statements of the Company, the provision of financial assistance to controlling subsidiaries, the internal control self-assessment report of the Company and the engagement of an external auditor for 2014;

The sixth meeting of the seventh session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and body text of the 2014 first quarterly report of the Company;

The seventh meeting of the seventh session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and summary of the 2014 interim report of the Company;

The eighth meeting of the seventh session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and body text of the 2014 third quarterly report of the Company.

Were there any risks of the Company identified by Supervisory Committee when performing its duties during the reporting period?

Yes No

None of those issues under the supervision was objected by Supervisory Committee during the reporting period.

X Corporate Governance

VI. Particulars about the integrity of businesses, personnel, assets, organisations, and finance from the controlling shareholder

In terms of business: The Company was completely independent from the controlling shareholder, and had business independence and self operation capability.

In terms of personnel: The labour, personnel and salary management were completely separated from the controlling shareholder.

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 that of the controlling shareholder.

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.

In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts. The controlling shareholder did not interfere in the financial activities of the Company.

All in all, the Company is totally separate in businesses, personnel, assets, organisations, and finance from the controlling shareholder, and had its business independence and self operation capability.

VII. Competition in the industry

Applicable Not applicable

VIII. Assessment and incentive mechanism for the Senior Management during the reporting period

The Senior Management of the Company is assessed on monthly and annually basis. 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 during the year, including the integrated quality of Senior Management and internal training of talents.

IX. 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

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”, (IX) “The audit committee” and (XVII) “Communications with shareholders” of this section, the Company had fully complied with all the principles and code provisions of the Code on “Corporate Governance” as set out in Appendix 14 to the Hong Kong Listing Rules during the reporting period.

(II) Securities transactions by Directors and Supervisors

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.

X Corporate Governance

IX. 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 six executive Directors: Chen Hongguo (Chairman), Yin Tongyuan, Li Feng, Geng Guanglin, Hou Huancai, Zhou Shaohua; two non-executive Directors: Yang Guihua, Wang Xiaoqun; and four independent non-executive Directors: Zhang Zhiyuan, Wang Aiguo, Zhang Hong and Pan Ailing. Please refer to section IX of this Annual Report for their brief biographies.

The Board is responsible for leading and monitoring the Company, and is wholly responsible for the administration and supervision of company businesses to facilitate its success. The Executive Director or the senior management is authorised to be responsible for the various divisions and functions and management of the processing. Directors of the Company shall act objectively and make decisions in the interests of the Company. The management and senior 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. The Company will arrange independent legal advice upon the request from the Directors or any committees of the Board of Directors, if the Board of Directors or any committees of the Board of Directors consider it necessary to seek for independent professional advice.

During the reporting period, the Board held 6 meetings, 4 of which were regular meetings and 2 were extraordinary meetings. Except Mr. Cui Youping and Mr. Zhang Zhiyuan who were on business trip and absent from the fourth meeting of the seventh session of the Board and thus appointed Mr. Wang Aiguo and Ms. Zhang Hong to be present on their behalf, the other Directors of the Company attended 6 Board meetings.

X Corporate Governance

IX. 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*)

Name	Position	Attendance of the relevant meetings (attention required/attended)					
		Board meetings	Audit committee meetings	Nomination committee meetings	Remuneration and assessment committee meetings	Strategic committee meetings	General meetings
I. Executive Directors							
Chen Hongguo	Chairman and General Manager	6/6	N/A	1/1	1/1	4/4	0/0
Yin Tongyuan	Vice Chairman	6/6	N/A	N/A	N/A	4/4	2/2
Li Feng	Director and Deputy General Manager	6/6	N/A	N/A	N/A	N/A	0/0
Geng Guanglin	Director and Deputy General Manager	6/6	N/A	N/A	N/A	N/A	0/0
Hou Huancai	Director	6/6	N/A	N/A	N/A	N/A	0/1
Zhou Shaohua	Director and Deputy General Manager	6/6	N/A	N/A	N/A	N/A	0/0
II. Non-executive Directors							
Cui Youping (resigned)	Director	3/3	3/3	N/A	N/A	N/A	0/0
Yang Guihua	Director	3/3	2/2	N/A	N/A	N/A	0/0
Wang Xiaoqun	Director	6/6	N/A	N/A	N/A	N/A	0/1
III. Independent non-executive Directors							
Zhang Zhiyuan	Independent Director	6/6	N/A	1/1	N/A	N/A	0/0
Wang Aiguo	Independent Director	6/6	5/5	1/1	1/1	N/A	0/0
Zhang Hong	Independent Director	6/6	5/5	N/A	N/A	4/4	0/0
Pan Ailing	Independent Director	6/6	N/A	0/0	1/1	N/A	0/0

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

The Board held 4 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.

The Company has arranged insurance cover on Directors and Senior Management Liability Insurance for its Directors and Senior Management.

X Corporate Governance

IX. 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*)

Directors' trainings and professional development

All newly appointed Directors are provided with necessary orientation information, with an aim to ensure that they will have a better understanding of operations and business of the Company as well as relevant laws and regulations and obligations under the Listing Rules.

Directors and Supervisors of the Company were arranged by the Company to attend the 1st and the 2nd session of training courses 2014 for directors and supervisors held by China Securities Regulatory Commission, Shandong; and, briefing paper in respect of amendments to Hong Kong Listing Rules prepared by Advisor to Hong Kong Law of the Company was distributed to all Directors and Supervisors, the above of which were to ensure all Directors and Supervisors to comply with relevant laws and sound corporate governance practice, and enhance their awareness of sound corporate governance practice.

(IV) Chairman and general manager

The chairman and general manager of the Company is Mr. Chen Hongguo. Please refer to section IX 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 principle provisions of A.2 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.

X Corporate Governance

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

(V) Independent non-executive Directors

There are four 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 Zhang Hong, 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 IX 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.

(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 May 2013 to May 2016. They may be re-elected for another term upon expiry of tenure.

(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) Board Committees

Pursuant to Code on Corporate Governance, the Board has established three committees, namely, Audit Committee, Remuneration and Assessment Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. Each Board Committee has its own defined written terms of reference. The written terms of reference of each Board Committee are published on websites of stock exchange and the Company.

Save for requirements of Code on Corporate Governance, the Company also set up Strategic Committee, for overseeing and studying long-term strategic development plan of the Company and making recommendations.

X Corporate Governance

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

(VIII) Board Committees (*Cont'd*)

The Board was generally responsible for performing corporate governance, which includes:

- (1) to develop and review the company's policies and practices on corporate governance and make recommendations to the board;
- (2) to review and monitor the training and continuous professional development of directors and senior management;
- (3) to review and monitor the company's policies and practices on compliance with legal and regulatory requirements;
- (4) to develop, review and monitor the code of conduct applicable to employees and directors;

Including: Formulation of the code of conduct applicable to employees and directors and compliance manual

- ① The Company formulated the Management System of Chenming Paper, which stipulated the detailed regulations on behaviour standard, code of conduct, appointment and retirement management, performance appraisal and democratic appraisal of employees, aiming to establish systematic and procedural system.
- ② The Articles of Association stipulated the employment qualification and code of conduct applicable to directors, supervisors, managers or other senior management, as well as the employment qualification and code of conduct applicable to Independent Directors.
- ③ Chapter III "Management of Directors, Supervisors and Senior Management" under the Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Main Board promulgated by Shenzhen Stock Exchange in 2015 stipulated the regulations and restrictions on the duties, employment and retirement qualification and condition, shareholding and code of conduct for directors, supervisor and senior management. The Company and its directors, supervisors and senior management must comply with this regulated document.

Supervision and review on the compliance of code of conduct by employees and Directors, Supervisors and senior management of the Company

The Company has established comprehensive corporate governance system on the appraisal of employees and management. Human resources department is responsible for the implementation of this system under the support of the labour union and auditing department. The Company has established and implemented the democratic appraisal system. It has also established the compliant handling system and internal auditing system.

- (5) to review the company's compliance with the code and disclosure in the Corporate Governance Report.

For the year ended 31 December 2014, the Board has reviewed the Company's corporate governance practices and was of the view such practice were effective.

X Corporate Governance

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

(IX) Audit Committee

The Audit Committee of the Company comprises 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 Chairman of the Audit Committee is Zhang Hong, an independent non-executive Director, and other members are Yang Guihua and Wang Aiguo. 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. Upon Cui Youping resigned as a member of the Audit Committee on 9 May 2014, the number of members in the Audit Committee was less than 3 persons as required under rule 3.21 of the Listing Rules. The Company's Audit Committee complied with the requirement on the number of members upon the appointment of Yang Guihua as a member of the Audit Committee on 27 August 2014.

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 2014 prepared in accordance with China Accounting Standards for Business Enterprises.

Particulars of the meetings held by the Audit Committee during the reporting period were detailed in part IV of this section.

(X) Remuneration and Assessment Committee

The Company set up a Remuneration and Assessment Committee which comprised three Directors, including Wang Aiguo, the Chairman, and other members, namely Chen Hongguo and Pan Ailing. Two members, including the Chairman, 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.

Particulars of the meeting's held by the Remuneration and Assessment Committee during the reporting period are detailed in part IV of this section.

X Corporate Governance

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

(XI) Nomination Committee

The Company set up a Nomination Committee which comprised three Directors, including Zhang Zhiyuan (resigned on 27 August 2014)/Pan Ailing (appointed on 27 August 2014), the chairman, and other member, namely Chen Hongguo and Wang Aiguo. Two of them, including the chairman, are independent non-executive Directors, which is in compliance with Code of Corporate Governance Practice. The Nomination Committee is primarily responsible for selecting 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) advising to the Board on appointment and re-appointment of directors and on skills, knowledge, experience, background, gender and other characteristics required in serving as a director taking into consideration diversity, balance and efficiency of the Board and benefits thereto; (7) reviewing the Board diversity policy, revising thereon in a timely manner and making relevant disclosure in the corporate governance report in the corresponding annual report; and (8) dealing with other matters as delegated by the Board.

During the reporting period, the Nomination Committee, after studying the needs of the Company for new Directors and managerial personnel and taking into consideration the Board diversity policy, 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 to two months prior to election of new Directors, the 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.

Particulars of the meeting's held by the Nomination Committee during the reporting period are detailed in part IV of this section.

X Corporate Governance

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

(XII) Strategic Committee

The Company set up a Strategic Committee which comprised three Directors, including Chen Hongguo, the Chairman, and other members, namely, Yin Tongyuan 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.

Particulars of the meeting's held by the Strategic Committee during the reporting period are detailed in part IV of this section.

(XIII) Auditors

On 15 May 2013, the 2012 annual general meeting of the Company agreed to continue to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2013 and be responsible for domestic auditing of the Company for 2013. As RSM China Certified Public Accountants (Special General Partnership) has merged with Crowe Horwath Certified Public Accountants (Special General Partnership), domestic auditing of the Company for 2013 was taken up by Ruihua Certified Public Accountants (Special General Partnership). Such change was approved at the first extraordinary general meeting held on 21 August 2013.

On 9 May 2014, the 2013 annual general meeting of the Company agreed to continue to engage Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2014 and be responsible for domestic auditing of the Company for 2014.

The resolution to reappoint Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2015 will be proposed at the forthcoming annual general meeting of the Company.

(XIV) Remuneration for the Auditors

The financial statements for 2014 prepared in accordance with Accounting Standards for Business Enterprises by the Group were audited by Ruihua Certified Public Accountants (Special General Partnership). In 2014, the Company paid the auditors in aggregate RMB2,000,000 and RMB600,000 in respect of audit financial statements and non-audit services in relation to internal control respectively. Save the above, no other non-audit fee was incurred during the year.

Ruihua Certified Public Accountants (Special General Partnership) have stated their reporting responsibilities on the financial statements of the Group in Chapter XII, Auditor Report.

X Corporate Governance

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

(XV) Supervisors and 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.

Details of the work of the Supervisory Committee during the Reporting Period are set forth in Report of the Supervisory Committee in this annual report.

(XVI) Company secretary

During the reporting period, the company secretary confirmed that he has received relevant professional training for not less than 15 hours in accordance with Rule 3.29 of the Listing Rules.

(XVII) Communications with Shareholders

The Company considers effective communication with Shareholders is essential to enable them to have a clear assessment of the Group's performance as well as accountability of the Board. Principal means of communication with Shareholders of the Company are as follows:

Information Disclosure on Company's Website

The Company endeavours to disclose all material information about the Group to all interested parties as widely and timely as possible. The Company maintains its website at www.chenmingpaper.com where important information about the Group's activities and corporate matters such as annual reports and interim reports to Shareholders, announcements, business development and operations, corporate governance practices and other information are available for review by Shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website.

General Meetings

The Company's Annual General Meeting provides a useful platform for direct communication between the Board and Shareholders. Various resolutions are proposed on each substantially separate issue at the general meetings. Save for the Annual General Meeting held on 9 May 2014 by the Company, one extraordinary general meeting was convened in 2014. The attendance record of Directors at each general meeting is set out below:

Name	Attendance of general meetings
Annual General Meeting	Yin Tongyuan and Hou Huancai
First extraordinary general meeting	Yin Tongyuan and Wang Xiaoqun

Mr. Chen Hongguo, the chairman of the Company and the chairman of the strategic committee, Ms. Zhang Hong, the chairman of the audit committee, Mr. Wang Aiguo, the chairman of the remuneration and assessment committee, and Mr. Zhang Zhiyuan, the chairman of the nomination committee, were absent from the Annual General Meeting due to business commitments. The Company's external auditor also attended the Annual General Meeting.

X Corporate Governance

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

(XVII) Communications with Shareholders (*Cont'd*)

Voting by poll

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day.

Shareholders' rights

(1) Procedures for convening an extraordinary general meeting by Shareholders

Pursuant to Article 90 of the Articles of Association of the Company, Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares shall be entitled to request the Board to convene extraordinary general meetings, provided that such request shall be made in writing. The Board shall, in accordance with provisions of the laws, administrative regulations and the Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of an extraordinary general meeting within ten days after receiving such proposal of the same. In the event that the Board agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after the passing of the relevant resolution of the Board. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any reply within ten days after receiving such proposal, Shareholder(s) alone or in aggregate holding 10% or more of the Company's Shares shall be entitled to propose to the Supervisory Committee the convening of extraordinary general meeting, provided that such proposal shall be made in writing.

In the event that the Supervisory Committee agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after receiving such request. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

Failure of the Supervisory Committee to issue a notice of general meeting within the stipulated period shall be deemed as failure of the Supervisory Committee to convene and preside over a general meeting, and Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares for ninety consecutive days or more shall be entitled to convene and preside over the meeting on an unilateral basis.

Pursuant to Article 91 of the Articles of Association of the Company, if Shareholders determine to convene a general meeting on their own, they shall give a written notice to the Board and file the same with the local office of CSRC at the place where the Company is located and the stock exchange for records. The shareholding percentage of shareholders who convened shall not be lower than 10% prior to the announcement of resolutions of the general meeting.

Shareholders who convened shall submit relevant certifications to the local office of CSRC at the place where the Company is located and the stock exchange upon the issuance of the notice of general meeting and the announcement of resolutions of the general meeting.

The Board and its secretary shall cooperate with respect to matters relating to general meetings convened by Shareholders on their own. The Board shall provide Shareholder registers as of the date of shareholding register. If a general meeting is convened by Shareholders on their own, all necessary expenses incurred shall be borne by the Company.

X Corporate Governance

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

(XVII) Communications with Shareholders (*Cont'd*)

Shareholders' rights (*Cont'd*)

(2) Procedures for sending shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company Secretary (for H Share Shareholders)/Secretary to the Board (for A, B Share Shareholders) whose contact details are as follows:

<u>Company Secretary</u>	<u>Secretary to the Board</u>
Poon Siu Cheong Address: 22nd Floor, World Wide House, Central, Hong Kong Email Address: kentpoon_1009@yahoo.com.hk Telephone: (852)-2501 0088 Facsimile: (852)-2501 0028	Wang Chunfang Address: No. 2199 East Nongsheng Road, Shouguang City, Shandong Province Email Address: chenmmingpaper@163.com Telephone: (86)-0536-2158008 Facsimile: (86)-0536-2158977

The Company secretary and the secretary to the Board shall forward shareholders' enquiries and concerns to the Board and/or relevant Board Committees of the Company, where appropriate, to answer shareholders' questions.

(3) Procedures for putting forward proposals of Shareholders at general meetings

Pursuant to Article 102 of the Articles of Association of the Company, shareholders individually or jointly holding over 3% of the total shares of the Company are entitled to propose motions to the Company.

Shareholders individually or jointly holding over 3% of the total shares of the Company may submit extraordinary motions to the Board or the secretary to the Board ten working days before the convening of the General Meeting. The Board or the secretary to the Board shall issue supplementary notice of the General Meeting to announce the extraordinary motions within two working days after receiving the proposed motions.

Save for provided above, the Board or Secretary to the Board shall not amend proposals stated in the notice of general meeting or add new proposals therein following the notice of general meeting has been issued.

No voting or resolution shall be effected or adopted at the general meeting for proposals that have not been stated in the notice of general meeting or that do not comply with provisions of the Articles of Association. Extraordinary general meeting shall not resolve issues that are not contained in the notice.

Relationships with Investors

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are received and visited at appropriate times to explain the Group's business. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases great care is taken to ensure that no price-sensitive information is disclosed selectively.

X Corporate Governance

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

(XVIII) Internal Control

Particulars of internal control of the Company, please refer to section XI Internal Control contained in this annual report.

(XIX) Articles of Association

On 3 January 2014, 29 May 2014 and 13 February 2015, the Company has amended the Articles of Association. The amendments were primarily relating to the changes in share capital upon the cancellation of repurchased B shares, the changes in share capital upon the cancellation of repurchased H shares and issue of preference shares. Memorandum of Association and the amended version of the new Articles of Association of the Company are available on websites of the Company and Stock Exchange.

(XX) Board Diversity

On 21 August 2013, the Company formulated policies to diversify Board members and amended the implementing rules of the nomination committee. Pursuant to the new policies, the nomination committee shall regularly review the Board diversity policy to improve efficiency and ensure interest thereof.

Such policies are summarised as follows:

The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, backgrounds, genders and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, in the context of the talents, skills and experience the Board as a whole requires to be effective.

The Nomination Committee of the Company reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation those described above, in order to maintain an appropriate range and balance of talents, skills, experience and backgrounds on the Board. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

The composition of the Board of the Company is diversify basically. For details, please refer to (III) Composition of the Board under section IX.

XI Internal Control

I. Establishment of internal control

As requested by CSRC and Shenzhen Stock Exchange, the Company established a comprehensive and effective system of legal person governance structure, and ensured their decision-making, execution, and supervision duties to be carried out by leveraging on annual supervision and review conducted by various regulation departments and intermediate organisations as well as the general meetings, the Board, supervisory committee and management performing functions in strict compliance with relevant systems. 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 term of reference, they assumed the functions of discussing the material matters and decision making, raising the science and professionalism of Board decisions. Currently half of the Directors, are external directors of the Company, who play a better role in decision making and supervision.

In compliance with the relevant requirements 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》), the Company formulated a series of laws and regulations of significance, such as Rules of Procedure for the General Meeting (《股東大會議事規則》), Rules of Procedure for the Board (《董事會議事規則》), Rules of Procedure for the Supervisory Committee (《監事會議事規則》), Implementation Rules (《工作細則》) of Special Committee of the Board, Code of Practice of General Managers (《總經理工作細則》), Information Disclosure Management System (《信息披露管理制度》), Work system for Independent Directors (《獨立董事工作制度》), Investor Relationship Management System (《投資者關係管理制度》), Administration Measures of Financing Proceeds (《募集資金使用管理辦法》), Internal Control System (《內部控制制度》), Financial Management System (《財務管理制度》), 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上市公司資金制度》), Accountability System for Major Errors in Information Disclosure in Annual Report (《年報信息披露重大差錯責任追究制度》), Management System on External Users of Insider Information (《外部信息使用人制度》), Insider Registration System (《內幕信息知情人登記制度》), the decision making system to substantial transaction, the decision making system to external investment and the decision making system to external guarantee, which ensured the general meetings, the Board of Directors, the Supervisory Committee convened by the Company, and important decisions made to be in compliance with laws and regulations, and to be true and effective.

On the basis of basic control system of the Company, the internal management and control system formulated by the Company includes the entire production and operation process covering financial management, production management, purchase of materials, sales of products, foreign investments and administration, in order to ensure that all works are based on written-provisions, and thus forms a more standardised management structure.

(I) 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 board of directors 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. Therefore, all the tasks within the Company and its subsidiaries were consistently dealt with.

XI Internal Control

I. Establishment of internal control (Cont'd)

(II) 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 audit procedure, and abstain from 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 (《關連交易管理制度》), 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 (《防範控股股東及關連方佔有公司資金專項制度》). 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 prejudicial to the interest 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.

(III) 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 decision making system to external guarantee. 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.

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

The Company had set up Administration Measures 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.

(V) 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》), Administrative Rules of Accounts Receivable (《應收賬款管理規定》), Provisional Regulations on Management of Large Sums of Money Use (《大額資金使用管理暫行規定》) and Interim Provisions on Use and Management of Funds in Large Amounts (《大額資金使用管理暫行規定》), 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.

XI Internal Control

I. Establishment of internal control (Cont'd)

(VI) 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 emphasise investment returns. Also the Company formulated the decision making system to external guarantee in accordance with requirements of the Shenzhen Stock Exchange Listed Company Internal Control Guidelines (《深圳證券交易所上市公司內部控制指引》) and relevant laws and regulations.

(VII) 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 Accounting 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.

(VIII) Administration of and control over information disclosure

The Company had prepared Information Disclosure Management System (《信息披露管理制度》), Internal Reporting System 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 Relation Management System (《投資者關係管理制度》) and Accountability System for Major Errors in Information Disclosure in Annual Report (《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, Shanghai Securities News, Securities Times, Hong Kong Commercial Daily, the website of CNINFO (www.cninfo.com.cn), Shanghai Securities News, STCH (《證券時報》), Securities Daily 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. Investor relation activities were lawfully conducted to ensure open, just and fair information disclosure.

(IX) Management of internal monitoring and control

In accordance with relevant requirements of the Basic Norms of Internal Control (《公司內部控制基本規範》), the Shenzhen Stock Exchange Listed Company Internal Control Guidelines (《深圳證券交易所上市公司內部控制指引》) and the Corporate Governance Code issued by the Hong Kong Stock Exchange, the Company had management independent on controlling shareholders and established strict internal control systems in supply, production, sales, personnel, finance and resource, thereby effectively ensured the accuracy of disclosures and safety and integrity of assets. Through establishing internal systems, the Company formulated the Vertical Audit Management System, the Financial Audit System, the Procurement Audit System, the Internal Project Audit System, the Project Accounts Audit System and relevant bye-laws, thereby effectively ensured the implementation of internal monitoring and control system.

XI Internal Control

I. Establishment of internal control (Cont'd)

(X) Shareholding structure of the controlling subsidiaries of the Company



XI Internal Control

II. 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, Basic Internal Control Norms for Enterprises 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 2014 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 and www.cninfo.com.cn.

III. Basis of establishing internal control of financial reports

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 a series of financial management system, which included Management System for Cash, Bank Deposit and Note (《現金、銀行存款、票據管理制度》), Management System for Payment (《付款管理制度》), Management System for Assets Inspection and Inventory Impairment (《財產清查及存貨減值管理制度》), Management System for Fixed Assets (《固定資產管理制度》) and Management System for Intangible Assets (《無形資產管理制度》), 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.

IV. Assessment Report on Internal Control

Particulars of material deficiencies in internal control detected during the reporting period which was contained in the Assessment Report on Internal Control	
No material deficiencies and major deficiencies were identified as at the end of the Reporting Period.	
Date of Disclosure of Assessment Report on Internal Controls	26 March 2015
Index of Assessment Report on Internal Controls Disclosure	http://www.cninfo.com.cn/

XI Internal Control

V. Auditors' report or verification report on internal control

Auditors' report on internal control

Auditors' opinion contained in the Auditors' report on internal control	
We are of the view that Shandong Chenming Paper Holdings Limited had in all material aspects maintained effective internal control over the financial statements in accordance with the Basic Internal Control Norms for Enterprises as of 31 December 2014.	
Date of Disclosure of Auditors' report on internal control	26 March 2015
Index of Auditors' report on internal control Disclosure	http://www.cninfo.com.cn/

Any opinions of non-standardisation set out in the Auditors' Report on Internal Control issued by accountants

Yes No

Auditors' Report on Internal Control issued by accountants was in line with Directors' opinions contained in Self-assessment Report

Yes No

VI. Establishment of Accountability System for Major Errors in Information Disclosure in Annual Reports and its Implementation

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.

XII Financial Report

I. Auditors' Report

Type of auditors' opinion	standard and unqualified auditors' opinions
The date of the audit report signed	26 March 2015
Name of the auditor	Ruihua Certified Public Accountants (special general partnership)
Reference number of the auditors' report	Rui Hua Shen Zi [2015] No. 37020004
Name of certified public accountant	Wang Chuanshun, Jing Chuanxuan
Text of the auditors' report	

To shareholders of Shandong Chenming Paper Holdings Limited:

We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (hereinafter as the "Chenming Paper Company"), which comprise the consolidated and company balance sheets as at 31 December 2014, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for 2014 and notes to the financial statements.

1. Management's responsibility for the financial statements

The management of Chenming Paper Company 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; and (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.

2. 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.

XII Financial Report

3. Opinion

In our opinion, the financial statements above give a true and fair view of the consolidated and company financial position of Shandong Chenming Paper Holdings Limited as at 31 December 2014 and of its consolidated and company operating results and cash flows for 2014.

Ruihua Certified Public Accountants
(special general partnership)
Beijing, China
26 March 2015

PRC Certified Public Accountant: Wang Chuanshun
PRC Certified Public Accountant: Jing Chuanxuan

II. Financial Statements

Unless otherwise stated, the unit in the financial statements of the financial report is: RMB

1. Consolidated Balance Sheet

Prepared by: Shandong Chenming Paper Holdings Limited

31 December 2014

	Unit: RMB	
Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	5,475,658,186.10	2,547,729,794.24
Bills receivable	3,047,541,556.15	2,870,443,681.49
Accounts receivable	3,489,409,369.20	3,102,643,083.54
Prepayments	1,838,017,454.90	1,589,021,331.24
Other receivables	1,776,467,886.07	1,331,900,749.84
Inventories	5,420,740,468.60	5,042,951,001.02
Non-current assets due within one year	865,738,333.65	
Other current assets	1,656,602,232.09	1,740,520,586.37
Total current assets	23,570,175,486.76	18,225,210,227.74

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
NON-CURRENT ASSETS:		
Available-for-sale financial assets	73,000,000.00	83,260,425.53
Long-term receivables	1,420,598,667.99	
Long-term equity investments	36,087,848.12	32,216,789.33
Investment properties	17,735,187.91	19,473,443.95
Fixed assets	24,744,731,705.04	21,181,647,488.39
Construction in progress	3,709,270,828.53	5,266,031,817.60
Construction materials	22,955,982.38	63,968,067.62
Disposal of fixed assets		588,181,647.53
Intangible assets	1,319,104,425.04	1,365,418,002.26
Goodwill	20,283,787.17	20,283,787.17
Long-term prepaid expenses	173,690,747.83	168,538,483.68
Deferred income tax assets	620,267,636.44	507,653,388.38
Other non-current assets	1,094,124,242.00	
Total non-current assets	33,251,851,058.45	29,296,673,341.44
Total assets	56,822,026,545.21	47,521,883,569.18

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	20,470,296,592.92	9,818,885,237.85
Bills payable	1,598,110,792.85	290,403,790.59
Accounts payable	3,408,366,113.93	2,695,169,927.14
Advance receipts	270,056,726.88	442,432,261.58
Staff remuneration payables	153,926,042.30	130,271,812.18
Taxes payable	161,100,088.94	130,192,936.87
Interest payable	150,047,305.50	153,189,860.42
Other payables	783,790,884.61	486,836,595.89
Non-current liabilities due within one year	1,099,968,900.00	1,287,804,452.66
Other current liabilities		3,853,488,888.90
Total current liabilities	28,095,663,447.93	19,288,675,764.08
NON-CURRENT LIABILITIES:		
Long-term borrowings	4,378,290,245.19	3,723,865,807.90
Bonds payable	5,777,131,308.01	5,768,418,612.73
Long-term payables		60,000,000.00
Special payables	161,983,516.66	971,805,561.39
Deferred income	1,476,121,434.78	493,600,712.15
Other non-current liabilities	2,584,768,359.64	2,577,163,578.04
Total non-current liabilities	14,378,294,864.28	13,594,854,272.21
TOTAL LIABILITIES	42,473,958,312.21	32,883,530,036.29

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
OWNERS' EQUITY:		
Share capital	1,936,405,467.00	1,975,471,967.00
Capital reserves	6,149,136,873.41	6,204,682,028.94
Less: Treasury shares		30,954,891.40
Other comprehensive income	33,763,168.13	16,934,073.59
Surplus reserves	1,132,116,106.40	1,132,116,106.40
Retained profit	4,665,921,686.21	4,741,638,941.58
Total equity attributable to equity holders of the company	13,917,343,301.15	14,039,888,226.11
Minority interest	430,724,931.85	598,465,306.78
Total owners' equity	14,348,068,233.00	14,638,353,532.89
TOTAL LIABILITIES AND OWNERS' EQUITY	56,822,026,545.21	47,521,883,569.18

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

2. Balance sheet of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	2,345,637,944.73	1,454,242,620.40
Bills receivable	3,516,397,335.06	945,832,396.01
Accounts receivable	3,503,819,172.94	3,814,654,532.05
Prepayments	1,734,892,571.69	762,470,888.60
Dividend receivable		191,300,102.21
Other receivables	9,312,981,273.16	11,051,622,177.96
Inventories	824,854,551.21	857,030,449.25
Non-current assets due within one year	300,000,000.00	200,000,000.00
Other current assets	114,216,338.90	103,214,843.26
Total current assets	21,652,799,187.69	19,380,368,009.74
NON-CURRENT ASSETS:		
Available-for-sale financial assets	73,000,000.00	83,260,425.53
Long-term equity investments	12,370,935,132.02	8,780,477,577.92
Investment properties	17,735,187.91	19,473,443.95
Fixed assets	3,350,685,307.94	5,170,770,619.87
Construction in progress	323,543,539.92	127,095,105.63
Construction materials	1,564,277.42	1,813,442.43
Intangible assets	246,581,452.71	308,163,298.83
Deferred income tax assets	41,033,875.05	17,082,162.53
Other non-current assets	900,000,000.00	
Total non-current assets	17,325,078,772.97	14,508,136,076.69
TOTAL ASSETS	38,977,877,960.66	33,888,504,086.43

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	9,143,654,360.01	5,119,632,573.69
Bills payable	680,548,319.01	500,000.00
Accounts payable	693,506,846.35	891,996,724.44
Advance receipts	1,724,744.50	185,524,508.71
Staff remuneration payables	75,683,362.25	62,091,273.25
Taxes payable	30,908,886.06	8,949,746.01
Interest payable	150,047,305.50	150,047,305.56
Other payables	4,141,133,979.84	431,217,791.18
Non-current liabilities due within one year	494,760,000.00	343,876,000.00
Other current liabilities		3,853,488,888.90
Total current liabilities	15,411,967,803.52	11,047,324,811.74
NON-CURRENT LIABILITIES:		
Long-term borrowings	867,832,035.94	594,568,035.94
Bonds payable	5,777,131,308.01	5,768,418,612.73
Deferred income	44,507,433.25	32,767,512.29
Other non-current liabilities	2,584,768,359.64	2,577,163,578.04
Total non-current liabilities	9,274,239,136.84	8,972,917,739.00
Total liabilities	24,686,206,940.36	20,020,242,550.74
OWNERS' EQUITY:		
Share capital	1,936,405,467.00	1,975,471,967.00
Capital reserves	5,938,839,256.70	6,005,426,779.17
Less: Treasury shares		30,954,891.40
Surplus reserves	1,119,926,524.49	1,119,926,524.49
Retained profit	5,296,499,772.11	4,798,391,156.43
Total owners' equity	14,291,671,020.30	13,868,261,535.69
TOTAL LIABILITIES AND OWNERS' EQUITY	38,977,877,960.66	33,888,504,086.43

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

XII Financial Report

3. Consolidated Income Statement

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amounts for the reporting period	Amounts for the prior period
I. Total revenue	19,101,677,077.69	20,388,890,067.41
Including: Revenue	19,101,677,077.69	20,388,890,067.41
Interest income		
II. Total operating costs	19,011,530,814.45	20,020,276,909.90
Including: Operating costs	15,323,102,779.20	16,651,886,019.64
Business taxes and surcharges	91,030,073.05	85,832,210.98
Sales and distribution expenses	1,148,055,535.23	1,129,145,035.51
General and administrative expenses	1,160,542,907.39	1,198,704,556.00
Finance expenses	1,229,259,157.47	930,604,174.96
Loss on impairment of assets	59,540,362.11	24,104,912.81
Plus: Gain on change in fair value (“-” denotes loss)	6,856,815.32	11,221,828.76
Investment income (“-” denotes loss)	69,035,637.19	23,705,958.58
Including: Investment income from associates and joint ventures	-5,156,941.21	208,888.59

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amounts for the reporting period	Amounts for the prior period
III. Operating profit (“-” denotes loss)	166,038,715.75	403,540,944.85
Plus: Non-operating income	410,311,345.82	504,045,185.99
Including: gains on disposal of non-current assets	86,153,319.82	6,695,769.19
Less: Non-operating expenses	15,341,778.28	41,294,461.31
Including: Loss on disposal of non-current assets	12,236,126.04	36,560,317.17
IV. Total profit (“-” denotes total loss)	561,008,283.29	866,291,669.53
Less: Income tax expenses	107,699,410.64	175,938,431.91
V. Net profit (“-” denotes net loss)	453,308,872.65	690,353,237.62
Net profit attributable to shareholders of the Company	505,204,384.73	710,655,331.72
Minority interest	-51,895,512.08	-20,302,094.10
VI. Net other comprehensive income after tax	16,829,094.54	-15,416,892.44
Net other comprehensive income after tax attributable to shareholders of the Company	16,829,094.54	-15,416,892.44
(I) Other comprehensive income that will not be reclassified to profit and loss in subsequent periods		
1. Change in remeasurement of net defined benefit liability or assets		
2. Share of other comprehensive income of investees that will not be reclassified to profit and loss		
(II) Other comprehensive income that will be reclassified to profit and loss in subsequent periods	16,829,094.54	-15,416,892.44
1. Share of other comprehensive income of equity accounted investees that will be reclassified to profit and loss in subsequent periods		
2. Gains and losses from changes in fair value of available-for-sale financial assets		
3. Gains and losses from held-to-maturity investment reclassified as available-for-sale financial assets		
4. Effective portion of hedging gains and losses from cash flows		
5. Exchange differences on translation of foreign operations	16,829,094.54	-15,416,892.44
6. Others		
Net other comprehensive income after tax attributable to minority interests		
VII. Total comprehensive income	470,137,967.19	674,936,345.18
Total comprehensive income attributable to shareholders of the Company	522,033,479.27	695,238,439.28
Total comprehensive income attributable to minority interest	-51,895,512.08	-20,302,094.10
VIII. Earnings per share:		
(I) Basic earnings per share	0.26	0.35
(II) Diluted earnings per share	0.26	0.35

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

XII Financial Report

4. Income statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amounts for the reporting period	Amounts for the prior period
I. Revenue	8,582,968,059.66	9,790,098,706.42
Less: Operating costs	7,012,489,036.44	7,831,543,846.50
Business taxes and surcharges	35,615,043.10	43,845,776.65
Selling and distribution expenses	298,701,273.17	301,518,944.89
General and administrative expenses	530,538,773.19	584,409,749.89
Finance expenses	934,446,118.52	545,632,757.10
Loss on impairment of assets	1,496,752.17	9,721,213.30
Plus: Gain on change in fair value (“-” denotes loss)		
Investment income (“-” denotes loss)	1,154,412,826.75	353,682,268.40
Including: Investment income from associates and joint ventures	-82,608.18	-47,492.37
II. Operating profit (“-” denotes loss)	924,093,889.82	827,108,686.49
Plus: Non-operating income	135,734,906.06	122,069,435.62
Including: gains on disposal of non-current assets	1,152,350.23	3,640,655.04
Less: Non-operating expenses	4,750,252.63	36,361,095.67
Including: Loss on disposal of non-current assets	1,321,959.79	33,861,095.67
III. Total profit (“-” denotes total loss)	1,055,078,543.25	912,817,026.44
Less: Income tax expenses	-23,951,712.53	75,000,860.15
IV. Net profit (“-” denotes net loss)	1,079,030,255.78	837,816,166.29
V. Net other comprehensive income after tax		
(I) Other comprehensive income that will not be reclassified to profit and loss in subsequent periods		
1. Change in remeasurement of net defined benefit liability or assets		
2. Share of other comprehensive income of equity accounted investees that will not be reclassified to profit and loss in subsequent periods		
(II) Other comprehensive income that will be reclassified to profit and loss in subsequent periods		
1. Share of other comprehensive income of equity accounted investees that will be reclassified to profit and loss in subsequent periods		
2. Gains and losses from changes in fair value of available-for-sale financial assets		
3. Gains and losses from held-to-maturity investment reclassified as available-for-sale financial assets		
4. Effective portion of hedging gains and losses from cash flows		
5. Exchange differences on translation of foreign operations		
6. Others		
VI. Total comprehensive income	1,079,030,255.78	837,816,166.29
VII. Earnings per share:		
(I) Basic earnings per share		
(II) Diluted earnings per share		

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

XII Financial Report

5. Consolidated cash flow statement

Prepared by: Shandong Chenming Paper Holdings Limited

Item	Unit: RMB	
	Amounts for the reporting period	Amounts for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	17,314,976,594.80	19,924,421,264.23
Tax rebates received	9,544,605.83	15,764,794.45
Cash received relating to other operating activities	599,986,969.23	422,990,060.10
Subtotal of cash inflows from operating activities	17,924,508,169.86	20,363,176,118.78
Cash paid for goods and services	10,998,606,216.24	15,952,557,041.64
Cash paid to and for employees	833,795,827.84	1,017,503,439.00
Payments of taxes and surcharges	914,734,942.86	1,067,579,950.69
Cash paid relating to other operating activities	4,191,971,447.07	1,202,918,886.54
Subtotal of cash outflows from operating activities	16,939,108,434.01	19,240,559,317.87
Net cash flows from operating activities	985,399,735.85	1,122,616,800.91

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Item	Unit: RMB	
	Amounts for the reporting period	Amounts for the prior period
II. Cash flows from investing activities:		
Cash received from investments	10,000,000.00	
Cash received from investment income		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	24,814,839.75	201,327,878.35
Net cash received from disposal of subsidiaries and other business units	75,035,211.41	357,810,704.91
Cash received relating to other investing activities	913,066,062.47	1,367,652,767.53
Subtotal of cash inflows from investing activities	1,022,916,113.63	1,926,791,350.79
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	3,093,185,535.33	3,814,559,167.63
Cash paid on investments	3,000,000.00	20,000,000.00
Net cash paid for acquisition of subsidiaries and other business units		
Cash paid relating to other investing activities	1,000,000,000.00	3,180,221.51
Subtotal of cash outflows from investing activities	4,096,185,535.33	3,837,739,389.14
Net cash flows from investing activities	-3,073,269,421.70	-1,910,948,038.35
III. Cash flows from financing activities:		
Cash received from capital contribution		66,000,000.00
Including: cash received from minority interest contribution to subsidiaries		66,000,000.00
Cash received from borrowings	25,487,820,197.15	17,437,505,752.43
Cash received from bond issue		
Cash received relating to other financing activities		5,622,770,312.13
Subtotal of cash inflows from financing activities	25,487,820,197.15	23,126,276,064.56
Cash repayments of amounts borrowed	13,879,691,315.16	21,185,990,488.38
Cash paid for dividend and profit distribution or interest payment	2,143,300,146.91	1,376,004,607.35
Including: dividend and profit paid to minority interest by subsidiaries		16,657,735.88
Cash paid relating to other financing activities	7,136,477,150.59	1,396,318,075.00
Subtotal of cash outflows from financing activities	23,159,468,612.66	23,958,313,170.73
Net cash flows from financing activities	2,328,351,584.49	-832,037,106.17
IV. Effect of foreign exchange rate changes on cash and cash equivalents	9,082,033.70	3,351,087.12
V. Net increase in cash and cash equivalents	249,563,932.34	-1,617,017,256.49
Plus: Balance of cash and cash equivalents as at the beginning of the period	726,532,928.96	2,343,550,185.45
VI. Balance of cash and cash equivalents as at the end of the period	976,096,861.30	726,532,928.96

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

XII Financial Report

6. Cash flow statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amounts for the reporting period	Amounts for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	7,434,789,634.68	9,267,322,187.99
Tax rebates received		
Cash received relating to other operating activities	5,667,186,748.15	219,142,138.18
Subtotal of cash inflows from operating activities	13,101,976,382.83	9,486,464,326.17
Cash paid for goods and services	7,976,726,938.55	9,497,015,627.73
Cash paid to and for employees	237,509,541.17	250,644,717.68
Payments of taxes and surcharges	325,272,919.29	498,627,291.39
Cash paid relating to other operating activities	312,133,309.30	1,967,541,286.56
Subtotal of cash outflows from operating activities	8,851,642,708.31	12,213,828,923.36
Net cash outflows from operating activities	4,250,333,674.52	-2,727,364,597.19
II. Cash flows from investing activities:		
Cash received from investments	10,000,000.00	860,916,016.71
Cash received from investment income	1,073,924,052.21	618,941,235.06
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	471,399.75	21,798,747.08
Net cash received from disposal of subsidiaries and other business units		
Cash received relating to other investing activities	102,928,415.14	274,137,000.00
Subtotal of cash inflows from investing activities	1,187,323,867.10	1,775,792,998.85
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	498,712,353.90	316,039,924.71
Cash paid on investments	1,951,889,592.00	468,932,475.00
Net cash paid for acquisition of subsidiaries and other business units		
Cash paid relating to other investing activities	1,000,000,000.00	
Subtotal of cash outflows from investing activities	3,450,601,945.90	784,972,399.71
Net cash flows from investing activities	-2,263,278,078.80	990,820,599.14

XII Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Item	Unit: RMB	
	Amounts for the reporting period	Amounts for the prior period
III. Cash flows from financing activities:		
Cash received from capital contribution		
Cash received from borrowings	13,143,235,684.08	9,915,668,095.86
Cash received from bond issue		
Cash received relating to other financing activities		5,271,300,000.00
Subtotal of cash inflows from financing activities	13,143,235,684.08	15,186,968,095.86
Cash repayments of amounts borrowed	8,704,359,885.67	12,557,694,467.87
Cash paid for dividend and profit distribution or interest payment	1,669,956,508.36	1,100,076,772.93
Cash paid relating to other financing activities	4,789,896,127.16	1,515,035,053.37
Subtotal of cash outflows from financing activities	15,164,212,521.19	15,172,806,294.17
Net cash flows from financing activities	-2,020,976,837.11	14,161,801.69
IV. Effect of foreign exchange rate changes on cash and cash equivalents	10,119,569.63	151,371.37
V. Net increase in cash and cash equivalents	-23,801,671.76	-1,722,230,824.99
Plus: Balance of cash and cash equivalents as at the beginning of the period	64,392,029.09	1,786,622,854.08
VI. Balance of cash and cash equivalents as at the end of the period	40,590,357.33	64,392,029.09

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

7. Consolidated statement of changes in owners' equity
 Prepared by: Shandong Chenming Paper Holdings Limited
 Amounts for the reporting period

Unit: RMB

Item	For the reporting period										Total owners' equity	
	Equity attributable to shareholders of the Company											
	Share capital	Preference shares	Other equity instruments	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Retained profit	Minority interest
I. Balance as at the end of the prior year	1,975,471,967.00				6,204,682,028.94	30,954,891.40	16,934,073.59	1,132,116,106.40	4,741,638,941.58		598,465,306.78	14,638,333,532.89
Plus:												
accounting policy change												
Corrections of prior period errors												
Business combination under common control												
Others												
II. Balance as at the beginning of the year	1,975,471,967.00				6,204,682,028.94	30,954,891.40	16,934,073.59	1,132,116,106.40	4,741,638,941.58		598,465,306.78	14,638,333,532.89
III. Changes in the period ("-" denotes decrease)												
(I) Total comprehensive income	-39,066,500.00				-55,545,155.53	-30,954,891.40	16,829,094.54		-75,717,255.37		-167,740,374.93	-280,285,239.89
(II) Capital paid in and reduced by owners	-39,066,500.00				-55,545,155.53	-30,954,891.40	16,829,094.54		505,204,684.73		-51,085,512.08	470,137,967.19
1. Ordinary shares paid by shareholders	-39,066,500.00				-55,545,155.53	-30,954,891.40					-61,913,669.40	-125,570,433.53
2. Capital paid by holders of other equity instruments	-39,066,500.00				-55,545,155.53	-30,954,891.40					-61,913,669.40	-125,570,433.53
3. Amounts of share-based payments recognised in owners' equity												
4. Others												
(III) Profit distribution												
1. Transfer to surplus reserves												
2. Transfer to general risk provision												
3. Distribution to owners (shareholders)												
4. Others												
IV. Balance as at the end of the period	1,936,405,467.00				6,149,136,873.41		33,763,168.13	1,132,116,106.40	4,665,921,686.21		430,724,891.85	14,348,068,233.00

XII Financial Report

Amounts for the prior period

Unit: RMB

Item	For the prior period Equity attributable to shareholders of the Company										Total owners' equity	
	Share capital	Preference shares	Other equity instruments Perpetual bonds	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions		Retained profit
I. Balance as at the end of the prior year	2,062,045,941.00				6,414,882,998.53		929,250.04	1,132,116,106.40	4,149,511,927.88		585,821,753.20	14,345,477,933.05
Plus:												
accounting policy change												
Corrections of prior period errors												
Business combination under common control												
Others												
II. Balance as at the beginning of the year	2,062,045,941.00				6,414,882,998.53		929,250.04	1,132,116,106.40	4,149,511,927.88		585,821,753.20	14,345,477,933.05
III. Changes in the period ("+" denotes increase)	-86,579,974.00				-210,210,970.59	30,954,891.40	16,004,868.55		582,127,013.70		12,543,533.58	292,635,599.84
(I) Total comprehensive income					-31,421,760.99		16,004,868.55		710,655,331.72		-20,302,094.10	674,936,345.18
(II) Capital paid in and reduced by owners	-86,579,974.00				-178,789,208.60	30,954,891.40					48,533,141.18	-247,784,933.82
1. Ordinary shares paid by shareholders												
2. Capital paid by holders of other equity instruments	-86,579,974.00				-178,789,208.60	30,954,891.40					48,533,141.18	-247,784,933.82
3. Amounts of share-based payments recognised in owners' equity												
4. Others												
(III) Profit distribution												
1. Transfer to surplus reserves												
2. Transfer to general risk provision												
3. Distribution to owners (shareholders)												
4. Others												
IV. Balance as at the end of the period	1,975,471,967.00				6,204,682,028.94	30,954,891.40	16,934,073.59	1,132,116,106.40	4,741,638,941.58		598,465,306.78	14,638,333,532.89

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

8. Statement of changes in owners' equity of the Company

Prepared by: Shandong Chenming Paper Holdings Limited
Amounts for the reporting period

Unit: RMB

Item	Share capital		Preference shares		Other equity instruments		Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained profit	Total owners' equity
	Share capital	Preference shares	Perpetual bonds	Perpetual bonds										
I. Balance as at the end of the prior year	1,975,471,967.00						6,005,426,779.17	30,954,891.40				1,119,926,524.49	4,798,391,156.43	13,868,261,535.69
Plus:														
Accounting policy change														
Corrections of prior period errors														
Others														
II. Balance as at the beginning of the year	1,975,471,967.00						6,005,426,779.17	30,954,891.40				1,119,926,524.49	4,798,391,156.43	13,868,261,535.69
III. Changes in the period ("-" denotes decrease)														
(I) Total comprehensive income	-39,066,500.00						-66,597,522.47	-39,954,891.40					498,108,615.88	423,409,484.61
(II) Capital paid in and reduced by owners	-39,066,500.00						-66,597,522.47	-39,954,891.40					1,079,030,255.78	1,079,030,255.78
1. Ordinary shares paid by shareholders	-39,066,500.00						-66,597,522.47	-39,954,891.40						-74,699,131.07
2. Capital paid by holders of other equity instruments														
3. Amounts of share-based payments recognised in owners' equity														
4. Others							-66,597,522.47	-39,954,891.40						-74,699,131.07
(III) Profit distribution													-580,921,640.10	-580,921,640.10
1. Transfer to surplus reserves													-580,921,640.10	-580,921,640.10
2. Distribution to owners (shareholders)														
3. Others														

XII Financial Report

Amounts for the reporting period

Unit: RMB

Item	Share capital	Preference shares	Other equity instruments		Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained profit	Total owners' equity
			Perpetual bonds	Perpetual bonds								
(IV) Transfer within owners' equity												
1. Transfer from capital reserves to capital (or share capital)												
2. Transfer from surplus reserves to capital (or share capital)												
3. Transfer from surplus reserves to make up for losses												
4. Others												
IV. Balance as at the end of the period	1,936,405,467.00					5,898,839,256.70				1,119,926,524.49	5,298,489,772.11	14,291,671,020.30

XII Financial Report

Amounts for the prior period

Unit: RMB

Item	Share capital	Preference shares	Other equity instruments		Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained profit	Total owners' equity
			Perpetual bonds	Perpetual equities								
I. Balance as at the end of the prior year	2,082,045,941.00					6,184,215,988.77				1,119,926,524.49	4,079,103,308.16	13,445,291,762.42
Plus:												
Accounting policy change												
Corrections of prior period errors												
Others												
II. Balance as at the beginning of the year	2,082,045,941.00					6,184,215,988.77				1,119,926,524.49	4,079,103,308.16	13,445,291,762.42
III. Changes in the period ("-" denotes decrease)												
(i) Total comprehensive income	-8,573,974.00					-178,789,209.60	30,954,891.40				719,287,849.27	422,988,773.27
(ii) Capital paid in and reduced by owners												
1. Ordinary shares paid by shareholders	-8,573,974.00					-178,789,209.60	30,954,891.40					-296,318,075.00
2. Capital paid by holders of other equity instruments	-8,573,974.00					-178,789,209.60	30,954,891.40					-296,318,075.00
3. Amounts of share-based payments recognized in owners' equity												
4. Others												
IV. Profit distribution												
1. Transfer to surplus reserves											-118,528,918.02	-118,528,918.02
2. Distribution to owners (shareholders)												
3. Others												
(V) Transfer within owners' equity												
1. Transfer from capital reserves to capital (or share capital)												
2. Transfer from surplus reserves to capital (or share capital)												
3. Transfer from surplus reserves to make up for losses												
4. Others												
IV. Balance as at the end of the period	1,975,471,967.00					6,005,426,779.17	30,954,891.40			1,119,926,524.49	4,798,391,156.43	13,868,261,535.69

Legal Representative: Chen Hongguo Financial controller: Dong Lianming Head of the financial department: Liu Jun

XII Financial Report

III. General Information of the Company

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”) was incorporated in May 1993 in Shouguang City, Shandong Province, with its headquarters at No. 2199 Nongsheng Road East, Shouguang City, Shandong Province.

Its predecessor, Shandong Shouguang Paper Mill Corporation, was reformed as Shandong Shouguang Paper Making, Printing and Packaging Group Company Limited through “offering to specific investors” in 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.

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. 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 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.

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.

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.

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), which were listed on 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.

XII Financial Report

III. General Information of the Company (Cont'd)

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 shares at the ratio of 10:4 according to the Company's share capital of 273,855,665 shares on 30 June 1997. Upon conversion, the Company's total share capital was changed to 383,397,931 shares.

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), which were listed and traded on 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.

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 Guanghua Company were converted into B shares and listed on Shenzhen Stock Exchange. Listed tradable B shares of the Company were increased to 187,709,591 shares.

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 the bonus shares distribution, the Company's total share capital was increased to 498,737,724 shares.

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 the bonus shares distribution and conversion, the Company's total share capital was increased from 498,737,724 shares to 897,727,903 shares.

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 and traded on 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.

On 29 April 2005, the Company held 2004 general meeting and passed the 2004 profit distribution plan by discussion. It 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 the bonus shares distribution and conversion, the Company's total share capital was increased to 1,346,593,369 shares.

XII Financial Report

III. General Information of the Company (Cont'd)

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. On 14 May 2007, the Company converted the Chenming Convertible Bonds and total shares were increased to 1,706,345,941 shares.

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 on 18 June 2008. 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.

Pursuant to resolutions of the 2012 Third Extraordinary General Meeting, resolutions of the 2012 First Class Meeting for Holders of Domestic Listed Share (A shares and B shares), resolutions of the 2012 First Class Meeting for Holders of Overseas Listed Share (H shares) and the Articles of Association (as amended), the Company applied for the reduction of share capital of RMB86,573,974, including a decrease of 86,573,974 domestic listed foreign shares (B shares) at RMB1 per share. From 7 March 2013 to 11 December 2013, the Company repurchased 86,573,974 domestic listed foreign shares (B shares), and the repurchased shares were cancelled on 24 December 2013. The share capital of the Company was RMB1,975,471,967 upon such change.

Pursuant to resolutions of the 2013 First Extraordinary General Meeting, resolutions of the 2013 First Class Meeting for Holders of Domestic Listed Share (A shares and B shares), resolutions of the 2013 First Class Meeting for Holders of Overseas Listed Share (H shares) and the Articles of Association (as amended), the Company applied for the reduction of share capital of RMB39,066,500, including a decrease of 39,066,500 overseas listed foreign shares (H shares) at RMB1 per share. From 11 December 2013 to 9 May 2014, the Company repurchased 39,066,500 overseas listed foreign shares (H shares), and the repurchased shares were cancelled on 14 May 2014. The share capital of the Company was RMB1,936,405,467 upon such change.

The Registration No. of the Business License for Enterprise Legal Person is 370000400001170.

The Company has a long business period. In the opinion of the Board of the Company, the Company is capable of operating subsidiaries of a limited business period as a going concern upon expiry of their business period.

The financial statements were considered and approved by the board of directors of the Company on 26 March 2015. According to the Articles of Association, this financial statement will be submitted to the general meeting for its approval.

The Company and its subsidiaries (hereinafter referred to as the ("Group")) are principally engaged in 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, equipment financial and operating leasing, etc.

Subsidiaries of the Company included in the scope of consolidation in 2014 totalled 49. For details, please refer to this Note VIII "Equity in other entities". The scope of consolidation of the Company during the year had 6 companies included and 3 excluded compared to the prior year. For details, please refer to this Note VIII "Changes in the scope of consolidation".

XII Financial Report

IV. Basis of Preparation of the Financial Statements

1. Basis of preparation

The Group's financial statements are prepared on a going concern basis and based on actual transactions and events, in accordance with the accounting standards for business enterprises promulgated by the Ministry of Finance of PRC ((Order of Ministry of Finance No. 33 Issue and Order of Ministry of Finance No. 76 Amendment) and 41 specific accounting standards as promulgated and amended on and after February 15 2006, the 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 2014) 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.

2. Going concern

No facts or circumstances comprise a material uncertainty about the Company's going concern basis within 12 months since the end of the reporting period.

XII Financial Report

V. Significant Accounting Policies and Accounting Estimates

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

The financial statements have been prepared by the Company in conformity with the ASBEs, which truly and fully reflect the financial position of the consolidated entity and the Company as at 31 December 2014 and relevant information such as the operating results and cash flows of the consolidated entity and the Company for 2014. 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 2014 and the notes thereto.

2. Accounting period

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

3. Operating cycle

Ordinary operating cycle refers to the period from acquisition of assets used for processing by the Group until their realisation in cash or cash equivalents. The operating cycle of the Group lasts for 12 months, and acts as an indicator for classification of liquidity of assets and liabilities.

Our subsidiaries, including Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd., Huanggang Chenming Arboriculture Co., Ltd. and Chenming Arboriculture Co., Ltd., were engaged in arboriculture cultivating, plantation and sale. Their ordinary operating cycle lasts for over 1 year.

4. 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 (“USD” or “US\$”), Japanese yen (“JPY”) and Euro (“EUR”) as their respective reporting currency according to the general economic environment in which these subsidiaries operate. The Company prepares its financial statements in RMB.

5. Accounting treatment of business combination under common control and not under common control

Business combinations refer to the transactions or events in which two or more separate enterprises merged as a single reporting entity. Business combinations are divided into business combination under common control and not under common control.

XII Financial Report

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

5. Accounting treatment of business combination under common control and not under common control (Cont'd)

(1) Business combination under common control (Cont'd)

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 acquiree 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 debt 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 be 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. 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.

XII Financial Report

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

5. Accounting treatment of business combination under common control and not under common control (Cont'd)

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

In relation to the deductible temporary difference acquired from the acquiree, which was not recognised as deferred tax assets due to non-fulfilment of the recognition criteria at the date of the acquisition, if new or further information that is obtained within 12 months after the acquisition date indicates that related conditions at the acquisition date already existed, and that the implementation of the economic benefits brought by the deductible temporary difference of the acquiree can be expected, the relevant deferred tax assets shall be recognised and goodwill shall be deducted. When the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in the profit or loss of the period. Except for the above circumstances, deferred tax assets in relation to business combination are recognised in the profit or loss of the period.

For a business combination not under common control is finished by a stage-up approach with several transactions, these several transactions will be judged whether they belong to “transactions in a basket” in accordance with the judgement standards on “transactions in a basket” as set out in the Notice of the Ministry of Finance on Issuing Accounting Standards for Business Enterprises Interpretation No. 5 (Cai Kuai [2012] No. 19) and “Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements”(see Note V. 6 (2)). If they belong to “transactions in a basket”, they are accounted for with reference to the descriptions as set out in the previous paragraphs of this section and Note V. 13 “Long-term equity investments”, and if they do not belong to “transactions in a basket”, they are accounted for in separate financial statements and consolidated financial reports:

In separate financial statements, the initial equity investment cost is the aggregate of the carrying amount of the equity investment in the acquiree held prior to the acquisition date and the investment cost newly added as at the acquisition date. In respect of any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income for the period, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).

In consolidated financial statements, the equity interest in the acquiree held prior to the acquisition date is remeasured at fair value as at the acquisition date, and the difference between the fair value and the carrying amount is recognised as investment income for the current period. In respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree (i.e. to be transferred to investment income at the acquisition date, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree) is transferred to investment income in the period of the acquisition date.

XII Financial Report

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

6. Preparation of consolidated financial statements

(1) Basis for 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” refers to the fact that the Company has power over the investee and is entitled to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is an entity controlled by the Company.

The Company will conduct reassessment in the event there are changes in actual condition and situation causing changes in relevant elements involved in the definition of control above.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Company 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.

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

The shareholders' 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 interest is presented in the consolidated income statement under the “net profit” line item as “minority interest”. 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 interest.

XII Financial Report

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

6. Preparation of consolidated financial statements (Cont'd)

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

For the loss of control over a subsidiary due to disposal of a portion of the equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost. Other comprehensive income related to equity investment in the subsidiary is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time when the control is lost (i.e. to be transferred to investment income, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan of the subsidiary using the equity method). The remaining equity interests are measured subsequently according to “Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments” or “Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”. See Note V. 13 “Long-term equity investments” or Note V. 10 “Financial instruments” for details.

When the Company disposes of equity investment in a subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost, it shall determine whether these several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to “transactions in a basket”. Usually, these several transactions related to the disposal of equity investment in a subsidiary are accounted for as transactions in a basket when the terms, conditions and economic impacts of these several transactions meet the following one or more conditions: (i) these transactions are entered into at the same time or after considering their impacts on each other; (ii) these transactions as a whole can reach complete business results; (iii) the occurrence of a transaction depends on at least the occurrence of an other transaction; (iv) an individual transaction is not deemed as economic, but is deemed as economic when considered with other transactions. If they are not transactions in a basket, each of which are accounted for in accordance with applicable rules in “partial disposal of long-term equity investment of a subsidiary without losing control over a subsidiary” (see Note V. 13 (2) ④) separately, and “the control over a subsidiary is lost due to partial disposal of equity investment or other reasons” (see the preceding paragraph). When several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to transactions in a basket, each of which is accounted for as disposal of a subsidiary with a transaction until the control over a subsidiary is lost; however, the difference between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal investment shall be recognised as other comprehensive income in consolidated financial statements and transferred to profit or loss at the time when the control is lost.

7. Classification of joint arrangements and accounting treatment for joint ventures

A joint arrangement refers to an arrangement of two or more parties have joint control. In accordance with the Group’s rights and obligations under a joint arrangement, the Group classifies joint arrangements into: joint ventures and joint operations. Joint operations refer to a joint arrangement during which the Company is entitled to relevant assets and obligations of this arrangement. Joint ventures refer to a joint arrangement during which the Group only is entitled to net assets of this arrangement.

The Group treats investments in joint ventures by using the equity method of accounting in accordance with accounting policies as set out in Note V.13. (2) ② “long-term equity investments by using equity method of accounting”.

XII Financial Report

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

7. Classification of joint arrangements and accounting treatment for joint ventures (Cont'd)

The Group shall, as a joint venture, recognise the assets held and obligations assumed solely by the Group, and recognise assets held and obligations assumed jointly by the Group in appropriation to the share of the Company; recognise revenue from disposal of the share of joint operations of the Group; recognise fees solely occurred by Group and recognise fees from joint operations in appropriation to the share of the Group.

When the Group, as a joint venture, invests or sells assets (the assets dose not constitute a business, the same below) to or purchase assets from joint operations, the Group shall only recognise the part of profit or lost from this transaction attributable to other parties of joint operations before these assets are sold to the third party. If the occurrence of these assets meet the impairment loss of asset as set our in "Accounting Standard for Business Enterprises No. 8 – Asset Impairment", the Company shall recognise the full amount of this loss in relation to the Group invests in or sells assets to joint operations; the Group recognise the loss according to the Group's share of commitment in relation to the Group purchase assets from joint operations.

8. Standards for recognising cash and cash equivalents

Cash and cash equivalents of the Group 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.

9. 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 Group, when initially recognised, are translated into functional currency at the prevailing spot exchange rate on the date of exchange, i.e. the middle price of RMB exchange rate published by the People's Bank of China on that date in general and the same hereinafter, while the foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into functional currency at the exchange rate actually adopted.

(2) Basis for translation of foreign currency financial statements

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 (generally, a spot exchange rate is the middle price quoted by the People's Bank of China on the day of transaction) on the balance sheet date. All differences are included in the consolidated income statement, except for: (i) the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets which are qualified for capitalisation; and (ii) other carrying amounts of the amortisation costs, the differences arising from changes of the foreign currency items available for sale.

Exchange differences arising from change in exchange rate where the preparation of consolidated financial statements relates to foreign operations and foreign currency monetary items materially constitute net investment in foreign operations shall be recorded into "other comprehensive income"; disposal of foreign operations shall be included into profits and losses on disposal in the current period.

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 comprehensive income.

XII Financial Report

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

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

(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 foreign operations and foreign currency monetary items materially constitute net investment in foreign operations shall be recorded into "other comprehensive income" under "translation reserve"; disposal of foreign operations 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 compliance with the following requirements: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; owner's equity items except for "retained profit" are translated at the spot exchange rates at the dates on which such items arose; income and expenses items in the income statement are translated at the spot exchange rate at the date of transaction. The retained profit brought forward are reported at the prior year's closing balance; the retained profit as at the end of the year are presented after translated the profit appropriation items; differences between the aggregate of asset and liability items and owners' equity items are recognised as "translation differences arising on the translation of financial statements denominated in foreign currencies" in other comprehensive income. 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 operations 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.

On disposal of the entire owners' equity in a foreign operation of the Company, or upon a loss of control over a foreign operation due to disposal of certain equity investment or other reasons, the Company transfers the exchange differences arising on translation of financial statements of this foreign operation attributable to owners' equity of parent company presented under owners' equity in the balance sheet, to profit or loss in the period in which the disposal took place.

In case of partial disposal of equity investment or other reason that result in reduction in shareholding in a foreign operation without losing control over it, the proportionate share of exchange differences arising from the translation of financial statements will attributable to minority interests and will not recognised in profit or loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the exchange differences arising from the translation of financial statements of foreign operations is reclassified to profit or loss.

XII Financial Report

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

10. Financial instruments

Financial asset or financial liability will be recognised when the Group became one of the parties under a financial instrument contract. Financial assets and financial liabilities are initially recognised at fair value, except for equity instruments that are not quoted in an active market, the fair value of which cannot be reliably measured and over relevant investees of which the Company does not have control, joint control or significant influence, and debt financing instruments subsequently measured at amortised cost using the effective interest method. For financial assets and financial liabilities measured at fair value and whose changes are carried through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial assets and financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognised.

(1) Determination of fair values for financial assets and financial liabilities

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. 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 financial assets

Conventionally traded financial assets shall be recognised and derecognised at the trading date. Financial assets shall be classified into loans and accounts receivable, available-for-sale financial assets and others for initial recognition.

① 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 are classified as loans and receivables by the Company.

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 amortisation are charged to profit or loss in the current period.

XII Financial Report

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

10. Financial instruments (Cont'd)

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

② Available-for-sale financial assets

Available-for-sale financial assets represent equity instruments over relevant investees of which the Company does not have control, joint control or significant influence.

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, 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. However, equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably are subsequently measured at cost.

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

(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 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.

XII Financial Report

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

10. Financial instruments (Cont'd)

(3) Impairment of financial assets (Cont'd)

② Impairment of available-for-sale financial assets

In the event that decline in fair value of the available-for-sale equity instrument is regarded as “severe decline” or “non-temporary decline” on the basis of comprehensive related factors, it indicates that there is impairment loss of the available-for-sale equity instrument. In particular, “severe decline” refers to accumulative decline in fair value is more than 20%. “Non-temporary decline” refers to the fair value decreased continuously for more than 12 months. The continuous decreasing period is determined on the basis of the drop of fair value accumulated over 10%.

When the available-for-sale financial assets impair, the accumulated loss originally included in the other comprehensive income 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 comprehensive 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.

(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.

XII Financial Report

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

10. Financial instruments (Cont'd)

(4) Recognition and measurement of transfers of financial asset (Cont'd)

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.

For financial assets that are sold or transferred with recourse or endorsement, the Company need to determine whether the risk and rewards of ownership of the financial asset have been substantially transferred. If the risk and rewards of ownership of the financial asset have been substantially transferred, the financial assets shall be derecognised. If the risk and rewards of ownership of the financial asset have been retained, the financial assets shall not be derecognised. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company shall assess whether the control over the financial asset is retained, and the financial assets shall be accounting for according to the above paragraphs.

(5) Classification and measurement of financial liabilities

Financial liabilities are classified at initial recognition: at fair value and changes are carried through profit or loss as financial liabilities and other financial liabilities. For financial liabilities measured at fair value and whose changes are carried 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 and subsequently measured at amortised cost using the effective interest method, and relevant gain or loss arising from derecognition or amortization are included in current profit or loss.

(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) 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 Company 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.

XII Financial Report

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

10. Financial instruments (Cont'd)

(8) 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 issuance (including refinancing), repurchase, sale or cancellation of equity instruments by the Company is accounted for movement in equity. The Group does not recognise the movement in fair value of equity instruments. Transaction costs related to equity transactions are deducted from equity.

Various distributions (excluding dividends) made by the Group to holders of equity instruments reduces owners' equity. The Group does not recognise the movement in fair value of equity instruments.

11. Accounts receivable

Accounts receivable includes accounts receivable and other receivables etc.

(1) Basis for recognition and measurement 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) Method for making bad debt provision

- ① Recognition standard and method for making bad debt provision individually for individually significant accounts receivable

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 Financial Report

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

11. Accounts receivable (Cont'd)

(2) Method for making bad debt provision (Cont'd)

- ② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk portfolio (Cont'd)

A. Basis for determining the credit risk portfolio

The Group classifies its individually insignificant accounts receivable and individually significant but not impaired accounts receivable in accordance with their credit risk characteristics and relevance of financial assets. These credit risks usually reflect the ability of debtor in repaying all debts due based on the contracted terms of relevant assets, and are related to the forecast on future cash flows of asset under assessment.

Portfolios are determined according to the following basis:

Portfolio	Basis for determining the portfolio
Specific fund portfolio	A portfolio which is classified as a category on the basis of certain specific accounts receivable
Ageing portfolio	A portfolio which is classified as a category on the basis of credit risk features such as ageing

B. Method for making bad debt provision according to credit risk characteristics

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 characteristics (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses, prevailing economic condition and losses that are expected to incur in the group of accounts receivable.

Method for making bad debt provision for different portfolio:

Portfolio	Method for making provision
Specific fund portfolio	No bad debt provision provided
Ageing portfolio	Ageing analysis

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

11. Accounts receivable (Cont'd)

(2) Method for making bad debt provision (Cont'd)

② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk portfolio (Cont'd)

B. Method for making bad debt provision according to credit risk characteristics (Cont'd)

Use of ageing analysis for making bad debt provision in the portfolio:

Ageing	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year)	5%	5%
1-2 years	10%	10%
2-3 years	20%	20%
Over 3 years	100%	100%

③ Accounts receivable individually insignificant but provided for bad debt separately

Accounts receivable which are individually insignificant but have the following features are subject to impairment tests separately by the Group. If there is objective evidence indicating that the accounts receivable are impaired, then impairment loss will be recognised and bad debts will be provided according to the difference when the present value of future cash flow is lower than its carrying amounts, such as 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 for bad debts

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 Financial Report

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

12. Inventories

(1) Classification of inventories

Inventories mainly include raw materials, work in progress, goods in stock, development products and consumable biological assets etc.

(2) Pricing of inventories 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 with weighted average method.

The inventories of land development companies under the Company are initially measured at cost. The costs of developing products include preconstruction costs, expenditures for auxiliary facilities, expenses on construction and installation, borrowing costs incurred before the completion of the subject project and other related expenses during the course of the development. Once the inventories are delivered, the actual costs will be determined using specific measurement methods.

Consumable biological assets refer to biological assets held for sale which include growing timber. Consumable biological assets without a stock are stated at cost at initial recognition, and subsequently measured at fair value when there is a stock. Changes in fair values shall be recognised as profit or loss in the current period. 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 batch averaging method.

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

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.

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. Usually, 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. For large quantity and low value items of inventories, provision may be made based on categories of inventories. For items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicably evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

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.

(4) We implement permanent inventory system as our inventory stock taking system.

XII Financial Report

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

13. Long-term equity investments

Long-term equity investments under this section refer to long-term equity investments in which the Company has control, joint control or significant influence over the investee. Long-term equity investment without control or joint control or significant influence of the Group is accounted for as available-for-sale financial assets or financial assets measured at fair value with any change in fair value charged to profit or loss. Details on its accounting policy please refer to Note 5. 10. "Financial instruments".

Joint control is the Company's contractually agreed sharing of control over an arrangement, which relevant activities of such arrangement must be decided by unanimous agreement from parties who share control. Significant influence is the power of the Company to participate in the financial and operating policy decisions of an investee, but to fail to control or joint control the formulation of such policies together with other parties.

(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 under the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-cash assets transferred as well as the book value of the debts borne by the absorbing party shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. If the consideration of the merger is satisfied by issue of equity securities, 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 under the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. For business combination resulted in an enterprise under common control by acquiring equity of the absorbing party under common control through a stage-up approach with several transactions, these transactions will be judged whether they shall be treated as "transactions in a basket". If they belong to "transactions in a basket", these transactions will be accounted for a transaction in obtaining control. If they are not belong to "transactions in a basket", 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 under the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the aggregate of the carrying amount of the long-term equity investment before merging and the carrying amount the additional consideration paid for further share acquisition on the date of combination shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. Other comprehensive income recognised as a result of the previously held equity investment accounted for using equity method on the date of combination or recognised for available-for-sale financial assets will not be accounted for.

XII Financial Report

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

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

(1) Determination of investment cost (Cont'd)

For a long-term equity investment acquired through a business combination involving enterprises not under common control, the initial investment cost of the long-term equity investment shall be the cost of combination on the date of acquisition. Cost of combination includes the aggregate fair value of assets paid by the acquirer, liabilities incurred or borne and equity securities issued. For business combination resulted in an enterprise not under common control by acquiring equity of the acquiree under common control through a stage-up approach with several transactions, these transactions will be judged whether they shall be treat as “transactions in a basket”. If they belong to “transactions in a basket”, these transactions will be accounted for a transaction in obtaining control. If they are not belong to “transactions in a basket”, the initial investment cost of the long-term equity investment accounted for using cost method shall be the aggregate of the carrying amount of equity investment previously held by the acquiree and the additional investment cost. For previously held equity accounted for using equity method, relevant other comprehensive income will not be accounted for. For previously held equity investment classified as available-for-sale financial asset, the difference between its fair value and carrying amount, as well as the accumulated movement in fair value previously included in the other comprehensive income shall be transferred to profit or loss for the current period.

Agent fees incurred by the absorbing party or 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.

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 Company 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 Company, 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. For additional equity investment made in order to obtain significant influence or common control over investee without resulted in control, the relevant cost for long-term equity investment shall be the aggregate of fair value of previously held equity investment and additional investment cost determined according to “Accounting Standard for Business Enterprises No. 22 – Recognition and measurement of Financial Instruments”.

(2) Subsequent measurement and method for profit or loss recognition

Long-term equity investments with joint control (excluding those constitute joint ventures) or significant influence on the investee are accounted for using equity method. 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. The cost for long-term equity investment is adjusted in the event of additional investment or investment recovery. 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.

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

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

(2) Subsequent measurement and method for 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 and other comprehensive income shall be recognised based on the Group's share of the net profits or losses and other comprehensive income made by the investee, respectively. Meanwhile, the carrying amount of long-term equity investment shall be adjusted. The carrying amount of long-term equity investment shall be reduced based on the Group's share of profit or cash dividend distributed by the investee. In respect of the other movement of net profit or loss, other comprehensive income and profit distribution of investee, the carrying value of long-term equity investment shall be adjusted and included in the capital reserves. 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 the event of inconformity between the accounting policies and accounting periods of the investee and the Company, the financial statements of the investee shall be adjusted in conformity with the accounting policies and accounting periods of the Company. Investment gain and other comprehensive income shall be recognised accordingly. In respect of the transactions between the Group and its associates and joint ventures in which the assets disposed of or sold are not classified as operation, the share of unrealised gain or loss arising from inter-group transactions shall be eliminated by the portion attributable to the Company. Investment gain shall be recognised accordingly. However, any unrealised loss arising from inter-group transactions between the Group and an investee is not eliminated to the extent that the loss is impairment loss of the transferred assets. In the event that the Group disposed of an asset classified as operation to its joint ventures or associates, which resulted in acquisition of long-term equity investment by the investor without obtaining control, the initial investment cost of additional long-term equity investment shall be the fair value of disposed operation. The difference between initial investment cost and the carrying value of disposed operation will be fully included in profit or loss for the current period. In the event that the Group sold an asset classified as operation to its associates or joint ventures, the difference between the carrying value of consideration received and operation shall be fully included in profit or loss for the current period. In the event that the Company acquired an asset which formed an operation from its associates or joint ventures, relevant transaction shall be accounted for in accordance with "Accounting Standards for Business Enterprises No. 20 "Business combination". All profit or loss related to the transaction shall be accounted for.

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 Financial Report

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

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

(2) Subsequent measurement and method for profit or loss recognition (Cont'd)

③ Acquisition of minority interest

Upon the preparation of the consolidated financial statements, since acquisition of minority interest 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, for disposal of a portion of the long-term equity investments in a subsidiary without loss of 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 accounted for in accordance with the relevant accounting policies as described in Note V. 6. (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.

In respect of long-term equity investment accounted for using equity method with the remaining equity interest after disposal also accounted for using equity method, other comprehensive income previously under owners' equity shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee on pro rata basis at the time of disposal. The owners' equity recognised for the movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution of investee) shall be transferred to profit or loss for the current period on pro rata basis.

In respect of long-term equity investment accounted for using cost method with the remaining equity interest after disposal also accounted for using cost method, other comprehensive income recognised using equity method or the recognition and measurement standard of financial instruments before obtaining control over the investee shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee, and transferred to profit or loss for the current period on pro rata basis. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period on pro rata basis.

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

13. Long-term equity investments *(Cont'd)*

(2) Subsequent measurement and method for profit or loss recognition *(Cont'd)*

④ Disposal of long-term equity investments *(Cont'd)*

In the event of loss of control over investee due to partial disposal of equity investment by the Group, in preparing separate financial statements, the remaining equity interest which can apply common control or impose significant influence over the investee after disposal shall be accounted for using equity method. Such remaining equity interest shall be treated as accounting for using equity method since it is obtained and adjustment was made accordingly. For remaining equity interest which cannot apply common control or impose significant influence over the investee after disposal, it shall be accounted for using the recognition and measurement standard of financial instruments. The difference between its fair value and carrying amount as at the date of losing control shall be included in profit or loss for the current period. In respect of other comprehensive income recognised using equity method or the recognition and measurement standard of financial instruments before the Group obtained control over the investee, it shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee at the time when the control over investee is lost. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period at the time when the control over investee is lost. Of which, for the remaining equity interest after disposal accounted for using equity method, other comprehensive income and other owners' equity shall be transferred on pro rata basis. For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

In the event of loss of common control or significant influence over investee due to partial disposal of equity investment by the Group, the remaining equity interest after disposal shall be accounted for using the recognition and measurement standard of financial instruments. The difference between its fair value and carrying amount as at the date of losing common control or significant influence shall be included in profit or loss for the current period. In respect of other comprehensive income recognised under previous equity investment using equity method, it shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee at the time when equity method was ceased to be used. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period at the time when equity method was ceased to be used.

The Group disposes its equity investment in subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost. If the said transactions belong to "transactions in a basket", each transaction shall be accounted for as a single transaction of disposing equity investment of subsidiary and loss of control. The difference between the disposal consideration for each transaction and the carrying amount of the corresponding long-term equity investment of disposed equity interest before loss of control shall initially recognised as other comprehensive income, and subsequently transferred to profit or loss arising from loss of control for the current period upon loss of control.

XII Financial Report

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

14. Investment Property

Investment property refer to real estate held to earn rentals or for capital appreciation, or both.

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 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 V.20 "Impairment of long-term assets".

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.

In the event that an investment property is converted to an owner-occupied property, such property shall become fixed assets or intangible assets since the date of its conversion. In the event that an owner-occupied property is converted to real estate held to earn rentals or for capital appreciation, such fixed assets or intangible assets shall become an investment property since the date of its conversion. Investment property is measured at cost during its conversion. 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 Financial Report

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

15. Fixed assets

(1) Conditions for recognition

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. Fixed assets are recognised only if the Company is very likely to receive economic benefits from the asset and its cost can be measured reliably. 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.

(2) Method for depreciation

Category	Method for depreciation	Useful lives of depreciation (Year)	Estimated residual value	Annual depreciation rate
Housing and building structure	Straight-line method	20-40	5.00%-10.00%	2.25%-4.75%
Machinery and equipment	Straight-line method	8-20	5.00%-10.00%	4.5%-11.88%
Electronic equipment	Straight-line method	5-8	5.00%-10.00%	11.25%-19.00%
Transportation equipment	Straight-line method	5	5.00%-10.00%	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) Methods of impairment test and provision of fixed assets

The method for impaired test of fixed assets and measurement of impairment provision are detailed in Note V.20 "Impairment of long-term assets".

(4) Recognition, accounting and depreciation method of fixed assets acquired under finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets may or may not eventually be transferred. For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

XII Financial Report

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

15. 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 Chenming Paper 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.

Fixed assets are derecognised when there is no economic benefit arising from disposal or expected use or disposal of fixed assets. 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.

16. 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 reclassified 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 V. 20 "Impairment of long-term asset".

17. 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.

During the capitalisation period, exchange differences on a specific purpose borrowing denominated in foreign currency shall be capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

XII Financial Report

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

17. Borrowing costs (Cont'd)

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.

18. Intangible assets

(1) Intangible assets

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

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 Company 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 a finite 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, Chenming Paper shall estimate the useful life of that asset and apply the accounting policies accordingly.

XII Financial Report

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

18. Intangible assets (Cont'd)

(2) Research and expenditure

Research and development expenditure of the Group was divided into expenses incurred during the research phase and expenses incurred during the development phase.

Expenses incurred during the research phase are recognised as profit or loss in the current period.

Expenses incurred during the development phase 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;
- 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 phase of the intangible asset can be measured reliably.

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

(3) Methods of impairment test and provision of intangible assets

The method for impaired test of intangible assets and measurement of impairment provision are detailed in Note V.20 "Impairment of long-term assets".

19. 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 of the Company mainly include expenses on improvement of fixed assets and woodland rent. Long-term prepaid expenses are amortised over the estimated benefit period using the straight-line method.

20. Impairment of long-term asset

The Company 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 a finite 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.

XII Financial Report

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

20. Impairment of long-term asset (Cont'd)

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.

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.

21. Employee benefits

Staff remuneration of the Group mainly includes short-term staff remuneration, post-employment benefits and termination benefits, in which:

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs and non-monetary welfare etc. Short-term remuneration incurred during the accounting in which the Company's staff provided services for the Company is recognised as liability, and included in profit or loss for the current period or related asset costs. Of which, non-monetary welfare is measured at fair value.

Post-employment benefits mainly include defined contribution plan. Defined contribution plan mainly includes pension insurance premium and unemployment insurance premium. Relevant contribution amount is included in related asset costs or profit or loss for the current period during the period in which the expenses incurred.

XII Financial Report

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

21. Employee benefits (Cont'd)

When the Company terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, the Company shall recognise employee compensation liabilities arising from compensation for staff dismissal and included in profit or loss for the current period, when the Company cannot revoke unilaterally compensation for dismissal due to the cancellation of labour relationship plans and employee redundant proposals; and the Company recognise cost and expenses related to payment of compensation for dismissal and restructuring, whichever is earlier. However, if the compensation for termination of employment is not expected to be fully paid within 12 months from the reporting period, it shall be accounted for other long-term staff remuneration.

The early retirement plan shall be accounted for in accordance with the accounting principles for compensation for termination of employment. The salaries or wages and the social contributions to be paid for the employees who retire before schedule from the date on which the employees stop rendering services to the scheduled retirement date, shall be recognised (as compensation for termination of employment) in the current profit or loss by the Group if the recognition principles for provisions are satisfied.

The Group does not provide any other long-term employee benefit for its staff.

22. 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 Company; (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.

23. Revenue

(1) Revenue from sales of goods

Revenue is recognised when Chenming Paper 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. Confirmation time for sales revenue: In terms of domestic sales, confirmation will be made on the day when goods are delivered to the clients. While in terms of overseas sales, confirmation will be made on the day when goods are loaded on board and declared.

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

23. Revenue (Cont'd)

(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.

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) Revenue from rendering of services

Revenue from rendering of services is recognised as income on the accrual basis in accordance with the underlying contracts or agreements.

(4) Interest income

Interest income is calculated based on the time during which the Group's monetary fund, and the effective interest rates.

24. Government grants

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. Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: (1) In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and (2) in case of general description without specifying any project in such documents, the grants are classified as related to income.

XII Financial Report

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

24. Government grant (Cont'd)

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. Government grants are generally recognised when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the accounting period that the Group will meet related requirements of such grants and will be able to receive the grants. The government grants so measured should also satisfy the following conditions: (1) the amount of the grants be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; (2) the grants be given based on financial support projects and fund management policies officially published and voluntarily disclosed by local financial authorities in accordance with the requirements under disclosure of government information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; and (3) the date of payment be specified in related documents and the payment thereof be covered by corresponding budget to ensure such grants will be paid on time as specified.

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.

25. 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 Company 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.

XII Financial Report

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

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

(2) Deferred income tax assets and deferred income tax liabilities (Cont'd)

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.

Chenming Paper 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, Chenming Paper 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.

(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.

XII Financial Report

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

26. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets 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.

(3) Financing lease business with the Group recorded as lessee

On the beginning date of the lease, the entry value of leased asset shall be at the lower of the fair value of the leased asset and the present value of minimum lease payment at the beginning date of the lease. Minimum lease payment shall be the entry value of long-term accounts payable, with difference recognised as unrecognised financing expenses. In addition, initial direct costs attributable to leased items incurred during the process of lease negotiation and signing of lease agreement shall be included in the value of leased assets. The balance of minimum lease payment after deducting unrecognised financing expenses shall be accounted for long-term liability and long-term liability due within one year.

Unrecognised financing expenses shall be recognised as financing expenses for the current period using effective interest method during the leasing period. Contingent rent shall be included in profit or loss for the current period at the time it incurred.

(4) Financing lease business with the Group recorded as lessor

On the beginning date of the lease, the entry value of lease receivable shall be the aggregate of minimum lease receivable and initial direct costs at the beginning date of the lease. The unsecured balance shall be recorded. The aggregate of minimum lease receivable, initial direct costs and unsecured balance and the different between their present value shall be recognised as unrealised financing income. The balance of lease receivable after deducting unrecognised financing income shall be accounted for long-term debt and long-term debt due within one year.

Unrecognised financing income shall be recognised as financing income for the current period using effective interest method during the leasing period. Contingent rent shall be included in profit or loss for the current period at the time it incurred.

XII Financial Report

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

27. Discontinued operation

Discontinued operation refers to the operation disposed or classified as held-for-sale by the Company and presented separately under operation segments and financial statements, which has fulfilled one of the following criteria: ① it represents an independent key operation or key operating region; ② it is part of the proposed disposal plan on an independent key operation or proposed disposal in key operating region; or ③ it only establishes for acquisition of subsidiary through disposal.

28. Repurchase of shares

Share repurchase consideration paid and transaction costs to reduce the owner's equity, repurchase, transfer or cancellation of Chenming Paper's shares, the gains or losses are not recognised.

In respect of transfer of treasury shares, the difference between the actual amount received and the carrying amount of treasury shares shall be included in capital reserve. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits. Treasury shares are cancelled at par value and by the number of shares cancelled to reduce the share capital. The difference between the book balance and the nominal value of the treasury shares shall be offset against the capital reserve. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits.

29. Changes in Significant Accounting Policies and Estimates

(1) Changes in Accounting Policies

In early 2014, the Ministry of Finance issued "Accounting Standard for Business Enterprises No. 39 – Fair Value Measurement", "Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements", "Accounting Standard for Business Enterprises No. 9 – Employee Benefits", "Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements", "Accounting Standard for Business Enterprises No. 40 – Joint Arrangements", "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments (as amended in 2014)" and "Accounting Standard for Business Enterprises No. 41 – Disclosure of Interest in Other Entities" in Cai Kuai [2014] No. 6, No. 7, No. 8, No. 10, No. 11, No. 14 and No. 16, requiring the above to be adopted among companies applying the Standards from 1 July 2014, and encouraging entities listed overseas to early adopt the above. Furthermore, the Ministry issued "Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (as amended in 2014)" (the "Financial Instrument Presentation Standard") in Cai Kuai [2014] No. 23, requiring the adoption of the above standard for accounting periods starting in or after 2014.

XII Financial Report

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

29. Changes in Significant Accounting Policies and Estimates (Cont'd)

(1) Changes in Accounting Policies (Cont'd)

As resolved at the fourth meeting of the Board of the seventh session held on 19 March 2014, the Company has adopted since the accounting period starting from 1 January 2013 the above five new or revised standards save for those on long-term equity investments and disclosure of interest in other entities and the Financial Instrument Presentation Standard, the first two of which has been adopted from 1 July 2014 and the last one will be first adopted in the annual report for 2014. During the year, adjustment made to current and previous items and amounts in financial statements according to application guides and transitional arrangements subsequently issued by the Ministry were as follows:

Standard	Changes and impact	Impact on amounts in financial statements as at 1 January 2014/for 2013	
		Item	Increase/decrease
Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments	Prior to adoption of the standard as amended in 2014, the equity investment in an investee that is not under common control or significant influence of the Company and not quoted in an active market, and whose fair value is unable to be reliably measured was accounted for as an long-term equity investment at cost. After the adoption, such investee is accounted for as available-for-sale financial assets. Retrospectively adjustment is made based on the above accounting policy change.	Available-for-sale financial assets	83,260,425.53
		Long-term equity investments	-83,260,425.53
Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements	The standard as amended divides other comprehensive income into two categories: (1) items not to be reclassified into profit or loss in subsequent accounting periods; and (2) items to be reclassified into profit or loss in subsequent accounting periods when certain criteria have been satisfied, and provides for presentation of held-for-sales items, current items and non-current items. The financial statements are presented in accordance with such standard and corresponding adjustments have been made to the presentation of the financial statements for comparable years.	Other comprehensive income	16,934,073.59
		Foreign currency translation differences	-16,934,073.59
		Other current liabilities	-25,246,647.62
		Deferred income	493,600,712.15
		Other non-current liabilities	-468,354,064.53

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

29. Changes in Significant Accounting Policies and Estimates (Cont'd)

(2) Changes in significant accounting estimates

There was no change in accounting estimates during the year.

30. Comparative figures

Certain comparative figures for prior periods have been restated in conformity with the current year's financial statement presentation.

31. Critical accounting judgments and estimates

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 Company'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 differ from the current estimation of the Company's management, which 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 Financial Report

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

31. Critical accounting judgments and estimates (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) **Classification of leases**

The Group classifies its leases as operating lease and financing lease in accordance with "Accounting Standard for Business Enterprises No. 21 – Leases". When classifying leases, the management needs to analyse and judge whether all risks and returns relating to the ownership of leased out assets have transferred to the lessee, or whether the Company has obliged to all risks and returns relating to the ownership of leased assets.

(2) **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.

(3) **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 sale ability 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.

(4) **Fair value of consumable biological assets**

A consumable biological asset is measured at fair value when there is a stock. A stock is judged to be formed when the consumable biological asset - timber survives well after a growth period and the merchantable timber exceeds 0.8 cubic metres.

The fair value of a consumable biological asset is discounted using expected cash flow and estimated and measured using income approach.

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

In respect of impairment of available-for-sale financial assets, whether impairment loss shall be recognised in income statement significantly depends on the judgments and assumptions of the management. While making judgments and assumptions, the Company shall assess the excess of cost of the investee's identifiable net assets attributable to the investment over fair value and the duration.

XII Financial Report

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

31. Critical accounting judgments and estimates (Cont'd)

(6) 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.

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 Company 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.

(7) 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.

(8) 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 Company'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.

(9) 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 Financial Report

VI. Taxation

1. Main Tax Types and Tax Rates

Tax type	Tax rate
Value added tax	17% for general and 13% for sales of gas and water. Value-added tax is computed on the difference after deduction of input value-added tax
Business tax	3%-5% of taxable revenue
Urban maintenance and construction tax	7% of actual payment of turnover tax
Enterprise income tax	25% of taxable income, 15% for high-tech enterprises and 20% for small-size enterprises
Educational surcharges	3% of actual payment of turnover tax
Local educational surcharges	2% of actual payment of turnover tax

Disclosure on the different enterprise income tax rate for entity subject to taxation

Entity subject to taxation	Income tax rate
Shandong Chenming Paper Holdings Limited	15%
Jiangxi Chenming Paper Co., Ltd.	15%
Chenming (HK) Limited	16.5%
Huanggang Chenming Arboriculture Co., Ltd.	Exempted
Zhanjiang Chenming Arboriculture Co., Ltd.	Exempted
Yangjiang Chenming Arboriculture Co., Ltd.	Exempted
Nanchang Chenming Arboriculture Co., Ltd.	Exempted

2. Tax Incentives

(1) 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 and 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 from 1 January 2012 to 31 December 2014.

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, Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, is recognised as a high and new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Nanchang Economic and Technological Development Zone, Jiangxi. An enterprise income tax rate of 15% is applicable to Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, from 1 January 2013 to 31 December 2015.

XII Financial Report

VI. Taxation (Cont'd)

2. Tax Incentives (Cont'd)

(1) Enterprise Income Tax (Cont'd)

Pursuant to the requirements of Rule 27 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》) and Rule 86 of Regulations for the Implementation 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實施條例》), subsidiaries of Chenming Paper, namely, Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd., Huanggang Chenming Arboriculture Co., Ltd. and Chenming Arboriculture Co., Ltd. are engaged in arboriculture cultivating and thus exempt from corporate income tax.

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 Chenming Paper, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2014 was 16.5%.

Except for the above preferential policies, Chenming Paper and its remaining subsidiaries are subject to enterprise income tax rate of 25%.

(2) 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", 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. Zhanjiang Chenming New-style Wall Materials Co., Ltd., 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 2014.

Pursuant to the related requirements of the "Notice of the Ministry of Finance and the State Administration of Taxation on Issue Regarding Exemption from VAT for Certain Products that Comprehensively Utilize Resources" (No. Cai Shui [1995] No. 44) as issued by and the State Administration of Taxation and the document No. Cai Shui [2001] No. 72, Shandong Chenming Panels Co., Ltd., a subsidiary of the Company, produces products that apply integrated use of resources and is subject to an immediate VAT refund policy.

XII Financial Report

VII. Notes to items of the Consolidated Financial Statements

1. Monetary funds

Unit: RMB

Item	Closing balance	Opening balance
Treasury cash	1,437,037.09	1,333,503.27
Bank deposit	974,659,824.21	725,199,425.69
Other monetary funds	4,499,561,324.80	1,821,196,865.28
Total	5,475,658,186.10	2,547,729,794.24
Of which: Total deposits in overseas banks	853,450,001.81	139,732,439.57

- Notes: ① Other monetary funds of RMB1,592,569,467.98 (31 December 2013: RMB249,333,637.64) were the guarantee deposit for the application for bank acceptance with the banks by the Group.
- ② Other monetary funds of RMB710,024,934.09 (31 December 2013: RMB1,380,738,601.00) were the guarantee deposit for the application for letter of credit with the banks by the Group.
- ③ Other monetary funds of RMB1,685,461,808.73 (31 December 2013: RMB140,836,352.11) were the guarantee deposit for the application for guarantees with the banks by the Group.
- ④ Other monetary funds of RMB473,405,114.00 (31 December 2013: RMB50,288,274.53) were the guarantee deposit for the application for loans with the banks by the Group.
- ⑤ Other monetary funds of RMB38,100,000.00 were the statutory reserve deposit at the People's Bank of China by Shandong Chenming Financial Leasing Co., Ltd., a subsidiary of the Company.

2. Bills receivable

(1) Classification of bills receivable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bills	2,990,068,579.33	2,827,024,280.10
Commercial acceptance bills	57,472,976.82	43,419,401.39
Total	3,047,541,556.15	2,870,443,681.49

XII Financial Report

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

2. Bills receivable (Cont'd)

(2) Bills receivable of the Company pledged at the end of the period

Item	Unit: RMB	
	Pledged amount at the end of the period	
Bank acceptance bills	1,223,759,078.99	
Total	1,223,759,078.99	

(3) Outstanding bills receivable endorsed or discounted by the Company as at the end of the period

Item	Unit: RMB	
	Derecognised amount as at the end of the period	Recognised amount as at the end of the period
Bank acceptance bills	3,997,333,328.23	
Total	3,997,333,328.23	

(4) Other explanation

As at 31 December 2014, bills with carrying amount of RMB501,084,854.72 (31 December 2013: RMB210,344,282.56) were pledged in exchange for short-term borrowings of RMB498,287,862.22. As at 31 December 2014, bills with carrying amount of RMB222,426,123.97 (31 December 2013: RMB119,378,349.37) were pledged for the issuance of acceptance bills and with carrying amount of RMB500,248,100.30 were pledged for the issuance of guarantees.

As at 31 December 2014, the accumulated bank acceptance bills issued by the Group to banks amounted to RMB3,440,773,115.05 (2013: RMB2,854,060,411.22), with discount expenses incurred of RMB91,126,767.40 (2013: RMB61,779,250.03). As at 31 December 2014, outstanding discounted bills receivable amounted to RMB1,320,918,334.62 (2013: RMB727,693,046.61).

XII Financial Report

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

3. Accounts receivable

(1) Disclosure of accounts receivable by category

Unit: RMB

Category	Book balance		Closing balance		Book balance		Opening balance		Book value	
	Amount	Percentage	Amount	Percentage	Book value	Amount	Percentage	Amount		
Accounts receivable that are individually significant and provided for bad debts separately	48,363,962.78	1.29%	48,363,962.78	100.00%	48,605,549.72	1.46%	48,605,549.72	100.00%		
Accounts receivable that are provided for bad debts on credit risk features portfolio basis	3,705,668,686.18	98.71%	216,259,316.98	5.84%	3,489,409,369.20	3,280,914,067.94	98.54%	178,271,004.40	5.43%	3,102,643,083.54
Total	3,754,032,648.96	100.00%	264,623,279.76	7.05%	3,489,409,369.20	3,329,519,637.66	100.00%	226,876,554.12	6.81%	3,102,643,083.54

(2) Presentation of accounts receivable according to ageing analysis

Item	Closing balance		Opening balance	
	Amount	Ratio	Amount	Ratio
Within 1 year	3,570,601,097.55	95.11%	3,172,267,013.90	95.28%
1-2 years	72,933,462.12	1.94%	50,136,238.22	1.50%
2-3 years	21,679,196.79	0.58%	26,223,349.82	0.79%
Over 3 years	88,818,892.50	2.37%	80,893,035.72	2.43%
Total	3,754,032,648.96	100.00%	3,329,519,637.66	100.00%

The Group grants an average credit period of 90 days with limits to its trade customers, except for certain customers with credit period more than 90 days.

The following is an ageing analysis based on the revenue recognizing date, net of impairment, as of the reporting date:

Ageing	Closing balance	Opening balance
Within 1 year	3,406,294,889.68	3,036,498,972.05
1-2 years	65,771,122.09	45,123,524.40
2-3 years	17,343,357.43	21,020,587.09
Total	3,489,409,369.20	3,102,643,083.54

XII Financial Report

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

3. Accounts receivable (Cont'd)

(2) Presentation of accounts receivable according to ageing analysis (Cont'd)

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

Ageing	Closing balance	Opening balance
Within 1 year	997,161,679.10	515,745,255.68
1-2 years	65,771,122.09	45,123,524.40
2- 3 years	17,343,357.43	21,020,587.09
Total	1,080,276,158.62	581,889,367.17

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.

Accounts receivable that are individually significant and are provided for bad debts separately as at the end of the period:

Applicable Not applicable

Unit: RMB

Receivable (by entity)	Accounts receivable	Closing balance		Reason for provision
		Bad debt provision	Percentage	
Foshan Shunde Xingchen Paper Co., Ltd.	26,754,065.23	26,754,065.23	100.00%	Overdue for a long period and unlikely to be recovered
Beijing Huaxia Culture Media Co., Ltd.	11,644,496.00	11,644,496.00	100.00%	Overdue for a long period and unlikely to be recovered
Suzhou Tengjun Paper Co., Ltd.	6,545,207.84	6,545,207.84	100.00%	Overdue for a long period and unlikely to be recovered
Jiangxi Longming Enterprise Co., Ltd.	1,763,987.74	1,763,987.74	100.00%	Overdue for a long period and unlikely to be recovered
Nanchang Xingbo Paper Co., Ltd.	1,656,205.97	1,656,205.97	100.00%	Overdue for a long period and unlikely to be recovered
Total	48,363,962.78	48,363,962.78	—	—

XII Financial Report

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

3. Accounts receivable (Cont'd)

(2) Presentation of accounts receivable according to ageing analysis (Cont'd)

Use of ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Unit: RMB

Ageing	Accounts receivable	Closing balance	
		Bad debt provision	Percentage
Within 1 year			
Of which: within 3 months	2,535,929,695.36	126,796,484.77	5.00%
Within 4-6 months	612,701,950.90	30,635,097.55	5.00%
7-12 months	137,492,511.26	6,874,625.56	5.00%
Sub-total for within 1 year	3,286,124,157.52	164,306,207.88	5.00%
1-2 years	71,623,400.24	7,162,340.02	10.00%
2-3 years	21,679,196.79	4,335,839.36	20.00%
Over 3 years	40,454,929.72	40,454,929.72	100.00%
Total	3,419,881,684.27	216,259,316.98	

Explanation on the basis of recognition of the portfolio:

Accounts receivable using percentage of balance for making bad debt provision in the portfolio:

Applicable Not applicable

Accounts receivables using other methods for making bad debt provision in the portfolio:

Unit: RMB

Portfolio	Carrying amount	Bad debt provision
Risk-free portfolio	285,787,001.91	0.00
Total	285,787,001.91	0.00

XII Financial Report

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

3. Accounts receivable (Cont'd)

(3) Provision, recovery or reversal of bad debt provision for the period

Bad debt provision for the current period amounted to RMB48,029,849.56. The amount for bad debt provision recovered or reversed during the current period was RMB241,586.94. There is no significant reversal of bad debt provision.

(4) Particulars of accounts receivable actually written off during the reporting period

Unit: RMB

Item	Amount written off
Payment for goods	4,723,314.45

Particulars of significant accounts receivable written off:

Unit: RMB

Name of entity	Nature	Amount written off	Reason for written off	Written off procedure performed	Whether the amount is arising from connected transaction
Baotou Xinhao Paper Co., Ltd.	Payment for goods	692,283.58	Overdue for over five years	Approved by general manager	No
Wenzhou Xinfeng Composite Materials Co., Ltd.	Payment for goods	453,904.29	Overdue for over five years	Approved by general manager	No
Chongqing Meirui Paper Co., Ltd.	Payment for goods	814,927.24	Overdue for over five years	Approved by general manager	No
Total	—	1,961,115.11	—	—	—

XII Financial Report

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

3. Accounts receivable (Cont'd)

(5) Top five accounts receivable according to closing balance of debtors

Name of entity	Nature	Amount due	Percentage	Bad debt provision
Anhui Time Source Corporation	Payment for goods	53,968,115.20	1.44%	2,698,405.76
Yunnan Printing Materials Co., Ltd.	Payment for goods	47,194,791.45	1.26%	2,359,739.57
Shanghai Yaoji Playing Card Co., Ltd.	Payment for goods	41,392,352.44	1.10%	2,069,617.62
Jiangsu Xinhubai Printing Co., Ltd.	Payment for goods	37,244,510.70	0.99%	1,862,225.54
Shanghai Changyi Adhesive Products Co., Ltd.	Payment for goods	35,129,395.85	0.94%	1,756,469.79
Total		214,929,165.64	5.73%	10,746,458.28

4. Prepayments

(1) Presentation of prepayments stated according to ageing analysis

Unit: RMB

Ageing	Closing balance		Opening balance	
	Amounts	Percentage	Amounts	Percentage
Within 1 year	858,757,969.24	46.72%	1,327,808,677.28	83.56%
1-2 years	979,259,485.66	53.28%	261,212,653.96	16.44%
Total	1,838,017,454.90	—	1,589,021,331.24	—

Reason for unsettlement of significant prepayments overdue for more than 1 year:

Among significant prepayments overdue for more than 1 year, the prepayments to Jiangsu Xinhai Port Engineering Co., Ltd. of RMB800,000,000.00 were prepayments for the construction works for first-class land development, which decreased by RMB80,000,000.00 from the prior year. The prepayments to each village of Huanggang City of RMB87,918,783.60 were prepaid deposits for woodland acquisition. Such amounts were classified as prepayments as the woodlands are not ready for lumbering.

XII Financial Report

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

4. Prepayments (Cont'd)

(2) Top five prepayment according to closing balance of prepaid parties

Name of entity	Amounts	Percentage	Term	Reason for being unsettled
Jiangsu Xinhai Port Engineering Co., Ltd.	800,000,000.00	43.53%	1-2 years	Prepayments for construction fee according to the agreed contract
Each village of Huanggang City	87,918,783.60	4.78%	1-2 years	Deposits for woodland acquisition
Shouguang Qinghe Real Estate Development Co., Ltd.	80,000,000.00	4.35%	Within 1 year	Prepayments for property
Manzhouli Jingfa Trading Co., Ltd.	78,513,380.32	4.27%	Within 1 year	Prepayments for goods according to the agreed contract
PEMCO INC	60,490,665.10	3.29%	Within 1 year	Prepayments for goods according to the agreed contract
Total	1,106,922,829.02	60.22%		

5. Other receivables

(1) Disclosure of other receivables according to category

Unit: RMB

Category	Book balance		Closing balance		Book balance	Book balance		Opening balance		Book balance
	Amounts	Percentage	Amounts	Percentage		Amounts	Percentage	Amounts	Percentage	
Other receivables that are individually significant and are provided for bad debts separately	8,755,053.51	0.47%	8,755,053.51	100.00%		8,918,424.06	0.64%	8,918,424.06	100.00%	
Other receivables that are provided for bad debts on portfolio basis based on credit risk features	1,830,724,220.90	98.87%	54,256,334.83	2.96%	1,776,467,886.07	1,380,325,388.92	98.39%	48,424,649.08	3.51%	1,331,900,749.84
Other receivables that are individually insignificant and are provided for bad debts separately	12,150,098.81	0.66%	12,150,098.81	100.00%		13,717,509.43	0.97%	13,717,509.43	100.00%	
Total	1,851,629,373.22	100.00%	75,161,487.15	4.06%	1,776,467,886.07	1,402,961,332.41	100.00%	71,060,582.57	5.07%	1,331,900,749.84

XII Financial Report

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

5. Other receivables (Cont'd)

(2) Presentation of other receivables according to ageing analysis

Item	Closing balance		Opening balance	
	Amounts	Percentage	Amounts	Percentage
Within 1 year	784,347,727.46	42.36%	1,200,466,405.38	85.57%
1-2 years	900,869,097.38	48.65%	100,811,139.72	7.18%
2-3 years	101,820,067.51	5.50%	41,370,171.48	2.95%
Over 3 years	64,592,480.87	3.49%	60,313,615.83	4.30%
Total	1,851,629,373.22	100.00%	1,402,961,332.41	100.00%

Note: As at the end of the period, prepayments of RMB1,955,523.45 of over 2 years were reclassified as other receivables due to cessation of being prepayable.

Other receivables that are individually significant and are provided for bad debts separately as at the end of the period:

Applicable Not applicable

Unit: RMB

Other receivable (by entity)	Closing balance			Reason for provision
	Other Receivables	Bad debt provision	Percentage	
Ahlstrom Finland	2,820,742.72	2,820,742.72	100.00%	Overdue for over 3 years and unlikely to be recovered
Qingdao Second Automotive and Transportation Logistics Branch Company	1,137,295.16	1,137,295.16	100.00%	Overdue for over 3 years and unlikely to be recovered
Elof Hansson Group of Sweden	1,413,022.59	1,413,022.59	100.00%	Overdue for over 3 years and unlikely to be recovered
Quanhua Precision Corp. Ltd.	2,253,993.04	2,253,993.04	100.00%	Overdue for over 3 years and unlikely to be recovered
Zibo Kaihong Energy Co., Ltd.	1,130,000.00	1,130,000.00	100.00%	Overdue for over 3 years and unlikely to be recovered
Total	8,755,053.51	8,755,053.51	—	—

XII Financial Report

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

5. Other receivables (Cont'd)

(2) Presentation of other receivables according to ageing analysis (Cont'd)

Other receivables using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Unit: RMB

Ageing	Other Receivables	Closing balance Bad debt provision	Percentage
Items within 1 year			
Within 1 year	167,689,569.26	8,384,478.47	5.00%
Subtotal for within 1 year	167,689,569.26	8,384,478.47	5.00%
1-2 years	7,985,644.10	798,564.41	10.00%
2-3 years	7,524,691.94	1,504,938.40	20.00%
Over 3 years	43,568,353.55	43,568,353.55	100.00%
Total	226,768,258.85	54,256,334.83	

Other receivables using percentage of balance for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using other methods for making bad debt provision in the portfolio:

Applicable Not applicable

Unit: RMB

Name of portfolio	Book balance	Bad debt provision
Risk-free portfolio	1,603,955,962.05	0.00
Total	1,603,955,962.05	0.00

XII Financial Report

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

5. Other receivables (Cont'd)

(3) Provision, recovery or reversal of bad debt provision for the period

Bad debt provision for the current period amounted to RMB8,163,150.29. The amount for bad debt provision recovered or reversed during the current period was RMB1,730,781.17.

Significant reversal or recovery of bad debt provision for the current period:

Unit: RMB

Name of entity	Amount reversed or recovered	Method for recovery
Wuhan Jieneng Combustion Engineering Co., Ltd.	493,200.00	Recovery of debts
Shandong Identification Center	550,000.00	Transfer of fees
Total	1,043,200.00	—

(4) Particulars of other receivable actually written off during the reporting period

Unit: RMB

Item	Amount written off
Accounts receivable actually written off	146,445.60

(5) Top five other receivable according to closing balance of debtors

Unit: RMB

Name of entity	Nature	Closing balance	Ageing	Percentage of closing balance of total other receivable	Closing balance of bad debt provision
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Borrowings and interests	959,825,877.41	Within 1 year and 1-2 years	51.84%	
Shandong Jianghe Paper Co. Ltd.	Open credit	433,827,316.21	1-2 years	23.43%	
Weifang Water Investment Co., Ltd	1 year financial leasing payments	100,999,999.99	Within 1 year	5.45%	
Shandong Weineng Green Energy Co., Ltd.	1 year financial leasing payments	100,000,000.00	Within 1 year	5.40%	
Guangdong Zhongtuo Construction Co., Ltd.	Amounts for equipment scrapping	15,200,000.00	Within 1 year	0.82%	760,000.00
Total	—	1,609,853,193.61	—	86.94%	760,000.00

XII Financial Report

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

6 Inventories

(1) Categories of inventories

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	2,117,477,615.09		2,117,477,615.09	2,102,799,924.39		2,102,799,924.39
Work-in-process products	53,378,096.76		53,378,096.76	55,128,694.09		55,128,694.09
Goods in stock	1,539,604,250.80	5,319,730.37	1,534,284,520.43	1,516,242,717.77	36,472,052.20	1,479,770,665.57
Developing products	308,012,006.86		308,012,006.86	88,110,593.20		88,110,593.20
Consumable biological assets	1,407,588,229.46		1,407,588,229.46	1,317,141,123.77		1,317,141,123.77
Total	5,426,060,198.97	5,319,730.37	5,420,740,468.60	5,079,423,053.22	36,472,052.20	5,042,951,001.02

Notes: ① Consumable biological assets are measure at fair value. The fair value of timber increased by RMB11,413,153.89 due to acquisition, increased by RMB153,645,380.95 due to breeding, increased by RMB6,856,815.32 due to change of fair value, and decreased by RMB81,468,244.47 due to disposal.

As of 31 December 2014, there was no significant difference between the fair value and cost of the timber planted during the year or unable to form a stock in the consumable biological assets so its carrying amount was taken as its fair value. The timber forming a stock were measured at fair value and its fair value was determined based on the valuation of Golden Standard & Headmen Appraisal and Advisory Co., Ltd. The consumable biological assets measured at carrying amount as their fair value amounted to RMB229,991,265.78 and the consumable biological assets measured at assessed value as their fair value amounted to RMB1,177,596,963.68.

② Based on the lumbering arrangement of the Group, it is expected that the amount realised for consumable biological assets upon lumbering after 1 year was RMB1.250 billion.

(2) Impairment provision for inventories

Unit: RMB

Item	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	Reversal or transfer	Other	
Goods in stock	36,472,052.20	5,319,730.37		36,472,052.20		5,319,730.37
Total	36,472,052.20	5,319,730.37		36,472,052.20		5,319,730.37

(3) Basis for impairment provision for inventories and reason for reversal or transfer during the year

Item	Basis of impairment provision for inventory	Reason for reversal of impairment provision for inventory during the year	Reason for transfer of impairment provision for inventory during the year
Goods in stock	The realisable net value of the finished goods was lower than the cost of the inventory due to a decrease in the market price of white coated linerboard.		Disposed

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

7. Non-current assets due within one year

Unit: RMB

Item	Closing balance	Opening balance
Long-term receivables due within one year	765,738,333.65	
Entrusted loans due within one year	100,000,000.00	
Total	865,738,333.65	

8. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Non-credited VAT proceeds	1,545,685,356.01	1,666,514,217.00
Prepaid enterprise income tax	110,916,876.08	74,006,369.37
Total	1,656,602,232.09	1,740,520,586.37

9. Available-for-sale financial assets

(1) Particulars of available-for-sale financial assets

Unit: RMB

Item	Book balance	Closing balance		Book balance	Opening balance	
		Provision for impairment	Book value		Provision for impairment	Book value
Available-for-sale						
Equity instruments:	74,450,000.00	1,450,000.00	73,000,000.00	85,850,000.00	2,589,574.47	83,260,425.53
At cost	74,450,000.00	1,450,000.00	73,000,000.00	85,850,000.00	2,589,574.47	83,260,425.53
Total	74,450,000.00	1,450,000.00	73,000,000.00	85,850,000.00	2,589,574.47	83,260,425.53

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

9. Available-for-sale financial assets (Cont'd)

(2) Available-for-sale financial assets measured at cost as at the end of the period

Unit: RMB

Investee	Opening balance	Book balance		Closing balance	Opening balance	Provision for impairment		Closing balance	Equity interest in the investee held by the Company (%)	Cash dividends for the period
		Increase for the period	Decrease for the period			Increase for the period	Decrease for the period			
QINGZHOU CHENMING DENATURATION AMYLUM CO., LTD.	900,000.00			900,000.00	900,000.00			900,000.00	30.00%	
SHANDONG PAPER MAKING & PRINTING ENTERPRISES CORPORATION	200,000.00			200,000.00	200,000.00			200,000.00	2.00%	
JINAN SHANGYOU COMMERCIAL COMPANY LIMITED	350,000.00			350,000.00	350,000.00			350,000.00	5.00%	
ZHEJIANG PROVINCE GUANGYU MEDIA PRINTING COMPANY LIMITED	2,000,000.00			2,000,000.00					9.96%	
SHOUGUANG MIHE WATER COMPANY LIMITED	20,000,000.00			20,000,000.00					19.46%	
ANHUI TIME SOURCE CORPORATION	1,000,000.00			1,000,000.00					10.00%	
SHANDONG HONGQIAO VENTURE CAPITAL CO., LTD.	50,000,000.00			50,000,000.00					16.67%	
WEIFANG XINYE CAPITAL INVESTMENT CO., LTD.	10,000,000.00		10,000,000.00						3.76%	
SHANGHAI FOREST & PAPER E-COMMERCE CO., LTD.	1,400,000.00		1,400,000.00		1,139,574.47		1,139,574.47		14.00%	
Total	85,850,000.00		11,400,000.00	74,450,000.00	2,589,574.47		1,139,574.47	1,450,000.00		-

(3) Changes in impairment of available-for-sale assets during the reporting period

Unit: RMB

Type of available-for-sale assets	Opening balance of provision for impairment	Provisions for the period	Including: transferred from other comprehensive income	Decrease for the period	Including: Reversals of increase in fair value after the end of period	Closing balance of provision for impairment
Available-for-sale equity instruments	2,589,574.47			1,139,574.47		1,450,000.00
Total	2,589,574.47			1,139,574.47		1,450,000.00

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

10. Long-term receivables

(1) Particulars of long-term receivables

Unit: RMB

Item	Closing balance		Opening balance		Range of discount rate
	Book balance	Provision for bad debts	Book value	Book balance	
Finance leasing payments	2,419,373,052.30		2,419,373,052.30		6.15% - 8.00%
Less: unrealised					
finance income	233,036,050.66		233,036,050.66		
Less: portion due within					
one year	765,738,333.65		765,738,333.65		
Total	1,420,598,667.99		1,420,598,667.99		--

11. Long-term equity investments

Unit: RMB

Investee	Opening balance	Investment addition	Investment reduction	Increase/decrease for the period				Provision for impairment	Others	Closing balance	Closing balance of provision
				Profit/loss of investment recognised under equity method	Adjustment of other comprehensive income	Changes in other equity	Distribution of cash dividends or profit declared				
I. Joint venture											
Shouguang Chenming Huisen New Building Materials Co., Ltd.		3,000,000.00		-212.02						2,999,787.98	
Subtotal		3,000,000.00		-212.02						2,999,787.98	
II. Associate											
Arjo Wiggins Chenming Specialty Paper Co., Ltd.											
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	4,745,182.75			-82,396.16						4,662,786.59	
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	27,471,606.58			-4,861,312.71						22,610,293.87	
Jiangxi Chenming Port Co., Ltd.		6,028,000.00		-213,020.32						5,814,979.68	
Subtotal	32,216,789.33	6,028,000.00		-5,156,729.19						33,088,060.14	
Total	32,216,789.33	9,028,000.00		-5,156,941.21						36,087,848.12	

Note: All long-term equity investments held by the Company are unlisted companies.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

12. Investment properties

(1) Investment properties measured at cost

√ Applicable Not applicable

Unit: RMB

Item	Housing and building structure	Land use right	Construction in progress	Total
I. Original carrying amount				
1. Opening balance	38,291,395.70			38,291,395.70
2. Closing balance	38,291,395.70			38,291,395.70
II. Accumulated depreciation and accumulated amortisation				
1. Opening balance	18,817,951.75			18,817,951.75
2. Increase for the period	1,738,256.04			1,738,256.04
(1) Provision or amortisation	1,738,256.04			1,738,256.04
3. Closing balance	20,556,207.79			20,556,207.79
III. Book value				
1. Closing carrying amount	17,735,187.91			17,735,187.91
2. Opening carrying amount	19,473,443.95			19,473,443.95

Note: All long-term equity investments are held by the Company on medium-term leases for 2-3 years.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

13. Fixed assets

(1) Particulars of fixed assets

Unit: RMB

Item	housing and building structure	Machinery and equipment	Electronic equipment	Vehicles	Others	Total
I. Original carrying amount						
1. Opening balance	4,508,882,260.10	25,039,823,011.26	442,704,931.03	304,526,351.37		30,295,936,553.76
2. Increase for the period	1,027,505,895.03	4,091,281,839.60	5,638,240.46	69,925,747.23		5,194,351,722.32
(1) Acquisition		77,764,046.54	5,638,240.46	69,925,747.23		153,328,034.23
(2) Transferred from						
construction in progress	1,027,505,895.03	4,013,517,793.06				5,041,023,688.09
3. Decrease for the period	113,232,219.36	191,996,234.72	9,997,655.42	100,445,445.05		415,671,554.55
(1) Disposal or retirement	69,621,402.53	23,188,683.31	6,449,514.08	14,574,857.22		113,834,457.14
(2) Disposal of subsidiaries	43,610,816.83	168,807,551.41	3,548,141.34	85,870,587.83		301,837,097.41
4. Closing balance	5,423,155,935.77	28,939,108,616.14	438,345,516.07	274,006,653.55		35,074,616,721.53
II. Accumulated depreciation and accumulated amortisation						
1. Opening balance	800,489,520.08	7,953,125,359.88	204,197,993.67	130,256,191.74		9,088,069,065.37
2. Increase for the period	144,222,169.04	1,206,336,231.67	24,355,672.93	25,844,754.01		1,400,758,827.65
(1) Provision	144,222,169.04	1,206,336,231.67	24,355,672.93	25,844,754.01		1,400,758,827.65
3. Decrease for the period	15,356,404.80	119,292,070.49	5,970,986.14	44,543,415.10		185,162,876.53
(1) Disposal or retirement	735,502.60	9,117,881.43	5,961,609.64	8,014,293.52		23,829,287.19
(2) Disposal of subsidiaries	14,620,902.20	110,174,189.06	9,376.50	36,529,121.58		161,333,589.34
4. Closing balance	929,355,284.32	9,040,169,521.06	222,582,680.46	111,557,530.65		10,303,665,016.49
III. Provision for impairment						
1. Opening balance	26,220,000.00					26,220,000.00
2. Closing balance	26,220,000.00					26,220,000.00
IV. Book value						
1. Closing carrying amount	4,467,580,651.45	19,898,939,095.08	215,762,835.61	162,449,122.90		24,744,731,705.04
2. Opening carrying amount	3,682,172,740.02	17,086,697,651.38	238,506,937.36	174,270,159.63		21,181,647,488.39

Note: As at 31 December 2014, property, plant and equipment with carrying amount of approximately RMB4,762,682,480.74 (original value: RMB5,587,497,769.23) (31 December 2013: carrying amount: RMB6,096,739,906.27; original value: RMB6,696,658,597.87) were pledged in exchange for long-term borrowings of RMB2,520,707,400.00 and long-term borrowings due within one year of RMB269,980,900.00 (31 December 2013: RMB2,784,334,971.96 and RMB269,313,900.00).

(2) Particulars of temporarily idle fixed assets

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Book value	Remark
Housing and building structure	17,543,318.35	1,851,444.61		15,691,873.74	
Machinery and equipment	59,287,663.46	3,672,169.28		55,615,494.18	
Total	76,830,981.81	5,523,613.89		71,307,367.92	

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

13. Fixed assets (Cont'd)

(3) Particulars of fixed assets without obtaining property right certificates

Unit: RMB

Owner	Book value	Reason for not yet obtaining property right certificates
Shandong Chenming Paper Holdings Limited	197,325,014.94	Processing with scheduled operation commencement not imminent
Meilun Paper Co., Ltd.	776,245,121.12	Processing with scheduled operation commencement not imminent
Zhanjiang Chenming Pulp & Paper Co., Ltd.	719,955,999.42	Processing with scheduled operation commencement not imminent
Jilin Chenming Paper Co., Ltd.	476,518,905.54	Processing with scheduled operation commencement not imminent
Fuyu Chenming Paper Co., Ltd.	43,808,108.10	Processing with scheduled operation commencement not imminent
Jiangxi Chenming Paper Co., Ltd.	15,691,873.74	Processing with scheduled operation commencement not imminent
Total	2,229,545,022.86	

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

14. Construction in progress

(1) Particulars of construction in progress

Unit: RMB

Item	Book balance	Closing balance		Book balance	Opening balance	
		Provision for impairment	Book value		Provision for impairment	Book value
Railway project (parent company)	223,918,721.46		223,918,721.46	67,825,111.06		67,825,111.06
Desulphurisation, denitrification and de-dusted project of power plant (parent company and Meilun)	140,526,292.16		140,526,292.16	37,830,000.00		37,830,000.00
Biomass vaporisation project (Zhanjiang Chenming)	113,499,021.38		113,499,021.38	10,900,564.87		10,900,564.87
New small-sized paper cutting workshop (Zhanjiang Chenming)	94,353,419.69		94,353,419.69	9,072,406.97		9,072,406.97
700,000 tonne pulp equipment upgrade (Zhanjiang Chenming)	142,846,027.30		142,846,027.30	186,749,656.36		186,749,656.36
180,000 tonne paper cup base paper project (Zhanjiang Chenming)				375,950,872.01		375,950,872.01
190,000 tonne high-end cultural paper project (Zhanjiang Chenming)	950,143,385.07		950,143,385.07	284,958,974.38		284,958,974.38
MVR+ multi-effect evaporation plant project (Zhanjiang Chenming)	29,259,003.60		29,259,003.60			
450 tonnes/day mechanical pulp project (Zhanjiang Chenming)	28,937,113.23		28,937,113.23			
Brick plant project (Jilin Chenming)	33,526,397.51		33,526,397.51			
7800 paper machine press section upgrade (Jiangxi Chenming)	13,990,230.09		13,990,230.09	62,598,886.06		62,598,886.06
Food packaging paper project (Jiangxi Chenming)	919,552,099.41		919,552,099.41	122,625,351.96		122,625,351.96
BTMP renovation project (Jiangxi Chenming)	41,214,162.60		41,214,162.60			

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

14. Construction in progress (Cont'd)

(1) Particulars of construction in progress (Cont'd)

Item	Closing balance		Opening balance	
	Book balance	Provision for impairment	Book value	Book balance
Mid-water renovation project (Jiangxi Chenming)	16,903,145.03		16,903,145.03	
New production line of household paper machine upgrade in Wuhan second factory (Wuhan Chenming)				445,631,740.09
Technological upgrade for specialty paper project (Wuhan Chenming)				185,261,723.30
Denitrification project (Qianneng Electric Power)	41,968,651.72		41,968,651.72	7,600,000.00
Relocation of Jilin (Jilin Chenming)				2,218,570,285.48
Magnesite mining (Haicheng Haiming)	474,178,142.31		474,178,142.31	463,059,536.30
Meilun paper making additive project (Shouguang Meilun)				339,261,614.70
Thermal paper upgrade project (Shouguang Art Paper)				208,582,395.43
Forestry pulp integration project (Huanggang Chenming)	319,549,872.05		319,549,872.05	130,795,345.46
Others	124,905,143.92		124,905,143.92	108,757,353.17
Total	3,709,270,828.53		3,709,270,828.53	5,266,031,817.60

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

14. Construction in progress (Cont'd)

(2) Changes in material construction in progress projects for the period

Unit: RMB

Item name	Budget (RMB100 million)	Opening balance	Increase for the period	Transfer to fixed asset for the period	Other deductions for the period	Closing balance	Accumulated investment to budget	Construction in progress	Accumulated capitalised interest	Of which capitalised interest amount for the period	Capitalisation rate of the interest amount for the period	Source of fund
Railway project (parent company)	2.40	67,825,111.06	156,093,610.40			223,918,721.46	93%	93%	7,787,635.74	6,511,166.14	6.00%	Self-raised and borrowings
Desulphurisation, denitrification and de-dusted project of power plant (parent company and Meilun)	1.43	37,830,000.00	143,346,509.86	40,650,217.70		140,526,292.16	98%	98%	3,952,835.38	3,952,835.38	6.00%	Self-raised and borrowings
Biomass vapourisation project (Zhanjiang Chenming)	2.63	10,900,564.67	102,588,456.51			113,489,021.38	43%	43%	1,243,711.25	1,243,711.25	6.00%	Self-raised and borrowings
New small-sized paper cutting workshop (Zhanjiang Chenming)	1.11	9,072,406.97	85,281,012.72			94,353,419.69	85%	85%	405,359.41	405,359.41	6.00%	Self-raised and borrowings
700,000 tonne pulp equipment upgrade (Zhanjiang Chenming)	2.26	186,749,656.36		43,803,629.06		142,846,027.30	63%	63%	9,939,148.74			Self-raised and borrowings
180,000 tonne paper cup base paper project (Zhanjiang Chenming)	7.00	375,950,872.01	258,480,229.13	634,451,101.14			97%	Complete	30,708,076.44	14,313,803.79	6.00%	Self-raised and borrowings
190,000 tonne high-end cultural paper project (Zhanjiang Chenming)	30.97	284,958,974.38	665,184,410.69			950,143,385.07	31%	31%	1,971,782.34	1,971,782.34	6.00%	Self-raised and borrowings
MWR+ multi-effect evaporation plant project (Zhanjiang Chenming)	2.30		29,259,003.60			29,259,003.60	13%	13%				Self-raised
450 tonnes/day mechanical pulp project (Zhanjiang Chenming)	0.80		28,837,113.23			28,837,113.23	36%	36%				Self-raised
Brick plant project (Jilin Chenming)	0.36		33,526,397.51			33,526,397.51	93%	93%				Self-raised
7800 paper machine press section upgrade (Jiangxi Chenming)	0.16	62,598,886.06	7,264,975.83	55,873,631.80		13,980,230.09	87%	87%				Self-raised
Food packaging paper project (Jiangxi Chenming)	12.48	122,625,351.96	796,826,747.45			919,532,099.41	74%	74%	22,006,666.74	21,241,652.56	6.00%	Borrowings
BTMP renovation project (Jiangxi Chenming)	0.97		41,214,182.60			41,214,182.60	42%	42%	1,620,376.31	1,620,376.31	6.00%	Borrowings
Mid-water renovation project (Jiangxi Chenming)	0.39		16,903,145.03			16,903,145.03	43%	43%	140,109.60	140,109.60	6.00%	Borrowings
New production line of household paper machine upgrade in Wuhan second factory (Wuhan Chenming)	4.50	445,631,740.09	33,609,043.60	478,240,783.69			106%	Complete	24,167,540.06	4,689,732.39	6.00%	Borrowings
Technological upgrade for specialty paper project (Wuhan Chenming)	2.80	185,261,723.30	93,884,736.34	279,146,459.64			100%	Complete	30,683,598.86	27,361,768.67	6.00%	Borrowings
Denitrification project (Qianmeng Electric Power)	0.42	7,600,000.00	34,368,651.72			41,968,651.72	99%	99%				Self-raised
Relocation of Jilin (Jilin Chenming)	26.00	2,216,570,285.48	398,137,189.41	2,616,707,454.89			100%	Complete	5,499,999.99			Payments of demolition and borrowings
Magnetite mining (Haicheng Haiming)	5.00	463,059,536.30	23,518,870.50	12,400,264.49		474,178,142.31	95%	95%	21,519,250.50	21,519,250.50	6.00%	Self-raised and borrowings
Meilun paper making additive project (Shouguang Meilun)	4.20	339,261,614.70	84,057,467.77	423,319,082.47			100%	Complete	10,363,647.51	2,660,067.59	6.00%	Self-raised and borrowings
Thermal paper upgrade project (Shouguang Art Paper)	2.40	208,582,385.43	27,072,756.18	235,655,151.61			99%	Complete	6,209,637.36	5,067,799.91	5.91%	Self-raised and borrowings
Forestry pulp integration project (Huanggang Chenming)	34.85	130,785,345.46	188,754,526.59			319,539,872.05	9%	9%				Self-raised
Others		108,757,353.17	235,943,702.35	219,685,911.60		124,935,143.92			3,441,810.51	3,441,810.51		Self-raised and borrowings
Total	145.43	5,266,031,817.60	3,484,282,699.02	5,041,023,688.09		3,709,270,828.53	-	-	181,662,166.74	116,141,226.35		-

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

15. Materials for project

Unit: RMB

Item	Closing balance	Opening balance
Special materials	22,810,138.46	35,814,649.31
Special equipment	145,843.92	28,153,418.31
Total	22,955,982.38	63,968,067.62

16. Disposal of fixed assets

Unit: RMB

Item	Closing balance	Opening balance
Environmental protection relocation of Jilin Chenming		242,538,418.36
Relocation of Wuhan Chenming		345,643,229.17
Total		588,181,647.53

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

17. Intangible assets

(1) Particulars of intangible assets

Unit: RMB

Item	Land use rights	Patent rights	Non-patented technology	Others	Total
I. Original carrying amount					
1. Opening balance	1,546,569,094.81		18,318,427.47		1,564,887,522.28
2. Increase for the period	548,620.23		3,375,350.00		3,923,970.23
(1) Acquisition	548,620.23		3,375,350.00		3,923,970.23
3. Decrease for the period	25,572,307.46		48,530.00		25,620,837.46
(1) Disposal or retirement	17,751,239.51		18,350.00		17,769,589.51
(2) Disposal of subsidiaries	7,821,067.95		30,180.00		7,851,247.95
4. Closing balance	1,521,545,407.58		21,645,247.47		1,543,190,655.05
II. Accumulated amortisation					
1. Opening balance	185,133,243.12		14,336,276.90		199,469,520.02
2. Increase for the period	31,839,814.20		2,050,230.07		33,890,044.27
(1) Provision	31,839,814.20		2,050,230.07		33,890,044.27
3. Decrease for the period	9,243,154.28		30,180.00		9,273,334.28
(1) Disposal or retirement	3,205,654.46				3,205,654.46
(2) Disposal of subsidiaries	6,037,499.82		30,180.00		6,067,679.82
4. Closing balance	207,729,903.04		16,356,326.97		224,086,230.01
III. Book value					
1. Opening carrying amount	1,313,815,504.54		5,288,920.50		1,319,104,425.04
2. Opening carrying amount	1,361,435,851.69		3,982,150.57		1,365,418,002.26

Note: (1) On 31 December 2014, the ownership of intangible assets of carrying amount of RMB316,286,184.74 (31 December 2013: RMB323,501,839.10) was restricted, of which land use rights and fixed assets of carrying amount of RMB316,286,184.74 were the pledge for long-term borrowings of RMB2,520,707,400.00 (31 December 2013: RMB2,784,334,971.96) and long-term borrowings due within one year of RMB269,980,900.00 (31 December 2013: RMB269,313,900.00). The amortisation of such land use rights in 2014 amounted to RMB44,496,535.26 (2013: RMB7,215,654.36).

(2) The state-owned land use rights obtained by the Group in China were in compliance with PRC laws with a term of grant of 40-50 years upon receipt.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

18. Goodwill

(1) Original carrying amount of goodwill

Unit: RMB

Name of investee or item generating goodwill	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Arising from business combination	Others	Disposal	Others	
Jilin Chenming Paper Co., Ltd.	14,314,160.60					14,314,160.60
Shandong Chenming Panels Co., Ltd.	5,969,626.57					5,969,626.57
Total	20,283,787.17					20,283,787.17

(2) Provision for impairment of goodwill

Goodwill arose from business combination not under common control during prior years.

On the balance sheet date, the management of the Company assessed the recoverable amount of cash-generating unit which results in goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating unit was determined based on the estimated cash flow in the financial budget for the next five years by the management, and the time value of currency was estimated using the discount rate of 8.32% (2013: 8.32%). Results of impairment test showed that no provision for impairment loss was necessary to be made for goodwill.

19. Long-term prepaid expenses

Unit: RMB

Item	Opening balance	Increase for the period	Amortisation for the period	Other deductions	Closing balance
Woodland expenses	166,383,850.46	2,355,559.88	6,945,972.07		161,793,438.27
Others	2,154,633.22	9,944,438.00	201,761.66		11,897,309.56
Total	168,538,483.68	12,299,997.88	7,147,733.73		173,690,747.83

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

20. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets before offsetting

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	340,772,888.98	79,501,792.10	328,446,526.51	76,545,138.40
Unrealised profit arising from intra-group transactions	110,493,658.36	27,623,414.59	57,569,528.58	14,392,382.14
Deductible loss	1,858,290,693.47	451,519,833.69	1,567,274,751.26	391,818,687.83
Outstanding payables	106,430,519.52	20,362,747.08	53,895,396.66	10,652,244.21
Deferred income	184,861,975.76	41,259,848.98	70,461,516.47	14,244,935.80
Total	2,600,849,736.09	620,267,636.44	2,077,647,719.48	507,653,388.38

(2) The breakdown of unrecognised deferred income tax assets

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary differences	31,495,183.10	30,069,082.11
Deductible loss	457,830,039.77	420,230,273.61
Total	489,325,222.87	450,299,355.72

(3) Expiry of deductible loss of unrecognised deferred income tax assets falls in the periods as follows

Unit: RMB

Year	Closing amount	Opening amount	Remark
2014		60,626,308.87	
2015	37,886,444.37	37,886,444.37	
2016	59,767,165.56	64,240,356.54	
2017	116,596,801.25	116,631,374.76	
2018	140,521,936.04	140,845,789.07	
2019	103,057,692.55		
Total	457,830,039.77	420,230,273.61	—

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

21. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Entrusted loans	1,000,000,000.00	
Payments of properties	162,000,000.00	
Payments of land	32,124,242.00	
Less: portion due within one year (see Note VII. 7)	100,000,000.00	
Total	1,094,124,242.00	

22. Particulars of provision for impairment of assets

Item	Opening balance	Provision for the year	Decrease for the year			Closing balance
			Reversal	Write-off	Others	
I. Provisions for bad debts	297,937,136.69	56,192,999.85	1,972,368.11	4,869,760.05	7,503,241.47	339,784,766.91
II. Provisions for inventory impairment	36,472,052.20	5,319,730.37		36,472,052.20		5,319,730.37
III. Provisions for impairment of available-for-sale financial assets	2,589,574.47				1,139,574.47	1,450,000.00
IV. Provisions for impairment of fixed assets	26,220,000.00					26,220,000.00
Total	363,218,763.36	61,512,730.22	1,972,368.11	41,341,812.25	8,642,815.94	372,774,497.28

Note: Other deductions in provisions for impairment of assets were due to disposal of subsidiaries and other equity investments during the period.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

23. Short-term borrowings

(1) Classification of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowings	584,082,701.72	398,617,193.53
Guarantee borrowings	9,628,636,791.99	3,999,962,588.92
Credit borrowings	10,257,577,099.21	5,420,305,455.40
Total	20,470,296,592.92	9,818,885,237.85

Note: (1) Guarantee borrowings were the borrowings obtained by subsidiaries of the Group from financial institutions when the Company acted as their guarantor.

(2) The Group had no short-term borrowings due and outstanding.

(3) For classification and amount of secured assets in respect of pledged borrowings, please see Note VII. 58.

24. Bills payable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance bills	1,598,110,792.85	290,403,790.59
Total	1,598,110,792.85	290,403,790.59

Unpaid bills payable due as at the end of the period amounted to nil.

25. Accounts payable

(1) Particulars of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	2,965,990,209.36	2,251,158,621.76
1-2 years	228,866,967.30	240,434,222.13
2-3years	112,980,731.55	120,073,847.85
Over 3 years	100,528,205.72	83,503,235.40
Total	3,408,366,113.93	2,695,169,927.14

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

25. Accounts payable (Cont'd)

(2) Significant accounts payable for over 1 year

Unit: RMB

Item	Closing balance	Opening balance
VOITH GMBH, Germany	77,477,820.69	Temporarily outstanding
SHANDONG NGE LOGISTICS CO., LTD.	9,905,622.19	Temporarily outstanding
VOITH INTERNATIONAL TRADE (SHANGHAI) CO., LTD.	6,095,030.26	Temporarily outstanding
HARBIN BOILER COMPANY LIMITED	5,142,951.54	Temporarily outstanding
SHANDONG SWAN WATER ENGINEERING CO., LTD.	4,377,011.99	Temporarily outstanding
Total	102,998,436.67	—

26. Advance receipts

(1) Particulars of advance receipts

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	255,718,680.43	425,728,033.93
1-2 years	14,338,046.45	16,704,227.65
Total	270,056,726.88	442,432,261.58

(2) Significant advance receipts for over 1 year

Unit: RMB

Item	Closing balance	Opening balance
TIANJIN XINYI PACKING PRODUCT CO., LTD.	3,324,016.55	No delivery requirement from the counterparty
SHANDONG KAILONG PAPER SCIENCE AND TECHNOLOGY CO., LTD.	1,082,000.00	No delivery requirement from the counterparty
YONG YI ADHESIVE (ZHONGSHAN) CO. LTD.	1,318,163.09	No delivery requirement from the counterparty
Total	5,724,179.64	—

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

27. Staff remuneration payables

(1) Particulars of Staff remuneration payables

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
I. Short-term remuneration	128,698,038.95	795,917,070.97	772,083,662.09	152,531,447.83
II. Retirement benefit plan - defined contribution scheme	1,561,698.08	71,477,106.04	71,656,284.80	1,382,519.32
III. Lay off welfare	12,075.15	2,648,660.75	2,648,660.75	12,075.15
Total	130,271,812.18	870,042,837.76	846,388,607.64	153,926,042.30

(2) Particulars of short-term remuneration

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
I. Salaries, bonuses, allowance and subsidies	73,707,512.94	651,092,408.23	628,260,909.60	96,539,011.57
II. Staff welfare		60,355,293.88	60,355,293.88	
III. Social insurance premium	8,259,570.67	33,087,868.88	33,090,168.32	8,257,271.23
Of which: Medical insurance premium	7,294,373.22	24,829,773.86	24,840,373.24	7,283,773.84
Work-related injury insurance premium	1,589.18	5,156,670.26	5,152,707.38	5,552.06
Maternity insurance premium	963,608.27	3,101,424.76	3,097,087.70	967,945.33
IV. Housing provident funds	5,206,430.44	38,606,794.66	36,124,353.63	7,688,871.47
V. Union funds and workers education	22,719,929.36	12,774,705.32	14,252,936.66	21,241,698.02
VI. Others	18,804,595.54			18,804,595.54
Total	128,698,038.95	795,917,070.97	772,083,662.09	152,531,447.83

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

28. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Value added tax	27,861,717.80	6,620,418.81
Business tax	5,993,146.04	596,310.07
Enterprise income tax	88,084,906.73	104,402,645.76
Individual income tax	14,783,877.45	1,780,803.13
Urban maintenance and construction tax	2,479,631.43	1,713,580.49
Land use tax	11,103,517.24	5,495,793.45
Property tax	6,146,726.60	7,824,057.43
Educational surcharges and others	2,397,509.16	446,510.66
Stamp duty	2,249,056.49	1,312,817.07
Total	161,100,088.94	130,192,936.87

29. Interest payable

Unit: RMB

Item	Closing balance	Opening balance
Interest on corporate bonds	62,417,222.24	65,559,777.08
Interest on medium-term notes	27,455,083.26	27,455,083.34
Interest on privately placed bonds	60,175,000.00	60,175,000.00
Total	150,047,305.50	153,189,860.42

30. Other payables

(1) Other payables by nature

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	578,321,880.79	419,910,089.94
1-2 years	149,759,077.76	23,967,481.29
2-3 years	20,710,865.78	16,877,980.44
Over 3 years	34,999,060.28	26,081,044.22
Total	783,790,884.61	486,836,595.89

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

30. Other payables (Cont'd)

(2) Significant other payables for over 1 year

Unit: RMB

Item	Closing balance	Reason for outstanding or not carried forward
LIAONING BEIHAI INDUSTRIES GROUP CO., LTD.	21,804,600.00	Debt investments as agreed by shareholders of subsidiaries
SHOUGUANG HENGTAI ENTERPRISE INVESTMENT COMPANY LIMITED	18,668,679.17	Debt investments as agreed by shareholders of subsidiaries
State-owned SHOUGUANG QINGSHUIPO FARM	8,800,000.00	Temporarily outstanding
Total	49,273,279.17	—

31. Non-current liabilities due within 1 year

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note VII.33)	1,099,968,900.00	789,115,500.00
Bonds payable due within 1 year (Note VII.34)		498,688,952.66
Total	1,099,968,900.00	1,287,804,452.66

32. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Short-term commercial paper		3,853,488,888.90
Total		3,853,488,888.90

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

32. Other current liabilities (Cont'd)

Increase/decrease in short-term commercial paper

Name of commercial paper	Par value	Date of issue	Term	Amount	Opening balance
Chenming CP001	1,800,000,000.00	2013.09	1 year	1,792,800,000.00	1,836,733,333.34
Chenming CP002	2,000,000,000.00	2013.10	1 years	1,992,000,000.00	2,016,755,555.56
Total	3,800,000,000.00			3,784,800,000.00	3,853,488,888.90

(Continued)

Name of commercial paper	Issue during the year	Interest at par value	Amortisation of premium/discount	Redemption during the year	Closing balance
Chenming CP001		62,866,666.66	4,800,000.00	1,904,400,000.00	
Chenming CP002		93,244,444.44	6,000,000.00	2,116,000,000.00	
Total		156,111,111.10	10,800,000.00	4,020,400,000.00	

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

33. Long-term borrowings

(1) Types of long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Secured borrowings	2,790,688,300.00	3,053,648,871.96
Guarantee borrowings	1,274,978,809.25	470,888,400.00
Credit borrowings	1,412,592,035.94	988,444,035.94
Including: long-term borrowings due within 1 year (see Note VII. 31)	1,099,968,900.00	789,115,500.00
Long-term borrowings due within 1-2 years	1,725,485,400.00	898,143,000.00
Long-term borrowings due within 2-5 years	1,485,450,209.25	1,204,701,900.00
Long-term borrowings due over 5 years	1,167,354,635.94	1,621,020,907.90
Total	4,378,290,245.19	3,723,865,807.90

Note:

- (1) For the asset group of pledges of secured borrowings, please refer to Note VII.13 and VII.17.
- (2) Guarantee borrowings: Included in the borrowings RMB294,618,000.00, RMB46,000,000.00 and RMB670,560,809.25 were under guarantees by the Company for Zhanjiang Chenming Pulp & Paper Co., Ltd., Huanggang Chenming Arboriculture Co., Ltd. and Shandong Chenming Financial Leasing Co., Ltd., respectively, and RMB35,800,000.00 and RMB228,000,000.00 were under guarantees by Jiangxi Chenming Paper Co., Ltd. for Nanchang Chenming Arboriculture Co., Ltd. and by Zhanjiang Chenming Paper Co., Ltd. for Jiangxi Chenming Paper Co., Ltd. respectively. Please refer to Note XII.5(2) for details of maturity of the above guarantees.

34. Bonds payable

Unit: RMB

Item	Closing balance	Opening balance
11 Chenming debt	1,993,899,974.62	1,990,203,485.86
12 Chenming debt	3,783,231,333.39	3,778,215,126.87
11 Chenming Hong Kong debt		498,688,952.66
Less: closing balance for the year of amount due within one year		498,688,952.66
Total	5,777,131,308.01	5,768,418,612.73

(2) Increase/decrease in bonds payable (excluding other financial instruments such as preference shares and perpetual bonds classified as financial liabilities)

Unit: RMB

Name of bond	Par value	Date of issue	Term	Amount	Opening balance	Issue during the period	Interest at par value	Amortisation of premium/discount	Redemption during the period	Others	Closing balance
11 Chenming debt	2,000,000,000.00	July 6 2011	5 years	1,982,000,000.00	1,990,203,485.86		119,000,000.00	3,696,498.76	118,999,999.99		1,993,899,974.62
12 Chenming debt	3,800,000,000.00	February 26 2012	5 years	3,773,400,000.00	3,778,215,126.87		214,700,000.00	5,016,206.52	214,700,000.00		3,783,231,333.39
11 Chenming Hong Kong debt	500,000,000.00	April 13 2011	3 years	491,750,000.00	498,688,952.66		4,232,445.14	1,311,047.34	507,375,000.00		
Total	-	-	-	6,247,150,000.00	6,267,107,565.39		337,932,445.14	10,023,742.62	841,074,999.99		5,777,131,308.01

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

35. Long-term payables

Unit: RMB

Item	Closing balance	Opening balance
Nanchang Economic and Technological Development Zone Investment Holdings Limited		60,000,000.00
Total		60,000,000.00

36. Special accounts payable

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason
Environmental protection relocation of Jilin Chenming	971,805,561.39	220,000,000.00	1,191,805,561.39		
Environmental protection relocation of Wuhan Chenming		370,920,000.00	370,920,000.00		
Huanggang Chenming integrated forestry, pulp and paper project		161,983,516.66		161,983,516.66	
Total	971,805,561.39	752,903,516.66	1,562,725,561.39	161,983,516.66	—

Note: During the year, pursuant to the relocation compensation agreement entered into with China Development Jilin Co., Ltd., the Company received relocation compensation of RMB220,000,000.00. The Company utilised the relocation compensation to offset loss on relocation of RMB233,025,033.91 and transferred RMB958,780,527.48 to deferred income; pursuant to the meeting spirit related to "Elimination of backward production capacity and environmental relocation of Wuhan Chenming Company of Wuhan Government, the Company received bonus fund for elimination of backward production capacity and relocation compensation amounting to RMB370,920,000.00. The Company utilised the relocation compensation to offset loss on relocation of RMB365,074,268.77 and transferred RMB5,845,731.23 to deferred income. According to the Provisional Measures for Special Government Grant of Huanggang Chenming integrated Forestry, Pulp and Paper Project, a special grant of RMB161,983,516.66 for Huanggang Chenming integrated forestry, pulp and paper project from the Finance Bureau of Huanggang City was accounted for as special accounts payable.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

37. Deferred income

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason
Government grants	493,600,712.15	1,041,955,222.71	59,434,500.08	1,476,121,434.78	
Total	493,600,712.15	1,041,955,222.71	59,434,500.08	1,476,121,434.78	—

Items in respect of government grant:

Unit: RMB

Liabilities item	Opening balance	New grants for the period	Amount included in non-operating income	Other changes	Closing balance	Asset-related/ income-related
Special subsidy funds for environmental protection	67,038,714.68	968,626,258.71	34,041,863.79		1,001,623,109.60	Asset-related
Project fund for National technological support scheme	7,440,725.00	500,000.00	2,108,453.30		5,832,271.70	Asset-related
Special subsidy fund for Songhuajiang environmental protection project	26,913,079.80		1,030,000.08		25,883,079.72	Asset-related
Modification of alkaline recycling system	4,883,749.85		183,140.62		4,700,609.23	Asset-related
Sewage treatment and water conservation reconfiguration project	11,909,151.27		990,418.60		10,918,732.67	Asset-related
Financial grants for technological modification project	100,544,210.53	18,803,100.00	5,044,085.32		114,303,225.21	Asset-related
Zhanjiang integrated forestry, pulp and paper project	273,646,753.33	4,637,456.00	11,954,540.97		266,329,668.36	Asset-related
Interest Subsidy		34,837,908.00	3,930,290.26		30,907,617.74	Asset-related
Railway line change compensation		14,250,000.00			14,250,000.00	Asset-related
Others	1,224,327.69	300,500.00	151,707.14		1,373,120.55	Asset-related
Total	493,600,712.15	1,041,955,222.71	59,434,500.08		1,476,121,434.78	—

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

38. Other Non-current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Medium-term notes	1,091,270,700.55	1,088,060,197.75
Privately placed bonds	1,493,497,659.09	1,489,103,380.29
Including: Due within 1-2 years	1,500,000,000.00	
Due within 2-5 years	1,100,000,000.00	2,600,000,000.00
Issue expenses unamortised	-15,231,640.36	-22,836,421.96
Total	2,584,768,359.64	2,577,163,578.04

39. Share capital

Item	Opening balance	Increase/decrease for the year (+, -)		Closing balance
		Repurchase	Subtotal	
RMB ordinary shares (A shares)	1,113,278,456.00			1,113,278,456.00
Domestic listed foreign shares (B shares)	470,923,511.00			470,923,511.00
Overseas listed foreign shares (H shares)	391,270,000.00	-39,066,500.00	-39,066,500.00	352,203,500.00
Total number of shares	1,975,471,967.00	-39,066,500.00	-39,066,500.00	1,936,405,467.00

The Company repurchased 39,066,500 overseas listed foreign shares (H shares) from December 2013 to May 2014. The adjusted share capital was RMB1,936,405,467. The share capital was reviewed by Ruihua Certified Public Accountants, which published a capital review report named Rui Hua Yan Zi [2014] No. 37020007 for the certification of the review.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

40. Capital reserves

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Capital premium (share premium)	5,534,359,521.73	11,069,234.64	66,614,390.17	5,478,814,366.20
Other capital reserves	670,322,507.21			670,322,507.21
Total	6,204,682,028.94	11,069,234.64	66,614,390.17	6,149,136,873.41

Note: Shandong Chenming Power Supply Holdings Co., Ltd., a subsidiary of the Company, convened a shareholders' meeting on 5 January 2014, and approved to repurchase 13,228,000 outstanding minority shareholders shares (minority interests of RMB34,455,926.94 at the end of January 2014) at the price of net assets per share (RMB1.77/share) of Chenming Power as at December 31 2013, for a consideration of RMB23,413,560.00 in total, with capital premium under capital reserves up by RMB11,042,366.94. On August 20 2014, the Company received income arising from disposal of 6,159 odd lots for equity distributions by China Securities Depository and Clearing Co., Ltd, with capital premium under capital reserves up by RMB26,867.70. The Company repurchased 39,066,500 overseas listed foreign shares (H shares) for a consideration in Hong Kong dollar equivalent to RMB105,680,890.17, which offset capital premium under capital reserves of RMB66,614,390.17.

41. Other comprehensive income

Unit: RMB

Item	Opening balance	Amount for the period					Attributable to minority shareholders after tax	Closing balance
		Incurred before Income tax for the period	Less: Transferred from Other Comprehensive Income in prior periods to profit or loss during the period	Less: income tax expenses	Attributable to parent company after tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods	16,934,073.59	16,829,094.54			16,829,094.54		33,763,168.13	
Exchange differences on translation of foreign operations	16,934,073.59	16,829,094.54			16,829,094.54		33,763,168.13	
Total other comprehensive income	16,934,073.59	16,829,094.54			16,829,094.54		33,763,168.13	

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

42. Surplus reserve

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	1,132,116,106.40			1,132,116,106.40
Total	1,132,116,106.40			1,132,116,106.40

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

The Company can transfer the discretionary surplus reserve upon the transfer of statutory surplus reserve. Once approved, the discretionary surplus reserve can be used to offset loss for prior years or increase the share capital.

43. Retained profit

Unit: RMB

Item	The period	The prior period
Retained profit as at the end of the prior year before adjustment	4,741,638,941.58	4,149,511,927.88
Retained profit as at the beginning of the year after adjustment	4,741,638,941.58	4,149,511,927.88
Plus : Net profit for year attributable to shareholders of the parent company	505,204,384.73	710,655,331.72
Ordinary dividend payable	580,921,640.10	118,528,318.02
Retained profit as at the end of the period	4,665,921,686.21	4,741,638,941.58

Note:

(1) Particulars of profit distribution

According to the proposed profit distribution plan for 2013 approved by the 2014 annual general meeting of the Company on May 19 2014, the Company paid a cash dividend of RMB0.30 (2013: RMB0.06) per share to all shareholders. As the Company had repurchased B shares, based on the number of shares of 1,936,405,467.00 at the dividend registration date, the total amount to be distributed was RMB580,921,640.10 (2013: RMB118,528,318.02).

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

The transfer to surplus reserve of subsidiaries of the Company in 2014 was RMB60,611,990.85, of which RMB60,611,990.85 was attributable to the parent company.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

44. Revenue and operating costs

(1) Revenue and operating costs

Unit: RMB

Item	Amount for the period		Amount for the prior period	
	Revenue	Costs	Revenue	Costs
Principal activities	18,998,422,868.69	15,276,153,607.54	20,152,795,532.07	16,492,529,772.47
Other activities	103,254,209.00	46,949,171.66	236,094,535.34	159,356,247.17
Total	19,101,677,077.69	15,323,102,779.20	20,388,890,067.41	16,651,886,019.64

(2) Principal activities (by industry)

Industry name	Amount for the period		Amount for the prior period	
	Revenue	Operating costs	Revenue	Operating costs
I. Machine-made paper	17,975,118,165.42	14,590,759,989.08	18,244,191,565.62	15,088,624,360.62
II. Electricity and steam	513,786,969.44	346,919,674.07	1,519,119,225.58	1,128,949,590.22
III. Construction materials	225,322,331.60	180,981,974.32	241,343,187.87	204,068,954.93
IV. Paper chemicals	59,945,519.46	54,847,129.21		
V. Hotel	26,793,066.32	5,434,372.02	36,324,584.14	8,589,278.93
VI. Others	197,456,816.45	97,210,468.84	111,816,968.86	62,297,587.77
Total	18,998,422,868.69	15,276,153,607.54	20,152,795,532.07	16,492,529,772.47

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

44. Revenue and operating costs (Cont'd)

(3) Principal activities (by products under machine-made paper)

Product name	Amount for the period		Amount for the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Light weight coated paper	693,819,246.02	602,872,005.81	959,374,495.99	797,143,663.55
Duplex press paper	2,967,684,563.34	2,361,726,555.66	2,573,322,197.99	2,101,348,540.72
Writing paper	211,560,370.68	159,961,258.19	307,750,040.04	249,202,911.49
Coated paper	4,428,510,204.03	3,602,836,734.87	4,504,344,844.03	3,863,437,378.40
Newsprint paper	1,091,419,636.72	816,390,508.43	1,501,678,237.85	1,103,153,831.64
Paperboard	754,167,430.95	715,607,309.32	812,352,574.23	815,342,139.62
White paper board	1,991,690,191.45	1,620,353,693.26	2,161,704,531.76	1,738,047,195.43
Static paper	1,742,073,088.67	1,309,377,091.22	1,906,857,070.30	1,496,527,676.12
White paper board	4,094,193,433.56	3,401,634,832.32	3,516,807,573.43	2,924,421,023.65
Total	17,975,118,165.42	14,590,759,989.08	18,244,191,565.62	15,088,624,360.62

(4) Principal activities (by geographical areas under machine-made paper)

Region	Amount for the period		Amount for the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Mainland China	14,552,115,907.65	11,488,109,021.61	15,171,253,868.29	12,290,062,532.74
Other countries and regions	3,423,002,257.77	3,102,650,967.47	3,072,937,697.33	2,798,561,827.88
Total	17,975,118,165.42	14,590,759,989.08	18,244,191,565.62	15,088,624,360.62

(5) Revenue from top 5 customers

Period	Total revenue from top 5 customers	Percentage of the total revenue in the same period
2014	1,420,196,436.91	7.43%
2013	1,159,451,679.05	5.69%

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

45. Business taxes and surcharges

Unit: RMB

Item	Amount for the period	Amount for the prior period
Business tax	32,145,655.62	15,368,137.34
Urban maintenance and construction tax	31,769,524.59	38,246,715.31
Educational surcharges	22,108,018.32	24,829,356.69
Water engineering funds	4,395,872.20	4,748,112.49
Local educational surcharges	547,132.76	2,468,807.39
Others	63,869.56	171,081.76
Total	91,030,073.05	85,832,210.98

Note: For details of payment standards for business taxes and surcharges, please see Note VI. Tax.

46. Selling and distribution expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Wages	120,719,398.48	116,750,755.01
Depreciation expenses	13,399,540.68	18,004,121.19
Office expenses	6,221,988.78	6,365,282.20
Travel expenses	34,664,069.53	29,520,578.69
Selling commissions	6,653,665.56	6,965,244.83
Transportation expenses	793,007,171.93	771,135,730.03
Cargo handling charges	20,458,378.39	24,267,204.90
Rental expenses	9,437,945.50	8,946,309.54
Hospitality expenses	64,557,863.44	65,119,426.31
Warehouse expenses	4,339,299.19	7,840,514.22
Others	74,596,213.75	74,229,868.59
Total	1,148,055,535.23	1,129,145,035.51

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

47. General and administrative expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Wages and surcharges	152,205,135.11	185,735,210.11
Welfare expenses	37,236,019.36	36,143,571.41
Labour insurance premium	10,824,798.38	10,261,700.98
Insurance premium	18,767,977.72	17,221,874.87
Depreciation expenses	54,439,941.88	56,957,280.03
Waste disposal expenses	24,663,623.70	24,375,706.65
Hospitality expenses	24,289,958.40	21,996,694.34
Amortisation of intangible assets	32,028,062.78	30,699,445.68
Technological development expenses	469,826,539.65	379,261,152.54
Tax	108,339,551.67	75,806,245.69
Production interruption loss	26,068,427.32	65,937,178.56
Repair fees	25,947,612.69	22,887,645.39
Audit fees	2,600,000.00	2,600,000.00
Others	173,305,258.73	268,820,849.75
Total	1,160,542,907.39	1,198,704,556.00

48. Finance expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Interest expenses	1,540,167,178.31	1,364,151,261.72
Less: interest income	232,604,192.19	211,164,138.80
Less: capitalised interest amount	185,230,554.68	121,960,707.45
Foreign exchange gains and losses	26,067,912.64	-164,346,803.25
Less: capitalised foreign exchange gains and losses amount		
Bank charges	80,858,813.39	63,924,562.74
Total	1,229,259,157.47	930,604,174.96

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

48. Finance expenses (Cont'd)

Other particulars:

Interest expenses	2014	2013
Interests on bank loans, overdrafts and other loans which require to be fully repaid within 5 years	954,007,544.33	831,236,017.12
Other interest expenses	1,106,872,842.55	1,597,900,319.47
Total	2,060,880,386.88	2,429,136,336.59

49. Loss on impairment of assets

Unit: RMB

Item	Amount for the period	Amount for the prior period
I. Loss on bad debts	54,220,631.74	-27,367,139.39
II. Loss on inventory impairment	5,319,730.37	36,472,052.20
III. Loss on fixed asset impairment		15,000,000.00
Total	59,540,362.11	24,104,912.81

50. Gain on change in fair value

Unit: RMB

Source of gain on change in fair value	Amount for the period	Amount for the prior period
Consumable biological assets measured at fair value	6,856,815.32	11,221,828.76
Total	6,856,815.32	11,221,828.76

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

51. Investment income

Unit: RMB

Item	Amount for the period	Amount for the prior period
Income from long-term equity investments accounted for using the equity method	-5,156,941.21	208,888.59
Investment gain on disposal of long-term equity investments	-8,516,933.29	23,497,069.99
Investment gain on disposal of available-for-sale financial assets	-124,070.12	
Income on external entrusted loans	82,833,581.81	
Total	69,035,637.19	23,705,958.58

52. Non-operating income

Unit: RMB

Item	Amount for the period	Amount for the prior period	Amounts included in extraordinary gains and losses for the period
Total gain on disposal of non-current assets	86,153,319.82	6,695,769.19	86,153,319.82
Of which: Gain on disposal of fixed assets	2,388,902.38	6,695,769.19	2,388,902.38
Gain on disposal of intangible assets	83,764,417.44		83,764,417.44
Gain on debt restructuring	1,725,797.17	268,577.19	1,725,797.17
Government grants	269,545,217.93	190,712,413.64	260,000,612.10
Compensation on Wuhan relocation for operation suspension	27,551,586.08	193,264,875.64	27,551,586.08
Compensation on Jilin relocation for operation suspension	12,467,512.55	99,453,494.34	12,467,512.55
Business combination not under common control		2,408,368.37	
Others	12,867,912.27	11,241,687.62	12,867,912.27
Total	410,311,345.82	504,045,185.99	400,766,739.99

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

52. Non-operating income (Cont'd)

Government grants included in profit or loss for the period:

Unit: RMB

Grants item	Amount for the period	Amount for the prior period	Asset-related/ income-related
Amortised deferred income (Note VII. 37)	59,434,500.08	25,427,653.88	Asset-related
Grants income	200,566,112.02	149,519,965.31	Income-related
Value-added tax refund	9,544,605.83	15,764,794.45	Income-related
Total	269,545,217.93	190,712,413.64	—

53. Non-operating expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period	Amounts included in extraordinary gains and losses for the period
Total loss on disposal of non-current assets	12,236,126.04	36,560,317.17	12,236,126.04
Of which: loss on disposal of fixed assets	12,236,126.04	36,560,317.17	12,236,126.04
Donation	1,000,000.00	2,800,000.00	1,000,000.00
Others	2,105,652.24	1,934,144.14	2,105,652.24
Total	15,341,778.28	41,294,461.31	15,341,778.28

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

54. Income tax expenses

(1) Particulars of income tax expenses

Item	Unit: RMB	
	Amount for the period	Amount for the prior period
Income tax expenses for the period	220,708,140.68	324,213,944.11
Deferred income tax expenses	-113,008,730.04	-148,275,512.20
Total	107,699,410.64	175,938,431.91

(2) The reconciliation between accounting profit and income tax expenses

Item	Unit: RMB	
	Amount for the period	
Total profit	561,008,283.29	
Income tax expenses calculated at statutory/applicable tax rates	84,151,242.49	
Effect of different tax rates applicable to subsidiaries	40,651,963.36	
Effect of adjustments for income tax for prior periods	372,579.32	
Effect of income not subject to tax	-10,557,096.41	
Effect of costs, expenses and loss not deductible for tax purposes	16,127,724.28	
Effect of utilisation of previously unrecognised deductible loss on deferred income tax losses	-4,038,688.25	
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred income assets	25,257,349.00	
Effect of additional deductible expenses	-44,265,663.15	
Income tax expenses	107,699,410.64	

55. Other comprehensive income

For details, please see Note VII. 41.

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

56. Items on statements of cash flow

(1) Cash received relating to other operating activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Penalty income	7,462,262.25	1,319,963.69
Finance expenses – Interest income	232,604,192.19	211,164,138.80
Income-related government grants	200,566,112.02	149,519,965.31
Open credit and other income	159,354,402.77	60,985,992.30
Total	599,986,969.23	422,990,060.10

(2) Cash paid relating to other operating activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Financial institutions charge	80,858,813.39	63,924,562.74
Business hospitality expenses	88,847,821.84	87,116,120.65
Travel expenses	47,576,695.91	43,339,796.08
Office expenses	12,520,690.32	13,856,616.40
Transportation expenses	767,726,460.95	773,000,263.65
Rental expenses	14,350,343.74	16,064,169.16
Waste disposal expenses	24,663,623.70	24,375,706.65
Insurance premium	18,767,977.72	19,774,877.15
Repair expenses	30,372,618.50	25,589,983.20
Cargo handling charges	20,458,378.39	24,267,204.90
Intermediary service expenses	5,207,318.09	5,472,804.41
Net increase in principal receivables relating to finance lease business	2,624,793,605.97	
Others	455,827,098.55	106,136,781.55
Total	4,191,971,447.07	1,202,918,886.54

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

56. Items on statements of cash flow (Cont'd)

(3) Cash received relating to other investing activities

Item	Unit: RMB	
	Amount for the period	Amount for the prior period
Special subsidy funds received	161,983,516.66	
Demolition and relocation compensation received	590,920,000.00	964,840,000.00
Business combination not under common control		983,926.53
Asset-related government grants	77,328,964.00	129,978,841.00
Equity transfer consideration for the prior period received		271,850,000.00
Interest income on entrusted loans	82,833,581.81	
Total	913,066,062.47	1,367,652,767.53

(4) Cash paid relating to other investing activities

Item	Unit: RMB	
	Amount for the period	Amount for the prior period
Decrease in cash due to loss of control over subsidiaries reclassified as associates		3,180,221.51
Entrusted loans	1,000,000,000.00	
Total;	1,000,000,000.00	3,180,221.51

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

56. Items on statements of cash flow (Cont'd)

(5) Cash received relating to other financing activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Short-term commercial paper		3,784,800,000.00
Privately placing bond		1,486,500,000.00
Increase in restricted bank deposits		291,470,312.13
Borrowings from Nanchang Economic and Technological Development Zone Investment Holdings Limited		60,000,000.00
Total		5,622,770,312.13

(6) Cash paid relating to other financing activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Repayment of long-term payables	60,000,000.00	
Repayment of short-term commercial paper	3,800,000,000.00	
Repayment of Chenming Hong Kong debt	500,000,000.00	
Repayment of medium-term notes		1,100,000,000.00
Increase in restricted bank deposits for the period	2,678,364,459.52	
Acquisition of minority interests by Power	23,413,560.00	
Repurchase of H shares	74,699,131.07	30,954,891.40
Repurchase of B shares		265,363,183.60
Total	7,136,477,150.59	1,396,318,075.00

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

57. Supplementary information on cash flow statement

(1) Supplementary information on cash flow statement

Unit: RMB

Supplementary information	Amount for the period	Amount for the prior period
1. Reconciliation of net profit as cash flows from operating activities:	—	—
Net profit	453,308,872.65	690,353,237.62
Plus: Provision for impairment of assets	59,540,362.11	19,539,893.55
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	1,402,497,083.69	1,324,698,175.84
Amortisation of intangible assets	33,890,044.27	31,794,800.76
Amortisation of long-term prepaid expenses	7,147,733.73	8,604,638.05
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” denotes gain)	-73,917,193.78	29,864,547.98
Loss on changes in fair value (“-” denotes gain)	-6,856,815.32	-11,221,828.76
Finance expenses (“-” denotes gain)	1,345,854,589.93	1,238,839,467.15
Investment loss (“-” denotes gain)	-69,035,637.19	-23,705,958.58
Decrease in deferred income tax assets (“-” denotes increase)	-113,008,730.04	-148,275,512.20
Decrease in inventories (“-” denotes increase)	-270,691,002.10	540,994,617.31
Decrease in operating receivables (“-” denotes increase)	-3,401,693,697.79	-801,235,384.48
Increase in operating payables (“-” denotes decrease)	1,618,364,125.69	-1,777,633,893.33
Net cash flows from operating activities	985,399,735.85	1,122,616,800.91
2. Major investing and financing activities not involving cash settlements:	—	—
3. Net change in cash and cash equivalents:	—	—
Closing balance of cash	976,096,861.30	726,532,928.96
Less: Opening balance of cash	726,532,928.96	2,343,550,185.45
Net increase in cash and cash equivalents	249,563,932.34	-1,617,017,256.49

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

57. Supplementary information on cash flow statement (Cont'd)

(2) Net cash of disposal of subsidiaries received for the period

	Unit: RMB
	Amount
Cash and cash equivalents received from disposal of subsidiaries for the period	76,194,000.00
Less: cash and cash equivalents held by subsidiaries at the date of loss of control	1,158,788.59
Net cash received from disposal of subsidiaries	75,035,211.41

Note: Disposal of subsidiary for the year represents the disposal of Shandong Chenming Xinli Power Co., Ltd.

(3) Cash and cash equivalents composition

	Unit: RMB	
Item	Closing balance	Opening balance
I. Cash	976,096,861.30	726,532,928.96
Of which: Treasury cash	1,437,037.09	1,333,503.27
Bank deposit that can be used for payment at any time	974,659,824.21	725,199,425.69
II. Balance of cash and cash equivalent as at end of period	976,096,861.30	726,532,928.96

Note:

- (1) As at 31 December 2014, restricted monetary funds amounted to RMB4,499,561,324.80 (31 December 2013: RMB1,821,196,865.28).
- (2) Restricted cash and cash equivalents is not included in cash.

58. Assets with restricted ownerships or right to use

	Unit: RMB	
Item	Closing carrying amount	Reason for such restrictions
Monetary funds	4,499,561,324.80	As pledges for bank borrowings, guarantee deposits for bank acceptance bills and letter of credit deposits, and deposit reserves
Bills receivable	1,223,759,078.99	As collaterals for short-term borrowings, and bills receivable
Fixed assets	4,762,682,480.74	As collaterals for bank borrowings
Intangible assets	316,286,184.74	As collaterals for bank borrowings
Total	10,802,289,069.27	—

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

59. Foreign currency items

(1) Foreign currency items

Unit: RMB

Item	Closing foreign currency balance	Exchange rate	Closing balance in RMB
Monetary funds			
Of which: USD	57,781,428.76	6.119	353,564,562.71
EUR	725,280.26	7.4556	5,407,399.49
HKD	286,573.57	0.78887	226,069.29
JPY	156,853,955.86	0.051371	8,057,716.22
AUD	0.01	5.0174	0.05
Accounts receivable			
Of which: USD	43,468,070.66	6.119	265,981,124.37
EUR	911,190.23	7.4556	6,793,469.88
JPY	473,538,085.00	0.051371	24,326,124.96
Long-term borrowings			
Of which: USD	439,586,666.00	6.119	2,689,830,809.25
Accounts payable			
Of which: USD	180,647,781.05	6.119	1,105,383,772.24
EUR	71,693,100.07	7.4556	534,515,076.88
Short-term borrowings			
Of which: USD	1,202,299,308.55	6.119	7,356,869,468.98
EUR	39,138,685.61	7.4556	291,802,384.43
JPY	1,620,000,000.00	0.051371	83,221,020.00

XII Financial Report

VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

59. Foreign currency items (Cont'd)

(2) Explanation on overseas operating entities

<u>Name of a subsidiary</u>	<u>Principal place of business</u>	<u>Place of incorporation</u>	<u>Reporting currency</u>
Chenming (HK) Limited	Hong Kong, China	Hong Kong, China	USD
Chenming International Co., Ltd.	Los Angeles, USA	Los Angeles, USA	USD
Chenming Paper Japan Co., Ltd.	Tokyo, Japan	Tokyo, Japan	JPY
Chenming GmbH	Hamburg, Germany	Hamburg, Germany	EUR

Overseas subsidiaries of the Company recognise USD or, JPY and EUR as their respective reporting currency according to the general economic environment in which these subsidiaries operate.

XII Financial Report

VIII. Change in scope of consolidation

1. Disposal of subsidiaries

Whether there is loss of control over subsidiaries on a single disposal

Yes No

Unit: RMB

Name of subsidiary	Consideration of disposal of equity interest	Shareholding of disposal of equity interest	Nature of disposal of equity interest	Time of loss of control	Basis for time	Difference between consideration and share of net assets of relevant subsidiary as per consolidated financial statements	Remaining shareholding as of the date of loss of control	Carrying amount of remaining shareholding as of the date of loss of control	Fair value of remaining shareholding as of the date of loss of control	Gain or loss in fair value of remaining shareholding	Determination and key assumption of fair value of remaining shareholding as of the date of loss of control	Relevant other comprehensive income of former subsidiary transferred to profit or loss
Shandong Chenming Xinli Power Co., Ltd.	76,194,000.00	51.00%	Disposal of equity interest	4 March 2014	Transfer of control	-8,516,933.29	—					
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.		68.00%	Cancellation	30 May 2014	Cancellation of industry and commerce registration		—					
Shouguang Hengfeng Storage Co., Ltd.	456,537.70	100.00%	Cancellation	30 June 2014	Cancellation of industry and commerce registration		—					

Whether there was disposal of investment in a subsidiary through several transactions resulting in loss of control during the reporting period

Yes No

XII Financial Report

VIII. Change in scope of consolidation (Cont'd)

2. Change in scope of consolidation due to other reasons

(1) Newly established subsidiaries

Name	Month of incorporation	Scope of business	Registered capital (RMB'0,000)	Shareholding	Remarks
Shandong Chenming Financial Leasing Co., Ltd.	2014.02	Financial leasing business, operating leasing business, domestic and overseas leased assets acquisition, disposal and maintenance of leased assets, and consultation on leasing transactions.	270,000.00	100	Established on capital contribution from Chenming (HK), a wholly-owned subsidiary of the Company, as resolved at the fourth extraordinary meeting of the seventh session of the Board.
Shandong Chenming Investment Limited	2014.03	Investment in sectors which the Chinese government encouraged and allowed foreign investment in accordance with the laws; provision of raw material procurement and product sales and other services to its investees; R&D of new products and high-technology by setting up research centres or departments in China; and consultancy to its investors.	20,000.00	100	Established on capital contribution from Chenming (HK), a wholly-owned subsidiary of the Company, as resolved at the fourth extraordinary meeting of the seventh session of the Board.
Shandong Chenming Group Finance Co., Ltd.	2014.07	Business as permitted by the China Banking Regulatory Commission pursuant to relevant laws, administrative regulations and other regulations.	100,000.00	100	Established on capital contributions of RMB800.00 million and RMB200.00 million from Shandong Chenming and Jiangxi Chenming respectively as approved by the Approval from Shandong CBRC of the Operation of Shandong Chenming Group Finance Co., Ltd. (Lu Yin Jian Zhun [2014] No. 233) issued by China Banking Regulatory Commission Shandong office.
Chenming Arboriculture Co., Ltd.	2014.08	Investment in arboricultural and agricultural projects; investment and asset management; development of arboricultural technologies; forestry and maintenance; and collection of forest products.	10,000.00	100	Established with paid-up registered capital of RMB45.00 million as resolved at the sixth extraordinary meeting of the seventh session of the Board.
Qingdao Chenming International Logistics Co., Ltd.	2014.04	Logistics distribution (excluding transport); international trading, re-exports and trading among enterprises in the region; and import and export, wholesale, commission agency of coated paper, cardboard and paper products and related business consultancy.	1,000.00	100	Established on capital contributions of RMB3.00 million and RMB7.00 million from Shandong Chenming and Chenming (HK) respectively with paid-up registered capital of RMB3.00 million as resolved at the fourth meeting of the seventh session of the Board.
Jilin Chenming New-style Wall Materials Co., Ltd.	2014.07	Manufacture and sales of new-style wall materials (excluding hazardous chemicals); and composite usage of coal ash.	1,000.00	100	Established by Jilin Chenming, a wholly-owned subsidiary of the Company.

XII Financial Report

VIII. Change in scope of consolidation (Cont'd)

2. Change in scope of consolidation due to other reasons (Cont'd)

(1) Newly established subsidiaries (Cont'd)

Name	Closing net assets	Net profit for the year
Shandong Chenming Financial Leasing Co., Ltd.	2,784,083,425.57	84,083,425.57
Shandong Chenming Investment Limited	199,865,505.58	-134,494.42
Qingdao Chenming International Logistics Co., Ltd.	2,988,403.33	-11,596.67
Shandong Chenming Group Finance Co., Ltd.	1,006,713,646.36	6,713,646.36
Chenming Arboriculture Co., Ltd.	43,722,164.84	-1,277,835.16
Jilin Chenming New-style Wall Materials Co., Ltd.	10,000,000.00	
Total	4,047,373,145.68	89,373,145.68

(2) Cancellation of registration of subsidiaries

Name	Month of cancellation	Progress
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	2014.05	Completed
Shouguang Hengfeng Storage Co., Ltd.	2014.06	Completed

XII Financial Report

IX. Interest in other entities

1. Interest in subsidiaries

(1) Constitution of the Group

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Wuhan, China	Wuhan, China	Paper manufacture	50.93%		Establishment
Shandong Chenming Power Supply Holdings Co., Ltd.	Shouguang, China	Shouguang, China	Power	100.00%		Establishment
Hailaer Chenming Paper Co., Ltd.	Hailaer, China	Hailaer, China	Paper manufacture	75.00%		Establishment
Haicheng Haiming Mining Co., Ltd.	Haicheng, China	Haicheng, China	Mining	60.00%		Establishment
Jiangxi Chenming Paper Co., Ltd.	Nanchang, China	Nanchang, China	Paper manufacture	51.00%	49.00%	Establishment
Jilin Chenming Paper Co., Ltd.	Jilin, China	Jilin, China	Paper manufacture	100.00%		Merger and acquisition
Shandong Grand View Hotel Co., Ltd.	Shouguang, China	Shouguang, China	Catering	70.00%		Establishment
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Paper manufacture	100.00%		Establishment
Chenming (HK) Limited	Hong Kong, China	Hong Kong, China	Trade of paper	100.00%		Establishment
Shouguang Chenming Modern Logistic Co., Ltd.	Shouguang, China	Shouguang, China	Transportation	100.00%		Establishment
Shouguang Chenming Art Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper manufacture	75.00%		Establishment
Fuyu Chenming Paper Co., Ltd.	Fuyu, China	Fuyu, China	Paper manufacture	100.00%		Establishment
Huanggang Chenming Pulp & Paper Co., Ltd.	Huanggang, China	Huanggang, China	Pulp	100.00%		Establishment
Huanggang Chenming Arboriculture Co., Ltd.	Huanggang, China	Huanggang, China	Arboriculture	100.00%		Establishment
Shouguang Meilun Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper manufacture	100.00%		Establishment
Shouguang Shun Da Customs Declaration Co, Ltd.	Shouguang, China	Shouguang, China	Customs declaration	100.00%		Establishment
Shandong Chenming Paper Sales Co., Ltd.	Shouguang, China	Shouguang, China	Sales of paper	100.00%		Establishment
Chenming International Co., Ltd.	Los Angeles, the United States	Los Angeles, the United States	Trade of paper	100.00%		Establishment
Shouguang Chenming Hongxin Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Packaging	100.00%		Establishment

XII Financial Report

IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(1) Constitution of the Group (Cont'd)

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Shouguang Chenming Industrial Logistics Co., Ltd.	Shouguang, China	Shouguang, China	Logistics	100.00%		Establishment
Shouguang Chenming Jiatai Property Management Co., Ltd.	Shouguang, China	Shouguang, China	Property management	100.00%		Establishment
Shouguang Chenming Import and Export Trade Co., Ltd.	Shouguang, China	Shouguang, China	Import and export trade	100.00%		Establishment
Shouguang Chenming Papermaking Machine Co., Ltd.	Shouguang, China	Shouguang, China	Machinery manufacturing	100.00%		Establishment
Japan Chenming Paper Co., Ltd.	Tokyo, Japan	Tokyo, Japan	Trade of paper	100.00%		Establishment
Chenming GmbH	Hamburg, Germany	Hamburg, Germany	Trade of paper	100.00%		Establishment
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Printing and packaging	100.00%		Merger and acquisition
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Fuyu, China	Fuyu, China	Sales of paper	100.00%		Establishment
Shandong Chenming Group Finance Co., Ltd.	Jinan, China	Jinan, China	Finance	80.00%	20.00%	Establishment
Chenming Arboriculture Co., Ltd.	Wuhan, China	Wuhan, China	Arboriculture	100.00%		Establishment
Qingdao Chenming International Logistics Co., Ltd.	Qingdao, China	Qingdao, China	Logistics	30.00%	70.00%	Establishment
Zhanjiang Chenming Arboriculture Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Arboriculture		100.00%	Establishment
Yangjiang Chenming Arboriculture Co., Ltd.	Yangjiang, China	Yangjiang, China	Arboriculture		100.00%	Establishment
Guangdong Huirui Investment Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Investment		51.00%	Merger and acquisition
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Pulp		100.00%	Establishment
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Wall materials		100.00%	Establishment

XII Financial Report

IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(1) Constitution of the Group (Cont'd)

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Wuhan, China	Wuhan, China	Electric Power		51.00%	Establishment
Jilin Chenming Machinery Manufacturing Co., Limited	Jilin, China	Jilin, China	Machinery manufacturing		100.00%	Establishment
Jilin Chenming New-style Wall Materials Co., Ltd.	Jilin, China	Jilin, China	Wall Materials		100.00%	Establishment
Shouguang Chenming Cement Co., Limited	Shouguang, China	Shouguang, China	Cement		100.00%	Establishment
Shandong Chenming Panels Co., Ltd.	Shouguang, China	Shouguang, China	Panel		100.00%	Merger and acquisition
Shandong Chenming Floor Board Co., Ltd.	Shouguang, China	Shouguang, China	Floor board		100.00%	Merger and acquisition
Nanchang Chenming Arboriculture Co., Ltd.	Nanchang, China	Nanchang, China	Arboriculture		100.00%	Establishment
Shouguang Hongyi Decorative Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Packaging		100.00%	Merger and acquisition
Shouguang Xinyuan Coal Co., Ltd.	Shouguang, China	Shouguang, China	Coal		100.00%	Merger and acquisition
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Shouguang, China	Shouguang, China	Purchase and sales of waste and obsolete materials		100.00%	Merger and acquisition
Shouguang Wei Yuan Logistics Company Limited	Shouguang, China	Shouguang, China	Logistics		100.00%	Merger and acquisition
Wuxi Song Ling Paper Co., Ltd.	Wuxi, China	Wuxi, China	Paper manufacture		100.00%	Merger and acquisition
Shandong Chenming Investment Limited	Jinan, China	Jinan, China	Investment		100.00%	Establishment
Shandong Chenming Financial Leasing Co., Ltd.	Jinan, China	Jinan, China	Financial leasing		100.00%	Establishment

XII Financial Report

IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(2) Non-wholly owned subsidiaries

Unit: RMB

Name	Minority interests	Gain or loss attributable to minority interests during the period	Dividend to minority interests declared during the period	Closing balance of minority interests
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	49.07%	-50,599,927.97		191,995,152.94
Shouguang Chenming Art Paper Co., Ltd.	25.00%	-896,508.68		31,967,919.71
Shandong Grand View Hotel Co., Ltd.	30.00%	-5,793,661.49		-22,992,868.18
Hailaer Chenming Paper Co., Ltd.	25.00%	-259,683.79		15,046,456.72
Haicheng Haiming Mining Co., Ltd.	40.00%			96,000,000.00
Guangdong Huirui Investment Co., Ltd.	49.00%	-5,840,468.87		118,708,270.66
Total				430,724,931.85

Note: Shareholding of minority interests in subsidiaries was correspondent to their voting rights as disclosed.

XII Financial Report

IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(3) Key financial information of non-wholly owned subsidiaries

Unit: RMB

Name	Closing balance						Opening balance				Total liabilities	
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities		Non-current liabilities
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	1,558,637,606.19	1,419,006,574.94	2,978,644,181.13	2,821,126,071.09	8,505,849.24	2,829,631,920.33	1,270,718,549.79	1,633,535,289.29	2,904,253,839.08	2,450,423,070.10		2,450,423,070.10
Shouguang Chenming Art Paper Co., Ltd.	294,635,745.00	819,868,366.27	1,114,504,111.27	986,632,432.45		986,632,432.45	237,388,254.32	821,629,360.49	1,058,017,614.81	927,559,901.28		927,559,901.28
Shandong Grand View Hotel Co., Ltd.	11,107,146.29	229,688,471.01	240,795,617.30	317,438,511.24		317,438,511.24	15,057,177.42	307,303,848.40	322,361,025.82	379,691,714.77		379,691,714.77
Hallaer Chenming Paper Co., Ltd.	22,878,608.35	41,823,416.58	64,702,024.93	4,516,198.05		4,516,198.05	23,551,321.58	42,000,724.75	65,582,046.33	4,357,484.30		4,357,484.30
Haicheng Haiming Mining Co., Ltd.	7,833,988.36	486,500,236.27	494,334,225.63	254,334,225.63		254,334,225.63	3,712,185.83	463,233,594.98	466,945,790.81	226,945,790.81		226,945,790.81
Guangdong Huirui Investment Co., Ltd.	1,170,292,476.52	626,555.39	1,170,919,031.91	10,657,255.05	918,000,000.00	928,657,255.05	1,110,292,767.15	357,468.11	1,110,650,255.26	56,468,154.18	800,000,000.00	856,468,154.18

Unit: RMB

Name	amounts during the year				amounts during the prior year			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	928,484,990.10	-104,818,502.18	-104,818,502.18	-166,091,569.03	904,567,725.19	-52,395,813.84	-52,395,813.84	-100,556,038.83
Shouguang Chenming Art Paper Co., Ltd.	454,978,226.98	-3,586,034.71	-3,586,034.71	86,244,090.82	554,245,297.71	-28,077,533.09	-28,077,533.09	-171,640,020.02
Shandong Grand View Hotel Co., Ltd.	34,406,006.96	-19,312,204.99	-19,312,204.99	-80,881,267.27	46,348,904.39	-19,332,223.82	-19,332,223.82	4,549,622.42
Hallaer Chenming Paper Co., Ltd.		-1,038,734.15	-1,038,734.15	2,441.87	-3,792,575.76	-22,042,694.20	-22,042,694.20	-342,620.83
Haicheng Haiming Mining Co., Ltd.				6,848,946.00				124,981,491.03
Guangdong Huirui Investment Co., Ltd.		-11,919,324.22	-11,919,324.22	-117,757,282.06		-3,103,222.78	-3,103,222.78	-93,319,986.59

2. Transaction changing shareholding in but not causing to loss of control over subsidiaries

(1) Changing in shareholding

Due to the production and operational needs, Shandong Chenming Power Supply Holdings Co., Ltd., a subsidiary of the Company, repurchased 13.29% minority interests in issue, changing its share capital from 99,533,061 shares to 86,325,061 shares and changing it from a controlling subsidiary owned as to 86.71% by the Company to a wholly-owned subsidiary of the Company.

XII Financial Report

IX. Interest in other entities (Cont'd)

2. Transaction changing shareholding in but not causing to loss of control over subsidiaries (Cont'd)

(2) Impact on minority interests and equity attributable to the owners of the parent company

Item	Shandong Chenming Power Supply Holdings Co., Ltd.
Acquisition costs - cash	23,413,560.00
Less: share of net assets based on shares repurchased	34,455,926.94
Difference	-11,042,366.94
Of which: capital reserve adjustment	11,042,366.94

3. Interest in joint arrangements or associates

(1) Major joint ventures and associates

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Accounting method
				Direct	Indirect	
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	Shouguang, China	Shouguang, China	Construction materials	50.00%		Equity method
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper making	30.00%		Equity method
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Nanchang, China	Nanchang, China	Printing	21.16%		Equity method
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Wuhan, China	Wuhan, China	Real estate development	40.00%		Equity method
Jiangxi Chenming Port Co., Ltd.	Nanchang, China	Nanchang, China	Handling and transportation of goods and storage	40.00%		Equity method

XII Financial Report

IX. Interest in other entities (Cont'd)

3. Interest in joint arrangements or associates (Cont'd)

(2) Key financial information of major joint ventures

Item	Closing balance/ amounts during the year Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.
Current assets	4,493,895.83
Of which: Cash and cash equivalents	2,450,044.70
Non-current assets	1,613,798.14
Total assets	6,107,693.97
Current liabilities	108,118.00
Non-current liabilities	
Total liabilities	108,118.00
Shareholders' equity	5,999,575.97
Share of net assets based on shareholding	2,999,787.99
Carrying amount of investment in joint ventures	2,999,787.99
Revenue	
Finance expenses	-7,037.86
Income tax expenses	
Net profit	-424.03
Other comprehensive income	
Total comprehensive income	-424.03

XII Financial Report

IX. Interest in other entities (Cont'd)

3. Interest in joint arrangements or associates (Cont'd)

(3) Key financial information of major associates

Item	Closing balance/amounts during the year			Opening balance/amounts during the prior year		
	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Jiangxi Chenming Port Co., Ltd.	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Jiangxi Chenming Port Co., Ltd.
Current assets	34,431,533.02	1,157,970,131.09	8,473,980.97	30,531,518.26	640,946,294.35	
Non-current assets	17,470,498.79	11,277,947.09	47,257,698.90	19,611,515.02	501,203.72	
Total assets	51,902,031.81	1,169,248,078.18	55,731,679.87	50,143,033.28	641,447,498.07	—
Current liabilities	29,866,178.33	593,911,543.51	41,194,230.66	27,717,783.98	572,768,481.62	
Non-current liabilities		518,810,800.00				
Total liabilities	29,866,178.33	1,112,722,343.51	41,194,230.66	27,717,783.98	572,768,481.62	—
Shareholders' equity	22,035,853.48	56,525,734.67	14,537,449.21	22,425,249.30	68,679,016.45	
Share of net assets based on shareholding	4,662,786.59	22,610,293.87	5,814,979.68	4,745,182.75	27,471,606.58	
Carrying amount of investment in associates	4,662,786.59	22,610,293.87	5,814,979.68	4,745,182.75	27,471,606.58	
Revenue	22,626,028.80		2,786,061.08	18,689,549.86		
Net profit	-389,395.82	-12,153,281.78	-532,550.79	-224,444.11	-7,999,022.63	
Other comprehensive income						
Total comprehensive income	-389,395.82	-12,153,281.78	-532,550.79	-224,444.11		

(4) Excess loss of joint ventures or associates

Name	Accumulated unrecognised loss incurred for prior periods	Unrecognised loss (or share of net profit) for the period	Unit: RMB
			Accumulated unrecognised loss as at the end of the period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	7,308,869.16		7,308,869.16

XII Financial Report

X. Risk relating to financial instruments

Principal financial instruments of the Company include equity investments, debt investments, loans, receivables, payables, convertible bonds and others, further information of which are set out in relevant items of this note 6. Risks relating to these financial instruments and relevant risk management policies of the Company are described below. The management of the Company manage and control the risk exposures to ensure they are under control.

The Company adopts sensitivity analysis techniques to analyse the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

1. Objective and policies of risk management

The objective of the risk management of the Company is to maintain an appropriate balance between risks and return so as to minimise the negative effects of risks on the Company's operating results in order to maximise the benefits of the shareholders and other stakeholders. Based on such objective, the principal strategy of the Company's risk management is to identify and analyse all types of risks of the Company, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus controlling the risk exposures within a prescribed level.

(1) Market risk

① Foreign exchange risk

Foreign exchange risk describes the risk of variation in the rate of exchange used. The Company is exposed to risks relating to USD, EUR, HKD and JPY. Save for several subsidiaries of the Company whose purchases and sales are denominated in USD, EUR, HKD and JPY, other principal activities of the Company are settled in RMB. As at 31 December 2014, except for the following assets and liabilities whose balance were denominated in USD, EUR, HKD and JPY, the Company adopted RMB to present the balance of its assets and liabilities. The Company is exposed to foreign exchange risks arising from assets and liabilities denominated in foreign currencies.

Financial assets and financial liabilities denominated in foreign currencies held by the Group as at 31 December 2014 and 31 December 2013 were translated into RMB as follows:

31 December 2014

Items	USD	EUR	HKD	JPY	AUD
Financial assets denominated in foreign currencies -					
Monetary funds	353,564,562.71	5,407,399.49	226,069.29	8,057,716.22	0.05
Accounts receivable	265,981,124.37	6,793,469.88		24,326,124.96	
Sub-total	619,545,687.08	12,200,869.37	226,069.29	32,383,841.18	0.05
Financial liabilities denominated in foreign currencies -					
Short-term borrowings	7,356,869,468.98	291,802,384.43		83,221,020.00	
Accounts payable	1,105,383,772.24	534,515,076.88			
Non-current liabilities due within one year	575,186,000.00				
Long-term borrowings	2,689,830,809.25				
Sub-total	11,727,270,050.47	826,317,461.31		83,221,020.00	

XII Financial Report

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(1) Market risk (Cont'd)

① Foreign exchange risk (Cont'd)

31 December 2013

Items	USD	EUR	GBP	HKD	JPY
Financial assets denominated in foreign currencies -					
Monetary funds	104,615,939.01	13,247,929.28		12,772.47	28,802,232.92
Accounts receivable	404,705,934.51	5,070,461.60			19,154,253.28
Sub-total	509,321,873.52	18,318,390.88		12,772.47	47,956,486.20
Financial liabilities denominated in foreign currencies -					
Short-term borrowings	3,841,095,426.52	248,718,551.35			111,382,488.00
Accounts payable	752,809,223.34	11,635,722.04	192,313.35		14,826,333.50
Non-current liabilities due within one year	573,108,600.00				
Long-term borrowings	2,085,139,800.00				
Sub-total	7,252,153,049.86	260,354,273.39	192,313.35		126,208,821.50

The Company has been paying close attention to the effect of fluctuation in exchange rate on the foreign exchange risks of the Company. The Company has not taken any measures to avoid foreign exchange risk at present.

Exchange rate risk sensitivity analysis:

Exchange rate risk - sensitivity analysis assumes that there is a high level of effectiveness in hedging both net investment in foreign operations and cash flow. Based on the assumptions, with other factors unchanged, the exchange rate might float within a reasonable range, and has the following before tax effect on profit or loss and shareholders' equity for the current period:

Currency	Exchange rate change	For the year Effect on profit	For the prior year Effect on profit
USD	5% appreciation against RMB	-555,386,218.17	-337,141,558.82
USD	5% devaluation against RMB	555,386,218.17	337,141,558.82
EUR	5% appreciation against RMB	-40,705,829.60	-12,101,794.13
EUR	5% devaluation against RMB	40,705,829.60	12,101,794.13
GBP	5% appreciation against RMB		-9,615.67
GBP	5% devaluation against RMB		9,615.67
HKD	5% appreciation against RMB	11,303.46	638.62
HKD	5% devaluation against RMB	-11,303.46	-638.62
JYP	5% appreciation against RMB	-2,541,858.94	-3,912,616.77
JYP	5% devaluation against RMB	2,541,858.94	3,912,616.77

XII Financial Report

X. Risk relating to financial instruments *(Cont'd)*

1. Objective and policies of risk management *(Cont'd)*

(1) Market risk *(Cont'd)*

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 2014, the interest bearing debts of the Group mainly consisted of variable-rate borrowings contracts in RMB and USD amounting to RMB25,948,555,738.11 (31 December 2013: RMB14,331,866,545.75), and fixed-rate interest rate contracts in RMB amounting to RMB8.4 billion (31 December 2013: RMB12.7 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 change in future interest rate will not have significant adverse effect on the operating results of the Group.

On 31 December 2014, if the interest rate of the interest bearing debts increases or decrease by 10% with all other variables held constant, the profit for the year would have increased or decreased by approximately RMB70,147,828,58 (2013: RMB69,367,358.72) mainly due to the increase and decrease of the interest expenses.

(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 counterparties. Sales are settled through the combination of advance receipts 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 controlling 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 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 Financial Report

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(3) Liquidity risk

The Company maintains and monitors a level of cash and cash equivalents deemed adequate by the management to meet the operation needs of the Company and to reduce the effect of cash flow movements. The management of the Group monitors the usage of bank borrowings, and ensure compliance with loan agreements.

The Company considers bank loans as its primary source of fund. As at 31 December 2014, unutilised bank loans of the Company amounted to RMB24,687,355,704.86 (31 December 2013: RMB31,097,145,300.00).

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 requirement 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 requirement.

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:

31 December 2014

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	5,475,658,186.10				5,475,658,186.10
Bills receivable	3,047,541,556.15				3,047,541,556.15
Accounts receivable	3,754,032,648.96				3,754,032,648.96
Other receivables	1,851,629,373.22				1,851,629,373.22
Prepayments	1,838,017,454.90				1,838,017,454.90
Non-current assets due within one year	865,738,333.65				865,738,333.65
Long-term receivables		620,460,274.14	1,033,174,444.51		1,653,634,718.65
Other non-current assets			900,000,000.00		900,000,000.00
Sub-total	16,832,617,552.98	620,460,274.14	1,933,174,444.51		19,386,252,271.63
Financial liabilities					
Short-term borrowings	20,470,296,592.92				20,470,296,592.92
Bills payable	1,598,110,792.85				1,598,110,792.85
Accounts payable	3,408,366,113.93				3,408,366,113.93
Advance receipts	270,056,726.88				270,056,726.88
Other payables	783,790,884.61				783,790,884.61
Non-current liabilities due within one year	1,099,968,900.00				1,099,968,900.00
Long-term borrowings		1,725,485,400.00	1,485,450,209.25	1,167,354,635.94	4,378,290,245.19
Bonds payable		2,000,000,000.00	3,800,000,000.00		5,800,000,000.00
Long-term payables					
Medium-term notes			1,100,000,000.00		1,100,000,000.00
Private placing bond		1,500,000,000.00			1,500,000,000.00
Short-term commercial paper					
Sub-total	27,630,590,011.19	5,225,485,400.00	6,385,450,209.25	1,167,354,635.94	40,408,880,256.38

XII Financial Report

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(3) Liquidity risk (Cont'd)

31 December 2013

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	2,547,729,794.24				2,547,729,794.24
Bills receivable	2,870,443,681.49				2,870,443,681.49
Accounts receivable	3,329,519,637.66				3,329,519,637.66
Other receivables	1,402,961,332.41				1,402,961,332.41
Prepayments	1,589,021,331.24				1,589,021,331.24
Sub-total	11,739,675,777.04				11,739,675,777.04
Financial liabilities					
Short-term borrowings	9,818,885,237.85				9,818,885,237.85
Bills payable	290,403,790.59				290,403,790.59
Accounts payable	2,695,169,927.14				2,695,169,927.14
Advance receipts	442,432,261.58				442,432,261.58
Other payables	486,836,595.89				486,836,595.89
Non-current liabilities due within one year	1,289,115,500.00				1,289,115,500.00
Long-term borrowings		898,143,000.00	1,204,701,900.00	1,621,020,907.90	3,723,865,807.90
Bonds payable			5,800,000,000.00		5,800,000,000.00
Long-term payables				60,000,000.00	60,000,000.00
Medium-term notes			1,100,000,000.00		1,100,000,000.00
Private placing bond			1,500,000,000.00		1,500,000,000.00
Short-term commercial paper	3,800,000,000.00				3,800,000,000.00
Sub-total	18,822,843,313.05	898,143,000.00	9,604,701,900.00	1,681,020,907.90	31,006,709,120.95

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

	Closing balance		Opening balance	
	Bank borrowings	Bonds payable	Bank borrowings	Bonds payable
Borrowings with the last repayment date within five years	24,781,201,102.17	840,000,000.00	12,710,845,637.85	12,700,000,000.00
Borrowings with the last repayment date after five years	1,167,354,635.94		1,621,020,907.90	
Total	25,948,555,738.11	840,000,000.00	14,331,866,545.75	12,700,000,000.00

XII Financial Report

X. Risk relating to financial instruments (Cont'd)

2. Transfer of financial assets

Financial assets transferred and ceased to be recognised but with involvement of the transferor

During the year, the Company discounted bank acceptance of RMB3,440,773,115.05 (last year: RMB2,854,060,411.22). As key risks such as interest rate risk and rewards of the acceptance had been transferred to relevant banks, the Company ceased to recognise the discounted acceptance not yet due. Pursuant to discount agreements, the banks were entitled to require the Company to settle any balance of such acceptance if not accepted when due, and the Company therefore had on-going involvement with them. As at 31 December 2014, discounted bank acceptance not yet due amounted to RMB1,320,918,334.62 (31 December 2013: RMB727,693,046.61).

XI. Fair value

1. Fair value of financial assets and liabilities measured at fair value as at the end of the period

Unit: RMB

Item	Fair value as at the end of the period			Total
	Level 1	Level 2	Level 3	
I. Continuous measurement at fair value	—	—	—	—
1. Consumable biological assets			1,407,588,299.46	1,407,588,299.46
Total assets continuously measured at fair value			1,407,588,299.46	1,407,588,299.46

2. Level 3 continuous and non-continuous measurement, valuation techniques and qualification and quantification of key inputs

The Company adopts the income method in determining the fair value of its consumable biological assets. Under the income method, the valuation is arrived at based on the aggregate expected future profit estimates from forest resources discounted to their present values at an applicable rate which is usually equivalent to yield prevailing in the forestry industry.

Key inputs of the method includes expected annual income and discount rate.

Expected annual profit = expected annual income - expected total input

Expected annual income = expected output x expected sales price

Expected output = based on normal output of the Company's logging

Expected sales price = normal sales price of the Company in 2014

Expected total input is based on total historic input of saplings growing of the Company up to logging.

Discount rate is 10.47%, based on the yield prevailing in the industry.

XII Financial Report

XI. Fair value (Cont'd)

3. Level 3 continuous measurement, adjustment between opening and closing value and sensitivity of unobservable inputs

Opening carrying amount	1,317,141,123.77
Sapling increase during the year	165,058,534.84
Sales decrease during the year	81,468,244.47
Change in fair value through profit or loss for the year	6,856,815.32
Closing carrying amount	1,407,588,229.46

The Company adopts sensitivity analysis techniques to analyse the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

Item	Change in discount rate	For the year		For the prior year	
		Impact on profit	Impact on shareholders' equity	Impact on profit	Impact on shareholders' equity
Consumable biological assets	Increase of 1 percentage point	-35,404,804.28	-35,404,804.28	-44,667,040.70	-44,667,040.70
Consumable biological assets	Decrease of 1 percentage point	37,847,549.58	37,847,549.58	47,587,094.29	47,587,094.29
Consumable biological assets	5% increase in price	17,339,274.36	17,339,274.36	15,331,683.62	15,331,683.62
Consumable biological assets	5% decrease in price	-17,981,223.60	-17,981,223.60	-15,615,583.84	-15,615,583.84

4. Fair value of financial assets and financial liabilities not measured at 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	8,361,899,667.65	8,400,000,000.00	12,697,760,032.33	12,700,000,000.00
Level		1		1

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 2014, the Group had no financial instruments measured at fair value (31 December 2013: Nil).

XII Financial Report

XII. Information on other related parties of the Company

1. Parent company of the Company

Name of parent company	Place of incorporation	Business nature	Registered capital	Shareholding of the parent company in the Company	Voting right of the parent company in the Company
Shouguang Chenming Holdings Co., Ltd	Shouguang City	Investment in manufacture of paper, electricity, steam, arboriculture	168,542.00	15.13%	15.13%

Note: The ultimate controller of the Company is Shouguang State-owned Assets Supervision and Administration Office.

2. Subsidiaries of the Company

Investment in subsidiaries	Closing balance	Opening balance
Unlisted, at cost	12,363,272,557.45	8,775,732,395.17
Total	12,363,272,557.45	8,775,732,395.17
Less: impairment		
Total after impairment	12,363,272,557.45	8,775,732,395.17
Market capitalisation of listed shares		

Current assets and current liabilities of the Company due from and due to subsidiaries which were unsecured, non-interest bearing and repayable on demand or within one year amounted to RMB12,338,483,627.78 and RMB3,749,941,955.50 respectively (2013: RMB14,203,898,558.39 and RMB326,540,175.68).

Please refer to Note IX. 1. Interest in subsidiaries for details.

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

3. Joint ventures and associates of the Company

Please refer to Note IX. 3. Interest in joint ventures or associates for details.

Balance of related-party transaction between the Company and its joint ventures or associates during the period or prior periods are as follows:

Name of joint ventures or associates	Relation
Anhui Time Source Corporation	An associate of the Company
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	An associate of the Company

4. Other related parties

Name of other related parties	Relation
Shouguang Hengtai Enterprise Investment Company Limited	Company invested by the senior management of the Company

Shouguang Hengtai Enterprise Investment Company Limited ("Hengtai Enterprise") was a company under the joint control of certain Directors, Supervisors and senior management of the Company held by Mr. Chen Hongguo, the chairman and general manager of the Company, as to 58.27% and by Mr. Yin Tongyuan, the vice chairman, Mr. Gao Junjie, the chairman of Supervisory Committee, Ms. Li Xueqin, a deputy general manager, and other Directors, Supervisors and members of the senior management as to 37.15%.

5. Related party transactions

(1) Purchase and sales of goods and rendering and receiving services

Table on sales of goods and provision of services

Unit: RMB

Related party	Details of related party transactions	Amounts during the period	Amounts during the prior period
Anhui Time Source Corporation	Sales of paper	291,246,150.87	21,522,365.71

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee

The Company as guarantor

				Unit: RMB
Party being guaranteed	Amounts under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether Performance of guarantee is completed
Jiangxi Chenming Paper Co., Ltd.	98,933,492.53	29 May 2014	28 May 2015	No
Jiangxi Chenming Paper Co., Ltd.	77,666,655.26	5 September 2014	4 September 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	160,000,000.00	3 July 2013	2 July 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	55,000,000.00	10 July 2014	9 January 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	17 July 2014	16 January 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	100,000,000.00	5 September 2014	30 January 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	12 August 2014	11 February 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	30,000,000.00	20 August 2014	16 February 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	27 August 2014	26 February 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	5 September 2014	4 March 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	40,000,000.00	10 September 2014	9 March 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	30 September 2014	29 March 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	16 October 2014	15 April 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	100,000,000.00	7 November 2014	6 May 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	100,000,000.00	25 November 2014	24 May 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	100,000,000.00	6 June 2014	5 June 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	90,000,000.00	28 August 2014	27 July 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	60,000,000.00	28 August 2014	27 August 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	15,000,000.00	23 October 2014	22 October 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	27 October 2014	26 October 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	11 November 2014	6 November 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	100,000,000.00	30 December 2014	29 December 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	73,428,000.00	13 November 2013	12 November 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	61,190,000.00	16 June 2014	15 June 2016	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	183,570,000.00	28 October 2014	27 October 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	30,595,000.00	21 November 2014	20 November 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	122,380,000.00	30 December 2012	29 December 2015	No
Zhanjiang Chenming Pulp & Paper Co., Ltd.	30,278,617.11	20 October 2014	19 October 2015	No
Huanggang Chenming Arboriculture Co., Ltd.	20,000,000.00	18 December 2014	17 December 2017	No
Huanggang Chenming Arboriculture Co., Ltd.	26,000,000.00	27 June 2012	26 June 2015	No
Shandong Chenming Paper Sales Co., Ltd.	250,000,000.00	13 August 2014	7 February 2015	No
Shandong Chenming Paper Sales Co., Ltd.	100,000,000.00	6 June 2014	5 June 2015	No
Shandong Chenming Paper Sales Co., Ltd.	170,103,892.31	17 July 2014	12 January 2015	No
Shandong Chenming Paper Sales Co., Ltd.	400,000,000.00	15 August 2014	9 February 2015	No
Shandong Chenming Paper Sales Co., Ltd.	250,000,000.00	28 August 2014	16 February 2015	No
Shandong Chenming Paper Sales Co., Ltd.	337,000,000.00	29 October 2014	26 January 2015	No
Shandong Chenming Paper Sales Co., Ltd.	211,000,000.00	29 October 2014	26 January 2015	No
Shandong Chenming Paper Sales Co., Ltd.	157,000,000.00	3 November 2014	28 January 2015	No

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee (Cont'd)

Party being guaranteed	Amounts under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether Performance of guarantee is completed
Shandong Chenming Paper Sales Co., Ltd.	100,000,000.00	7 November 2014	4 February 2015	No
Shandong Chenming Paper Sales Co., Ltd.	195,000,000.00	26 November 2014	16 February 2015	No
Shandong Chenming Paper Sales Co., Ltd.	299,969,833.28	11 July 2014	7 January 2015	No
Shandong Chenming Paper Sales Co., Ltd.	452,835,657.90	13 November 2014	11 May 2015	No
Shandong Chenming Paper Sales Co., Ltd.	499,996,395.80	21 November 2014	19 May 2015	No
Shandong Chenming Paper Sales Co., Ltd.	500,253,680.46	10 December 2014	5 June 2015	No
Chenming (HK) Limited	77,099,400.00	10 March 2014	2 January 2015	No
Chenming (HK) Limited	451,582,200.00	8 January 2014	7 January 2015	No
Chenming (HK) Limited	38,063,085.91	15 July 2014	4 January 2015	No
Chenming (HK) Limited	61,190,000.00	15 July 2014	7 January 2015	No
Chenming (HK) Limited	122,380,000.00	31 July 2014	25 January 2015	No
Chenming (HK) Limited	50,298,180.00	25 July 2014	20 January 2015	No
Chenming (HK) Limited	47,314,422.94	14 March 2014	11 February 2015	No
Chenming (HK) Limited	46,932,423.68	19 March 2014	17 February 2015	No
Chenming (HK) Limited	47,483,440.00	24 March 2014	17 February 2015	No
Chenming (HK) Limited	184,732,610.00	19 March 2014	18 March 2015	No
Chenming (HK) Limited	77,772,490.00	8 September 2014	4 March 2015	No
Chenming (HK) Limited	219,978,050.00	2 April 2014	1 April 2015	No
Chenming (HK) Limited	98,709,414.81	12 November 2014	10 May 2015	No
Chenming (HK) Limited	201,927,000.00	26 June 2014	20 June 2015	No
Chenming (HK) Limited	185,956,410.00	21 August 2014	19 August 2015	No
Chenming (HK) Limited	212,941,200.00	22 August 2014	19 August 2015	No
Chenming (HK) Limited	186,629,500.00	16 September 2014	14 September 2015	No
Chenming (HK) Limited	91,785,000.00	17 October 2014	13 October 2015	No
Chenming (HK) Limited	183,570,000.00	24 October 2014	20 October 2015	No
Chenming (HK) Limited	77,099,400.00	4 November 2014	30 October 2015	No
Chenming (HK) Limited	142,450,320.00	1 December 2014	27 November 2015	No
Chenming (HK) Limited	283,126,130.00	1 December 2014	29 November 2015	No
Chenming (HK) Limited	275,355,000.00	3 December 2014	28 November 2015	No
Chenming (HK) Limited	182,835,720.00	17 December 2014	14 December 2015	No
Chenming (HK) Limited	111,365,800.00	31 December 2014	31 December 2015	No
Chenming (HK) Limited	124,093,320.00	12 December 2014	7 June 2015	No
Shandong Chenming Financial Leasing Co., Ltd.	189,383,050.00	16 December 2014	18 November 2015	No
Shandong Chenming Financial Leasing Co., Ltd.	146,856,000.00	26 September 2014	26 August 2016	No
Shandong Chenming Financial Leasing Co., Ltd.	184,100,309.25	28 November 2014	27 November 2017	No
Shandong Chenming Financial Leasing Co., Ltd.	339,604,500.00	16 October 2014	26 August 2016	No
Guangdong Huirui Investment Co., Ltd.	40,000,000.00	28 November 2013	27 November 2015	No

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(3) Related parties loans

Unit: RMB

Related party	Loan amount	Starting date	Expiry date	Explanation
Loan to				
Jiangxi Chenming Paper Co., Ltd	200,000,000.00	24 November 2014	23 November 2015	Entrusted loan
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	350,000,000.00	5 January 2014	5 January 2017	Expenditure for real estate development to be undertaken by the Company under agreement

(4) Distribution band of remuneration of key management staff

① Distribution band of remuneration of key management staff

Band of annual remuneration	Amounts during the year	Amounts during the prior year
Total	RMB22.8378 million	RMB25.5500 million
Of which: (number of staff in each band of amount)		
RMB4.80-5.20 million	1	1
RMB3.60-4.00 million		
RMB3.20-3.60 million	1	1
RMB2.80-3.20 million	1	1
RMB2.40-2.80 million		1
RMB2.00-2.40 million		
RMB1.60-2.00 million	1	1
RMB1.20-1.60 million	2	2
RMB0.80-1.20 million	4	5
Below RMB0.80 million	15	18

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(4) Distribution band of remuneration of key management staff (Cont'd)

② Breakdown of remuneration of key management staff

Key management staff	Amounts during the year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan	5.00			5.00
Wang Aiguo	5.00			5.00
Zhang Hong	5.00			5.00
Pan Ailing	5.00			5.00
Sub-total of Independent Non-executive Directors				
	20.00	—	—	20.00
Cui Youping	1.67			1.67
Yang Guihua	3.33			3.33
Wang Xiaoqun	5.00			5.00
Sub-total of Non-executive Directors				
	10.00	—	—	10.00
Chen Hongguo	494.57	3.82	1.61	500.00
Yin Tongyuan	294.57	3.82	1.61	300.00
Li Feng	112.31	3.82	1.61	117.74
Geng Guanglin	133.58	3.82	1.61	139.01
Hou Huancai	48.89	3.82	1.61	54.32
Zhou Shaohua	105.99	1.62	1.64	109.25
Sub-total of Executive Directors				
	1,189.91	20.72	9.69	1,220.32
Gao Junjie	32.41	3.82	1.61	37.84
Wang Ju	4.99	2.58	1.09	8.66
Yang Hongqin	15.42	2.42	1.02	18.86
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisors				
	57.82	8.82	3.72	70.36
Sub-total of other senior management				
	942.31	14.62	6.17	963.10
Total				
	2,220.04	44.16	19.58	2,283.78

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(4) Distribution band of remuneration of key management staff (Cont'd)

② Breakdown of remuneration of key management staff (Cont'd)

Key management staff	Amounts during the year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan	5.00			5.00
Wang Aiguo	5.00			5.00
Zhang Hong	5.00			5.00
Pan Ailing	5.00			5.00
Wang Yumei	2.08			2.08
Wang Xiangfei	5.21			5.21
Sub-total of Independent Non-executive Directors	27.29			27.29
Cui Youping	5.00			5.00
Wang Xiaoqun	5.00			5.00
Wang Fengrong	2.08			2.08
Sub-total of Non-executive Directors	12.08			12.08
Chen Hongguo	495.21	3.35	1.44	500.00
Yin Tongyuan	295.21	3.35	1.44	300.00
Li Feng	81.47	3.35	1.44	86.26
Geng Guanglin	274.85	3.35	1.44	279.64
Hou Huancai	98.78	3.35	1.44	103.57
Zhou Shaohua	104.16	4.29	1.38	109.83
Tan Daocheng	15.42	3.35	1.44	20.21
Sub-total of Executive Directors	1,365.10	24.39	10.02	1,399.51
Gao Junjie	34.49	3.35	1.44	39.28
Wang Ju	14.84	2.69	1.15	18.68
Yang Hongqin	14.19	2.40	1.03	17.62
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisor	68.52	8.44	3.62	80.58
Sub-total of other senior management	1,006.80	20.10	8.64	1,035.54
Total	2,479.79	52.93	22.28	2,555.00

XII Financial Report

XII. Information on other related parties of the Company (Cont'd)

5. Related party transactions (Cont'd)

(4) Distribution band of remuneration of key management staff (Cont'd)

- ③ The five highest paid individuals of the Group during the year comprised of 2 directors and 3 other senior management of the Company. The remuneration band of the 3 senior management were RMB3.20-3.60 million, RMB1.60-2.00 million and RMB1.20-1.60 million, respectively.

A. Remuneration of the five highest paid individuals

Item	Amounts during the year (RMB'0,000)	Amounts during the prior year (RMB'0,000)
Basic annual remuneration	1,442.83	1,581.36
Provident fund	4.83	4.32
Social welfare contribution	11.46	10.05
Total	1,459.12	1,595.73

B. Distribution band of remuneration of the five highest paid individuals

Band of annual remuneration	Number of individuals during the year	Number of individuals during the prior year
RMB4.80-5.20 million	1	1
RMB3.20-3.60 million	1	1
RMB2.80-3.20 million	1	1
RMB2.40-2.80 million		1
RMB2.00-2.40 million		
RMB1.60-2.00 million	1	1
RMB1.20-1.60 million	1	

- ④ During the year, no other 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 Financial Report

XII. Information on other related parties of the Company (Cont'd)

6. Related party accounts receivable and accounts payable

(1) Accounts receivables

Unit: RMB

Item	Related party	As at the end of period		As at the beginning of the period	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	Anhui Time Source Corporation	53,968,115.20	2,698,405.76	16,580,021.04	829,001.05
Other receivables	Arjo Wiggins Chenming Specialty Paper Co., Ltd. Wuhan Chenming Wan Xing Real Estate Co., Ltd.	1,290,901.12	1,290,901.12	1,290,901.12	1,290,901.12
		959,825,877.41		551,964,609.01	

(2) Accounts payable

Unit: RMB

Item	Related party	Closing book balance	Openin book balance
Other payables	Shouguang Hengtai Enterprise Investment Company Limited	23,572,279.17	18,668,679.17
	Shouguang Chenming Holdings Co., Ltd	209,980,923.16	

XII Financial Report

XIII. Undertaking and contingency

1. Capital commitment

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	1,862,762,913.64	2,437,963,978.39
Huirui BT Project	3,000,000,000.00	3,637,017,103.35
Commitments in relation to external investments		6,028,000.00
Total	4,862,762,913.64	6,081,009,081.74

2. Operating lease commitments

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

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	16,835,729.16	21,250,728.73
The second year after balance sheet date	14,161,003.48	13,786,011.70
The third year after balance sheet date	14,443,483.94	13,814,410.50
In the years thereafter	560,010,105.37	572,915,704.51
Total	605,450,321.95	621,766,855.44

XIV. Post-balance sheet date events

Profit distribution

On 26 March 2015, at the eighth meeting of the seventh session of the Board, the Company considered the profit distribution plan to pay a cash dividend of RMB0.14 per share, subject to approval at a general meeting pursuant to the articles of association of the Company.

XII Financial Report

XV. Other material matters

1. Discontinued operations

Item	Gain	Expenses	Net gain	Income tax expenses	Net profit	Unit: RMB
						Profit of discontinued operations attributable to owners of the parent company
Shandong Chenming Xinli Power Co., Ltd.	41,527,370.18	30,165,750.48	11,361,619.70	2,835,889.32	8,545,730.38	4,358,322.49
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.			3,043,996.51		3,043,996.51	2,069,917.63
Shouguang Hengfeng Storage Co., Ltd.		8,819.29	-8,888.79		-8,888.79	-8,888.79

2. Segment information

(1) Basis for determination and accounting policies

The Company determined the reporting segments and disclosed the segments information according to the requirements of Accounting Standards for Business Enterprises Interpretation No.3 in 2014, and the Group no longer adopted the requirements of Accounting Standards for Business Enterprises No.35 – Segment Reporting 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, financial services 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 Financial Report

XV. Other material matters (Cont'd)

2. Segment information (Cont'd)

(2) Financial information of reportable segments

(1) Segment revenue

Amounts unit: RMB'0,000

Item	Machine-made paper		Construction materials		Financial services	
	The year	Prior year	The year	Prior year	The year	Prior year
Revenue from external transactions	1,848,890.51	1,976,331.08	22,532.24	24,134.32	15,872.50	
Revenue from inter-segment transactions			2,525.66	6,851.53	5,860.77	
Total segment revenue	1,848,890.51	1,976,331.08	25,057.90	30,985.85	21,733.27	
Operating costs	1,630,008.13	1,723,137.57	22,056.91	28,058.28	10,115.44	
Segment operating profit	218,882.38	253,193.51	3,000.99	2,927.57	11,617.83	

Amounts unit: RMB'0,000

Item	Others		Elimination among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year
Revenue from external transactions	22,872.46	38,423.61			1,910,167.71	2,038,889.01
Revenue from inter-segment transactions	105,465.77	45,848.09	113,852.20	52,699.62		
Total segment revenue	128,338.23	84,271.70	113,852.20	52,699.62	1,910,167.71	2,038,889.01
Operating costs	124,780.31	74,596.36	113,852.20	52,699.62	1,673,108.59	1,773,092.59
Segment operating profit	3,557.92	9,675.34			237,059.12	265,796.42
Reconciliation items						
General and administrative expenses					53,053.87	58,440.97
Finance expenses					135,493.66	124,219.06
Profit or loss from change in fair value					-685.68	-1,122.18
Investment income					-6,903.56	-2,370.60
Gross profit					56,100.83	86,629.17
Income tax					10,769.94	17,593.85
Net profit					45,330.89	69,035.32

XII Financial Report

XV. Other material matters (Cont'd)

2. Segment information (Cont'd)

(2) Financial information of reportable segments (Cont'd)

(2) Segment assets and liabilities

Amounts unit: RMB'0,000

Item	Machine-made paper		Construction materials		Financial services	
	The year	Prior year	The year	Prior year	The year	Prior year
Segment assets	5,347,923.04	4,709,563.58	32,786.34	18,639.91	697,897.44	
Segment liabilities	4,401,098.35	3,280,682.77	14,567.35	9,459.70	318,817.73	

(Cont'd)

Amounts unit: RMB'0,000

Item	Others		Elimination among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year
Segment assets	403,957.60	95,985.48	800,361.76	72,000.61	5,682,202.65	4,752,188.36
Segment liabilities	313,274.16	70,211.15	800,361.76	72,000.61	4,247,395.83	3,288,353.00

3. On 26 March 2015, the Company held the eighth meeting of the seventh session of the Board. It was resolved that Chenming (HK) Limited, a wholly-owned subsidiary of the Company, intended to contribute RMB5,000 million to the capital of Shandong Chenming Financial Leasing Co., Ltd. in instalments. The registered capital of Shandong Chenming Financial Leasing Co., Ltd. will increase to RMB9,072 million from 4,072 million upon completion of capital increase.

XVI. Notes to major financial statement items of the parent company

1. Accounts receivable

(1) Accounts receivable by category

Unit: RMB

Category	Book balance		Closing balance		Carrying amount	Book balance		Opening balance		Carrying amount
	Amounts	Percentage	Amounts	Percentage		Amounts	Percentage	Amounts	Percentage	
Accounts receivable that are provided for bad debts on portfolio basis based on credit risk features	3,507,799,132.77	100.00%	3,979,959.83	0.11%	3,503,819,172.94	3,819,202,177.70	100.00%	4,547,645.65	0.12%	3,814,654,532.05
Total	3,507,799,132.77	100.00%	3,979,959.83	0.11%	3,503,819,172.94	3,819,202,177.70	100.00%	4,547,645.65	0.12%	3,814,654,532.05

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

1. Accounts receivable (Cont'd)

(2) Presentation of accounts receivable according to ageing analysis

Item	Closing balance		Opening balance	
	Amounts	Percentage	Amounts	Percentage
Within 1 year	3,495,979,313.49	99.66%	3,814,870,507.13	99.89%
1 to 2 years	7,904,239.12	0.23 %	6,969.03	
2 to 3 years				
Over 3 years	3,915,580.16	0.11 %	4,324,701.54	0.11%
Total	3,507,799,132.77	100.00 %	3,819,202,177.70	100.00%

Accounts receivable that are individually significant and are provided for bad debt separately as at the end of the period.

Applicable Not applicable

Accounts receivable using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Unit: RMB

Ageing	Closing balance		Ratio
	Accounts receivable	Provision for bad debts	
Items under within 1 year			
Within 1 year	1,283,796.09	64,189.81	5.00%
Sub-total of within 1 year	1,283,796.09	64,189.81	5.00%
1 to 2 years	1,898.63	189.86	10.00%
Over 3 years	3,915,580.16	3,915,580.16	100.00%
Total	5,201,274.88	3,979,959.83	

Basis for determination:

Accounts receivable using percentage of amount outstanding for making bad debt provision in the portfolio:

Applicable Not applicable

Accounts receivable using other methods for making bad debt provision in the portfolio:

Name of portfolio	Book balance	Bad debt provision
Risk-free portfolio	3,502,597,857.89	0.00
Total	3,502,597,857.89	0.00

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

1. Accounts receivable (Cont'd)

(3) Bad debt provision made, recovered or reversed during the reporting period

RMB0.00 of bad debt provision has been made and RMB228,564.44 of the same has been recovered or reversed.

(4) Accounts receivable actually written-off during the period

Unit: RMB

Item	Amount written-off
Accounts receivable actually written-off	339,121.38

(5) Top five accounts receivable based on closing balance by debtor

Entity name	Nature of accounts receivable	Outstanding balance	Percentage	Bad debt provision
Shouguang Meilun Paper Co., Ltd.	Payment for goods	2,647,144,044.67	75.46%	
Shandong Chenming Paper Sales Co., Ltd.	Payment for goods	343,752,269.14	9.80%	
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Payment for goods	272,783,898.06	7.78%	
Shouguang Chenming Art Paper Co., Ltd.	Payment for goods	182,949,195.59	5.22%	
Chenming (HK) Limited	Payment for goods	48,032,199.94	1.37%	
Total		3,494,661,607.40	99.63%	

Note: Top five accounts receivable of the Company based on closing balance by debtor were all due from related parties within the scope of consolidation.

2. Other receivables

(1) Other receivables by category

Unit: RMB

Category	Book balance		Closing balance		Carrying amount	Book balance		Opening balance		Carrying amount
	Amounts	Percentage	Amounts	Percentage		Amounts	Percentage	Amounts	Percentage	
Other receivables that are individually significant and are provided for bad debts separately	8,755,053.51	0.09%	8,755,053.51	100.00%	8,918,424.06	0.08%	8,918,424.06	100.00%		
Other receivables that are provided for bad debts on portfolio basis based on credit risk features	9,344,901,892.47	99.78%	31,920,619.31	0.34%	9,312,981,273.16	11,080,086,699.49	99.80%	28,464,521.53	0.26%	11,051,622,177.96
Other receivables that are individually insignificant but are provided for bad debts separately	12,150,098.81	0.13%	12,150,098.81	100.00%	13,717,509.43	0.12%	13,717,509.43	100.00%		
Total	9,365,807,044.79	100.00%	52,825,771.63	0.56%	9,312,981,273.16	11,102,722,632.98	100.00%	51,100,455.02	0.46%	11,051,622,177.96

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(2) Presentation of Other receivables according to ageing analysis

Item	Closing balance		Opening balance	
	Amounts	Percentage	Amounts	Percentage
Within 1 year	8,869,930,319.01	94.71%	10,479,494,850.60	94.39%
1 to 2 years	441,932,482.93	4.72%	542,640,693.82	4.89%
2 to 3 years	4,383,728.11	0.04%	38,955,846.94	0.35%
Over 3 years	49,560,514.74	0.53%	41,631,241.62	0.37%
Total	9,365,807,044.79	100.00%	11,102,722,632.98	100.00%

Other receivables that are individually significant and are provided for bad debts separately as at the end of the period

Applicable Not applicable

Unit: RMB

Other receivables (by unit)	Other receivables	Closing balance		Reasons for provision
		Bad debt provision	Provision percentage	
Open credit	8,755,053.51	8,755,053.51	100.00%	Most of them are open credit for over three years and are unlikely to be recovered
Total	8,755,053.51	8,755,053.51	—	—

Other receivables using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Unit: RMB

Age	Closing balance		Provision percentage
	Other receivables	Bad debt provision	
Items under within 1 year			
Within 1 year		1,712,182.54	5.00%
Sub-total of within 1 year	34,243,650.75	1,712,182.54	5.00%
1 to 2 years	6,763,287.32	676,328.73	10.00%
2 to 3 years	4,383,728.11	876,745.62	20.00%
Over 3 years	28,655,362.42	28,655,362.42	100.00%
Total	74,046,028.60	31,920,619.31	

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(2) Presentation of Other receivables according to ageing analysis (Cont'd)

Other receivables using percentage of balance for making bad debt provision in the portfolio

Applicable Not applicable

Other receivables using other methods for making bad debt provision in the portfolio

Applicable Not applicable

Name of portfolio	Book balance	Bad debt provision
Risk-free	9,270,855,863.87	0.00
Total	9,270,855,863.87	0.00

(3) Bad debt provision made, recovered or reversed during the reporting period

RMB3,456,097.78 of bad debt provision was made and RMB1,730,781.17 of the same was recovered or reversed during the period.

Key reversal or recovery included:

Unit: RMB

Name of entity	Amount of reversal or recovery	Nature of recovery
WUHAN JIENENG COMBUSTION ENGINEERING TECHNOLOGY CO., LTD.	493,200.00	Recovery
SHANDONG FORENSIC CENTER	550,000.00	Transfer to expenses
Total	1,043,200.00	—

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(4) There has been no other receivables written off during the reporting period.

(5) Top five other receivables based on closing balance by debtor

Unit: RMB

Name of entity	Nature	Closing balance	Ageing	Percentage of total closing balance of other receivables	Closing balance of bad debt provision
Shouguang Meilun Paper Co., Ltd.	Borrowings	5,347,229,480.82		57.09%	
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Borrowings	1,007,015,000.00		10.75%	
Jilin Chenming Paper Co., Ltd.	Borrowings	582,648,454.13		6.22%	
Shandong Jianghe Paper Co., Ltd.	Borrowings	433,827,316.21		4.63%	
Shouguang Chenming Art Paper Co., Ltd.	Borrowings	376,371,289.84		4.02%	
Total	—	7,747,091,541.00	—	82.71%	

3. Long-term equity investments

Unit: RMB

Item	Book balance	Closing balance		Book balance	Opening balance	
		Impairment provision	Book value		Impairment provision	Book value
Interest in subsidiaries	12,363,272,557.45		12,363,272,557.45	8,775,732,395.17		8,775,732,395.17
Interest in associates and joint ventures	7,662,574.57		7,662,574.57	4,745,182.75		4,745,182.75
Total	12,370,935,132.02		12,370,935,132.02	8,780,477,577.92		8,780,477,577.92

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

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

(1) Interest in subsidiaries

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Unit: RMB	
					Impairment provision for the period	Closing balance of impairment provision
Shandong Chenming Power Supply Holdings Co., Ltd.	157,810,117.43			157,810,117.43		
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	202,824,716.34			202,824,716.34		
Hailaer Chenming Paper Co., Ltd.	12,000,000.00			12,000,000.00		
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	7,199,000.00		7,199,000.00			
Jiangxi Chenming Paper Co., Ltd.	822,867,646.40			822,867,646.40		
Shandong Grand View Hotel Co., Ltd.	80,500,000.00			80,500,000.00		
Jilin Chenming Paper Co., Ltd.	1,501,350,000.00			1,501,350,000.00		
Zhanjiang Chenming Pulp & Paper Co., Ltd.	3,000,000,000.00			3,000,000,000.00		
Chenming (HK) Limited	62,583,310.00	120,889,592.00		183,472,902.00		
Shouguang Chenming Modern Logistic Co., Ltd.	10,000,000.00			10,000,000.00		
Fuyu Chenming Paper Co., Ltd.	208,000,000.00			208,000,000.00		
Shouguang Chenming Art Paper Co., Ltd.	113,616,063.80			113,616,063.80		
Huanggang Chenming Arboriculture Co., Ltd.	70,000,000.00			70,000,000.00		
Huanggang Chenming Pulp & Paper Co., Ltd.	20,000,000.00	180,000,000.00		200,000,000.00		
Shouguang Meilun Paper Co., Ltd.	2,200,000,000.00	2,446,349,570.28		4,646,349,570.28		
Chenming International Co., Ltd.	19,861,955.00			19,861,955.00		
Shouguang Shun Da Customs Declaration Co, Ltd.	1,500,000.00			1,500,000.00		
Shandong Chenming Paper Sales Co., Ltd.	100,000,000.00			100,000,000.00		
Shouguang Hengfeng Storage Co., Ltd.	500,000.00		500,000.00			
Shouguang Chenming Import and Export Trade Co., Ltd.	10,000,000.00			10,000,000.00		

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

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

(1) Interest in subsidiaries (Cont'd)

Unit: RMB

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Impairment provision for the period	Closing balance of impairment provision
Shouguang Chenming Jiatai Property Management Co., Ltd.	1,000,000.00			1,000,000.00		
Shouguang Chenming Papermaking Machine Co., Ltd.	2,000,000.00			2,000,000.00		
Shouguang Chenming Industrial Logistics Co., Ltd.	10,000,000.00			10,000,000.00		
Shouguang Chenming Hongxin Packaging Co., Ltd.	1,000,000.00			1,000,000.00		
Japan Chenming Paper Co., Ltd.	9,306,351.20			9,306,351.20		
Haicheng Haiming Mining Co., Ltd.	144,000,000.00			144,000,000.00		
Chenming GmbH	4,083,235.00			4,083,235.00		
Shouguang Hongxiang Printing and Packaging Co., Ltd.	2,730,000.00			2,730,000.00		
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	1,000,000.00			1,000,000.00		
Shandong Chenming Group Finance Co., Ltd.		800,000,000.00		800,000,000.00		
Chenming Arboriculture Co., Ltd.		45,000,000.00		45,000,000.00		
Qingdao Chenming International Logistics Co., Ltd.		3,000,000.00		3,000,000.00		
Total	8,775,732,395.17	3,595,239,162.28	7,699,000.00	12,363,272,557.45		

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

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

(2) Interest in associates and joint ventures

Unit: RMB

Investee	Opening balance	Additional contribution	Withdrawn contribution	Investment gain or loss recognised under equity method	Change for the period			Distribution of Cash dividend or profit declared	Impairment provision	Others	Closing balance	Closing balance of impairment provision
					Adjustment of other comprehensive income	Other change in interest						
I. Joint venture												
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.		3,000,000.00		-212.02							2,999,787.98	
Sub-total		3,000,000.00		-212.02							2,999,787.98	
II. Associate												
Arjo Wiggins Chenming Specialty Paper Co., Ltd. Jiangxi Jiangbao Media Colour Printing Co. Ltd.	4,745,182.75			-82,396.16							4,662,786.59	
Sub-total	4,745,182.75			-82,396.16							4,662,786.59	
Total	4,745,182.75	3,000,000.00		-82,608.18							7,662,574.57	

4. Revenue and operating costs

Unit: RMB

Item	Amounts during the period		Amounts during the prior period	
	Revenue	Costs	Revenue	Costs
Principal activities	6,988,901,803.37	5,462,982,348.69	8,581,184,184.97	6,670,788,412.36
Other activities	1,594,066,256.29	1,549,506,687.75	1,208,914,521.45	1,160,755,434.14
Total	8,582,968,059.66	7,012,489,036.44	9,790,098,706.42	7,831,543,846.50

XII Financial Report

XVI. Notes to major financial statement items of the parent company (Cont'd)

4. Revenue and operating costs (Cont'd)

Principal activities (by industry)

Industry	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Machine-made paper	6,035,746,457.60	4,827,440,373.01	6,381,206,521.11	5,004,862,835.94
Electricity and steam	953,155,345.77	635,541,975.68	2,199,977,663.86	1,665,925,576.42
Total	6,988,901,803.37	5,462,982,348.69	8,581,184,184.97	6,670,788,412.36

Principal activities (by geographical areas of machine-made paper)

Region	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Mainland China	5,634,561,396.87	4,504,466,944.37	6,009,047,757.35	4,693,569,735.36
Other countries and regions	401,185,060.73	322,973,428.64	372,158,763.76	311,293,100.58
Total	6,035,746,457.60	4,827,440,373.01	6,381,206,521.11	5,004,862,835.94

Revenue from top 5 customers of the Company

Period	Total revenue from top 5 customers	Percentage of the revenue for the period
2014	6,029,194,239.19	70.25%
2013	6,373,240,074.26	65.10%

5. Investment income

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Income from long-term equity investments accounted for using the cost method	1,073,924,052.21	327,327,560.06
Income from long-term equity investments accounted for using the equity method	-82,608.18	-47,492.37
Investment gain on disposal of long-term equity investments	-7,242,462.00	14,190,483.70
Interest income from entrusted loans	-124,070.12	
Income from long-term equity investments accounted for using the cost method	87,937,914.84	12,211,717.01
Total	1,154,412,826.75	353,682,268.40

XII Financial Report

XVII. Supplementary information

1. Breakdown of extraordinary gains and losses for the current period

Applicable Not applicable

Unit: RMB

Item	Amount	Remark
Profit from disposal of non-current assets	65,276,190.37	
Government grants (except for the government grants closely related to the normal operation of the Company and granted constantly at a fixed amount or quantity in accordance with a certain standard based on state policies) accounted for in profit or loss for the current period	260,000,612.10	
Payment for use of funds from non-financial institutions accounted for in profit or loss for the current period	82,833,581.81	
Gain and loss from debt restructuring	1,725,797.17	
Non-operating gains and losses other than the above items	49,781,358.66	
Gain or loss from change in fair value of consumable biological assets adopting fair value method for follow-up measurements	6,856,815.32	
Less:Effect of income tax	81,221,136.75	
Effect of minority interest	10,494,478.78	
Total	374,758,739.90	—

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses defined as its recurring gain or loss items.

Applicable Not applicable

XII Financial Report

XVII. Supplementary information (Cont'd)

2. Returns on net assets and earnings per share

Profit for the reporting period	Rate of return on net assets on weighted average basis	Earnings per share	
		Basic (RMB per share)	Diluted (RMB per share)
Net profit attributable to ordinary shareholders of the Company	3.62%	0.26	0.26
Net profit after extraordinary gains and losses attributable to ordinary shareholders of the Company	0.93%	0.07	0.07

3. Difference in accounting data under domestic and overseas accounting standards

(1) Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report

Applicable Not applicable

(2) Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report

Applicable Not applicable

XII Financial Report

XVII. Supplementary information (Cont'd)

4. Supplementary information of changes in accounting policies

√ Applicable □ Not applicable

Accounting policies of the Company were changed pursuant to eight accounting standards issued by the Ministry of Finance in 2014 including “Accounting Standard for Business Enterprises No. 2 – Long-term equity investments” and comparable financial statements were retrospectively restated. The consolidated balance sheet as at 1 January 2013 and 31 December 2013 are restated as follows:

Unit: RMB

Item	1 January 2013	31 December 2013	31 December 2014
Current assets:			
Monetary funds	4,456,217,362.86	2,547,729,794.24	5,475,658,186.10
Bills receivable	1,852,478,364.46	2,870,443,681.49	3,047,541,556.15
Accounts receivable	3,602,955,051.18	3,102,643,083.54	3,489,409,369.20
Prepayments	1,636,233,924.64	1,589,021,331.24	1,838,017,454.90
Other receivables	1,284,655,342.63	1,331,900,749.84	1,776,467,886.07
Inventory	5,581,817,754.83	5,042,951,001.02	5,420,740,468.60
Non-current assets due within one year			865,738,333.65
Other current assets	1,803,256,307.61	1,740,520,586.37	1,656,602,232.09
Total current assets	20,217,614,108.21	18,225,210,227.74	23,570,175,486.76
Non-current assets:			
Available-for-sale financial assets	83,260,425.53	83,260,425.53	73,000,000.00
Long-term receivables			1,420,598,667.99
Long-term equity investments	273,536,352.25	32,216,789.33	36,087,848.12
Investment properties	21,211,699.99	19,473,443.95	17,735,187.91
Fixed assets	19,751,339,991.06	21,181,647,488.39	24,744,731,705.04
Construction in progress	5,017,604,821.59	5,266,031,817.60	3,709,270,828.53
Construction materials	75,054,992.09	63,968,067.62	22,955,982.38
Disposal of fixed assets	287,309,818.03	588,181,647.53	
Intangible assets	1,416,497,159.22	1,365,418,002.26	1,319,104,425.04
Goodwill	20,283,787.17	20,283,787.17	20,283,787.17
Long-term prepaid expenses	184,770,685.65	168,538,483.68	173,690,747.83
Deferred income tax assets	376,938,086.60	507,653,388.38	620,267,636.44
Other non-current assets			1,094,124,242.00
Total non-current assets	27,507,807,819.18	29,296,673,341.44	33,251,851,058.45
Total assets	47,725,421,927.39	47,521,883,569.18	56,822,026,545.21

XII Financial Report

XVII. Supplementary information (Cont'd)

4. Supplementary information of changes in accounting policies (Cont'd)

Item	1 January 2013	31 December 2013	31 December 2014
Current liabilities:			
Short-term borrowings	12,876,398,495.16	9,818,885,237.85	20,470,296,592.92
Bills payable	1,285,627,762.07	290,403,790.59	1,598,110,792.85
Accounts payable	3,239,781,724.81	2,695,169,927.14	3,408,366,113.93
Advance receipts	347,835,800.87	442,432,261.58	270,056,726.88
Staff remuneration payable	177,847,769.71	130,271,812.18	153,926,042.30
Taxes payable	106,816,413.87	130,192,936.87	161,100,088.94
Interest payable	133,046,123.31	153,189,860.42	150,047,305.50
Other payables	435,772,288.98	486,836,595.89	783,790,884.61
Non-current liabilities due within one year	1,368,108,800.00	1,287,804,452.66	1,099,968,900.00
Other current liabilities		3,853,488,888.90	
Total current liabilities	19,971,235,178.78	19,288,675,764.08	28,095,663,447.93
Non-current liabilities:			
Long-term borrowings	3,933,167,835.94	3,723,865,807.90	4,378,290,245.19
Bonds payable	6,256,263,237.00	5,768,418,612.73	5,777,131,308.01
Long-term payables		60,000,000.00	
Special payables	641,526,872.70	971,805,561.39	161,983,516.66
Deferred income	393,540,763.12	493,600,712.15	1,476,121,434.78
Other non-current liabilities	2,184,270,106.80	2,577,163,578.04	2,672,841,201.43
Total non-current liabilities	13,408,768,815.56	13,594,854,272.21	14,378,294,864.28
Total liabilities	33,380,003,994.34	32,883,530,036.29	42,473,958,312.21
OWNERS' EQUITY:			
Share capital	2,062,045,941.00	1,975,471,967.00	1,936,405,467.00
Capital reserves	6,383,471,238.54	6,204,682,028.94	6,149,136,873.41
Less: Treasury shares		30,954,891.40	
Other comprehensive income	32,350,966.03	16,934,073.59	33,763,168.13
Surplus reserves	1,132,116,106.40	1,132,116,106.40	1,132,116,106.40
Retained profit	4,149,511,927.88	4,741,638,941.58	4,665,921,686.21
Total equity attributable to equity holders of the parent company	13,759,496,179.85	14,039,888,226.11	13,917,343,301.15
Minority shareholders interests	585,921,753.20	598,465,306.78	430,724,931.85
Total owners' equity	14,345,417,933.05	14,638,353,532.89	14,348,068,233.00
TOTAL LIABILITIES AND OWNERS' EQUITY	47,725,421,927.39	47,521,883,569.18	56,822,026,545.21

XIII Documents Available for Inspection

- I. The financial statements signed and sealed by the legal representative, financial representative and head of the financial department of the Company;
- II. The original copy of the auditors' report which is sealed by the accounting firm and signed by the certified public accountant;
- III. The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the reporting period
- IV. The annual report disclosed on the Stock Exchange of Hong Kong Limited;
- V. Other related information.

Shandong Chenming Paper Holdings Limited
26 March 2015



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