



# 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

## 2008 Interim Report

## Important

The board of directors (the “Board”), the supervisory committee and the directors, supervisors and senior management of Shandong Chenming Paper Holdings Limited (the “Company”, “us”, and “we”) hereby confirmed that there are no false representations, misleading statements or material omissions contained in this interim report (the “Report”). The Board, the supervisory committee and the directors, supervisors and senior management of the Company jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

Chen Hongguo, the chairman of the Company, Liu Junwu, the financial controller of the Company and Wang Chunfang, the head of the financial department, have declared that they guarantee the truth and completeness of the financial statements for the six months ended 30 June 2008.

This interim report was considered and passed by the tenth meeting of the fifth session of the Board of the Company with all directors present.

The interim financial statements for the six months ended 30 June 2008 of the Company and its subsidiaries (collectively referred to as the “Group”) prepared in accordance with China Accounting Standards issued by the Ministry of Finance of the PRC (“China Accounting Standards”) and International Financial Reporting Standards have not been audited.

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## I. Company Information

- |   |   |
|---|---|
| 1. Legal Chinese name of the Company:<br>Legal English name of the Company<br>Abbreviation of the English name  | 山東晨鳴紙業集團股份有限公司<br>SHANDONG CHENMING PAPER HOLDINGS LIMITED<br>SCPH  |
| 2. Legal Representative of the Company  | Chen Hongguo  |
| 3. Secretary to the Board of the Company<br>Company Secretary<br>Securities Affairs Representatives<br>Correspondence Address<br><br>Telephone<br>Facsimile<br>Email address                        | Hao Yun<br>Poon Shiu Cheong<br>Fan Yingjie, Sun Wenke<br>No. 595 Shengcheng Road, Shouguang City,<br>Shandong Province, People's Republic of China<br>(86)-0536-2158011, (86)-0536-2156488<br>(86)-0536-2158640<br>chenmmingpaper@163.com   |
| 4. Registered Address and Office<br>Address of the Company<br>Postal Code<br>International Website of the Company   | No. 595 Shengcheng Road, Shouguang City,<br>Shandong Province, People's Republic of China<br>262700<br><a href="http://www.chenmingpaper.com">http://www.chenmingpaper.com</a>  |
| 5. Designated Local Newspapers for<br>Information Disclosure<br>Designated Website for<br>the Publication of the Interim Report<br>Places for Inspection of<br>the Company's Interim Report         | <i>China Securities Journal and Hong Kong<br/>Commercial Daily</i><br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a><br><br>Capital operation department of the Company   |
| 6. Stock Information  | A shares<br>Shenzhen Stock Exchange<br>Stock Abbreviation: 晨鳴紙業<br>Stock Code: 000488<br>B shares<br>Shenzhen Stock Exchange<br>Stock Abbreviation: 晨鳴 B<br>Stock Code: 200488<br>H shares<br>The Stock Exchange of Hong Kong Limited<br>Stock Abbreviation: Chenming Paper<br>Stock Code: 1812 |
| 7. Other Relevant Information<br>Date of Change in Registration of<br>the Company<br>Registered Address<br><br>Legal Person Business Licence<br>Registration Number<br>Taxation Registration Number | 18 July 2007<br>No. 595 Shengcheng Road, Shouguang City,<br>Shandong Province, People's Republic of China<br><br>370000400001170<br>370783613588986   |



## II. Summary of Financial and Operating Results

### I. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS

Unit: RMB'000			
Items	End of the current	End of last year	Increase/ decrease as at end of reporting period compared with the end of last year (%)
	reporting period		
Total assets	25,642,408	22,011,108	16.50%
Equity attributable to equity holders of the Company	12,138,170	8,745,035	38.80%
Net assets per share (RMB)	5.8865	5.125	14.86%
Items	The current	The	Increase/ decrease for the reporting period compared with corresponding period of last year (%)
	reporting period (January to June)	corresponding period of last year	
Operating profit	1,185,780	502,499	135.98%
Total profit	1,346,656	618,101	117.87%
Net profit attributable to equity holders of the Company	947,427	388,929	143.60%
Net profits after extraordinary gains or losses attributable to the equity holders of the Company	823,335	352,869	133.33%
Basic earnings per share	0.55	0.26	111.54%
Diluted earnings per share	N/A	N/A	N/A
Return on net assets	7.81%	4.78%	increase in 3.03%
Net cash flows from operating activities	1,710,556	403,674	323.75%
Net cash flows from operating activities per share (RMB)	0.83	0.24	245.83%



## II. Summary of Financial and Operating Results

### NOTE: EXTRAORDINARY GAINS OR LOSSES ITEMS

Unit: RMB'000

Extraordinary gains or losses items	Amount
Net gain and loss from disposal of non-current assets	183
Government grants received	106,938
Net gains or losses attributable to debt restructuring	-592
Negative goodwill resulting from the acquisition of minority shareholders	28,211
Reversal of impairment provision for accounts receivable after independent impairment tests	12,470
Non-operating net gain and loss other than the above	20,285
Effect of extraordinary gains or losses on minority shareholders	-4,897
Effect of extraordinary gains or losses on income tax	-38,506
<b>Total</b>	<b>124,092</b>

### II. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Unit: RMB'000

Items	End of the reporting period	End of the period of last year	Increase/decrease as at the end of reporting period compared with the end of the period of last year (%)
Total assets	25,546,893	21,913,725	16.58%
Equity attributable to equity holders of the Company	11,776,917	8,371,151	40.68%
Net asset per share (RMB)	5.711	4.906	16.41%
			Increase/decrease for the reporting period compared with corresponding period of last year (%)
	The current reporting period (January to June)	The corresponding period of last year	
Profit before tax	1,363,481	597,868	128.06%
Profit attributable to equity holders of the Company	960,060	366,743	161.78%
Basic earnings per share (RMB)	0.55	0.23	139.13%
Diluted earnings per share(RMB)	N/A	N/A	N/A
Return on net assets	8.15%	4.38%	increase in 3.77%
Net cash flows from operating activities	1,710,556	90,986	1,780.02%
Net cash flows from operating activities per share (RMB)	0.83	0.04	1,975.00%



## II. Summary of Financial and Operating Results

### III. RECONCILIATIONS OF ACCOUNTS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

Unit: RMB'000

Items	China Accounting Standards	International Financial Reporting Standards
Net profit	1,079,654	1,096,479
Net assets	13,895,882	13,512,443

Reason for difference      The differences in net profit and net assets between China Accounting Standards and International Financial Reporting Standards are mainly attributable to the differences in the accounting standards of the special fund for treasury bonds and special payables received by the Group.



### III. Changes in Share Capital and Shareholders

#### I. CHANGES IN SHARE CAPITAL AT THE END OF THE REPORTING PERIOD

(Unit: shares)

	Opening balance		Increase/decrease (+/-) resulting from changes in the reporting period				Closing balance		
	Number of shares	Percentage	Increase in lock-up shares	Restricted shares	Transfer of state-owned shares	Issue of new shares	Sub-total	Number of shares	Percentage
I. Restricted shares	339,500,453	19.90%	—	-120,101	-35,570,000	—	-35,690,101	303,810,352	14.73%
1. State-owned legal person shares	328,573,657	19.26%	—	—	-35,570,000	—	-35,570,000	293,003,657 <sup>(1)</sup>	14.21%
2. Shares held by senior management	10,926,796	0.64%	—	-120,101	—	—	-120,101	10,806,695 <sup>(2)</sup>	0.52%
II. Non-restricted shares	1,366,845,488	80.10%	—	120,101	35,570,000	355,700,000	391,390,101	1,758,235,589	85.27%
1. Renminbi ordinary shares (A shares)	809,348,003	47.43%	—	120,101	—	—	120,101	809,468,104	39.26%
2. Domestic listed foreign shares (B shares)	557,497,485	32.67%	—	—	—	—	—	557,497,485	27.04%
3. Overseas listed foreign shares (H shares)	—	—	—	—	35,570,000	355,700,000	391,270,000	391,270,000	18.97%
III. Number of shares	1,706,345,941	100.00%	—	—	—	355,700,000	355,700,000	2,062,045,941	100.00%

- Note:
- Pursuant to the Notice of the Provisional Administrative Measures for State-owned Shares reduction for Raising Social Security Fund promulgated by the State Council (《國務院關於印發減持國有股籌集社會保障資金管理暫行辦法的通知》), the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer from Shouguang Chenming Holdings Co., Ltd. to the Social Security Fund Council (the “NSSF Council”) such number of A shares held by it in aggregate equivalent to 10% of the number of the offer shares, representing 35,570,000 state-owned legal person shares, which were converted into overseas listed foreign shares (H shares) and listed on the Main Board of The Stock Exchange of Hong Kong Limited upon the issuance of overseas listed foreign shares (H shares) by the Company. The number of A shares held by Shouguang Chenming Holdings Co., Ltd. was reduced to 293,003,657 shares.
  - During the reporting period, the restricted shares held by the senior management decreased from 10,926,796 shares to 10,806,695 shares by 120,101 shares. The reasons for such change were as follows:
    - According to “the Practice Guidance for the Company’s shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange” (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份管理業務操作指南》), the shares held by the existing directors, supervisors and senior management would be unlocked up on the basis of the percentage of 25% of the shares held at the beginning of each year. For the 27,301 shares held by the senior management, the nature of the shareholdings would be changed from “restricted shares held by the senior management” to “non-restricted RMB ordinary shares (A share)”.
    - During the reporting period, the half year lock-up period for the resigned senior management of the Company was expired. Therefore, the nature of the 92,800 shares, used to be held by the senior management, was changed from restricted shares held by the senior management to the non-restricted RMB ordinary shares (A share);



## III. Changes in Share Capital and Shareholders

### II. OFFERING OF SHARES AND THE LISTING

As approved by the approval document: No. [2008] 290 on Approval of the Issue of Overseas Listed Foreign Shares by Shandong Chenming Paper Holdings Ltd. from the China Securities Regulatory Commission, and the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), the Company issued overseas listed foreign shares (H shares) through public offer. The Company offered 355,700,000 H shares for the global offering, of which, 35,570,000 H shares for the Hong Kong public offering and the remaining 320,130,000 H shares for the international offering. 35,570,000 state-owned shares were converted to overseas listed foreign shares (H share) and transferred to NSSF Council due to the reduction of shareholding of state-owned shares by the Company’s relevant state-owned shareholders. A total of 391,270,000 H shares were listed on the main board of the Hong Kong Stock Exchange on 18 June 2008. The Company’s Chinese abbreviation is “晨鳴紙業” and its stock code is “1812”.

### III. SHAREHOLDERS’ PROFILE AT THE END OF THE REPORTING PERIOD

#### 1. The top ten shareholders and the top ten shareholders of non-restricted shares

Total number of shareholders: The total number of shareholders was 121,300, of which 88,416 were holders of A shares, 31,791 were holders of B shares and 1,093 were holders of H shares.

#### Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledge or frozen (shares)
HKSCC Nominees Limited	Overseas non-state-owned legal person (Foreign shareholder)	18.89%	389,450,500	0	unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	None
Agricultural Bank of China —中郵核心成長股票型 證券投資基金	Domestic non-state-owned legal person	3.47%	71,450,743	0	unknown
Agricultural Bank of China —中郵核心優選股票型 證券投資基金	Domestic non-state-owned legal person	2.40%	49,528,227	0	unknown



### III. Changes in Share Capital and Shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledge or frozen (shares)
Industrial and Commercial Bank of China – 諾安股票證券投資基金	Domestic non-state-owned legal person	1.54%	31,820,948	0	unknown
DREYFUS PIFI-DREYFUS PREMIER GREATER CHINA	Overseas legal person	1.45%	29,945,645	0	unknown
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Overseas legal person	1.23%	25,370,723	0	unknown
Bank of China – 華夏行業精選股票型證券投資基金 (LOF)	Domestic non-state-owned legal person	1.23%	25,339,077	0	unknown
China Construction Bank – 華夏紅利混合型開放式證券投資基金	Domestic non-state-owned legal person	0.98%	20,276,356	0	unknown
健康元藥業集團股份有限公司	Domestic non-state-owned legal person	0.92%	18,900,000	0	unknown

### III. Changes in Share Capital and Shareholders

#### Shareholding of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held (shares)	Classes of shares
HKSCC Nominees Limited	389,450,500	H Shares
Agricultural Bank of China — 中郵核心成長股票型證券投資基金	71,450,743	A Shares
Agricultural Bank of China — 中郵核心優選股票型證券投資基金	49,528,227	A Shares
Industrial and Commercial Bank of China — 諾安股票證券投資基金	31,820,948	A Shares
DREYFUS PIFI-DREYFUS PREMIER GREATER CHINA	29,945,645	B Shares
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	25,370,723	B Shares
Bank of China — 華夏行業精選股票型證券投資基金(LOF)	25,339,077	A Shares
China Construction Bank — 華夏紅利混合型開放式證券投資基金	20,276,356	A Shares
健康元藥業集團股份有限公司	18,900,000	A Shares
China Construction Bank — 鵬華價值優勢股票型證券投資基金	18,546,596	A Shares

Connected relationship or concert-party relationship among the above shareholders

Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the other shareholders. Nor is it a party acting in concert with any of them as defined in Administrative Measures for Information Disclosure of the Changes in Shareholdings of Listed Companies (《上市公司持股變動信息披露管理辦法》). Of which, Agricultural Bank of China—中郵核心成長股票型證券投資基金 and Agricultural Bank of China—中郵核心優選股票型證券投資基金 are the sub-funds of 中郵創業基金管理有限公司. 華夏行業精選股票型證券投資基金(LOF) and 華夏紅利混合型開放式證券投資基金 are the sub-funds of 華夏基金管理有限公司. Save for the above, the Company is not aware of any other shareholders of outstanding shares as aforesaid are connected with other or whether any of these shareholders falls within the meaning of parties acting in concert as defined in Administrative Measures for Information Disclosure of Changes in Shareholdings of Listed Companies (《上市公司持股變動信息披露管理辦法》).



### III. Changes in Share Capital and Shareholders

#### 2. Changes in the Company's controlling shareholders and beneficial controllers during the reporting period

The Company's controlling shareholders and beneficial controllers remained unchanged during the reporting period.

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

As at 30 June 2008, the following shareholders (other than the directors, supervisors or chief executives) had an interest or short position in the Company's shares or underlying shares as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong):

Name	Number of shareholding	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
Shouguang Chenming Holdings Company Limited	293,003,657 A shares (L)	14.21	26.32
Guotai Junan Securities Co., Ltd.	93,324,500 H shares (L)	4.53	23.85
	28,000,000 H shares (S)	1.36	7.16
Schroder Investment Management (Hong Kong) Limited	42,191,000 H shares (L)	2.05	10.78
JP Morgan Chase & Co.	36,194,500 H shares (L)	1.76	9.25
	31,194,500 H shares (P)	1.51	7.97
NSSF Council	35,570,000 H shares (L)	1.73	9.09
Invesco Ltd.	22,500,000 H shares (L)	1.09	5.75
State Street Corporation	20,839,196 H shares (P)	1.01	5.33
Manulife Asset Management (Hong Kong) Limited	20,123,000 H shares (L)	0.98	5.14

(L) - Long position, (S) - Short position, (P) - Lending pool



### III. Changes in Share Capital and Shareholders

Save as disclosed above, as at 30 June 2008, no other person had an interest or short position in the Company's shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO.

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

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



## IV. Directors, Supervisors and Senior Management

### I. CHANGES IN SHAREHOLDINGS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: shares

Name	Title	Number of shares held at the beginning of the year	Increase in the number of shares held during the reporting period	Decrease in the number of shares held during the reporting period	Number of shares held at the end of the reporting period	Reasons for change
Zhou Shaohua	Director	125,307	—	2,300	123,007	Note
Dong Jianwen	Deputy General Manager	196,794	—	11,700	185,094	Note

*Note:* During the reporting period, Mr. Zhou Shaohua, a director, and Mr. Dong Jianwen, the deputy general manager, disposed some of the non-restricted A shares in the secondary market.

### II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the seventh meeting of the fifth session of the Board of Directors held on 11 April 2008, Mr. Meng Feng and Mr. Han Chunlai were elected as the Company's deputy general managers. They would serve a term until the end of the term of the Board.

For the details, please refer to the relevant announcements dated 15 April 2008 published on *China Securities Journal*, *Hong Kong Commercial Daily* and the website of CHINF ([www.cninfo.com.cn](http://www.cninfo.com.cn)).

## IV. Directors, Supervisors and Senior Management

### III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S SECURITIES INTERESTS COMPLIANCE WITH THE SFO

As at 30 June 2008, the interests held by each of the directors, supervisors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, were set out as follows:

#### The Company

Name	Position	Number of Shares (A shares) held at the end of the reporting period (shares)
Directors of the Company		
Chen Hongguo (Note 1)	Chairman	6,763,875
Yin Tongyuan	Executive Director and General Manager	3,231,520
Li Feng	Executive Director	471,818
Xing Fangtong	Executive Director	355,561
Wu Bingyu	Executive Director	428,107
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Gan Zhihe	Non-Executive Director	—
Zhao Wei	Non-Executive Director	—
Cao Chunyu	Non-Executive Director	—
Diao Yuntao	Independent Non-Executive Director	—
Wang Zhihua	Independent Non-Executive Director	—
Zhou Chengjuan	Independent Non-Executive Director	—
Wang Yumei	Independent Non-Executive Director	—
Lau Ying Kit	Independent Non-Executive Director	—
Supervisors of the Company		
Gao Junjie	Supervisor	39,606
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—
Zhao Shujun	Supervisor	—
Liu Wenzheng	Supervisor	—

## IV. Directors, Supervisors and Senior Management

### Associated Corporations

Name	Title	Name of Associated Corporation	Number of shares held at the beginning of the reporting period (shares)	Change during the reporting period (+/-)	Number of shares held at the end of the reporting period (shares)
Chen Hongguo (Note 2)	Chairman	Shouguang Chenming Holdings Company Limited	48,000,000	—	48,000,000
Li Feng	Executive Director	Qihe Chenming Waste Collection Co., Ltd.	10,000	—	10,000

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

*Note 2:* Chen Hongguo and his spouse Li Xueqin together held 43% interest in Shouguang Henglian Enterprise Investment Co. Ltd., (“Shouguang Henglian”) and Shouguang Henglian was deemed as controlled by Mr. Chen Hongguo. Therefore, 48,000,000 shares of Shouguang Chenming Holdings Company Limited ( approximately 2.85% of the total share capital of Shouguang Chenming Holdings Company Limited ) held by Shouguang Henglian were deemed to be held by Chen Hongguo.

Save as disclosed above, as at 30 June 2008, no director, supervisor or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, which was required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise 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 (the “Listing Rules”).

As at 30 June 2008, none of the director, supervisor or chief executives, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.





## V. Directors' Report

### FINANCIAL RESULTS

Please refer to VII and VIII of this report for the results of the Group for the six month ended 30 June 2008 prepared in accordance with China Accounting Standards and International Financial Reporting Standards respectively.

#### I. Discussion and analysis under China Accounting Standards

The following financial data are extracted from the unaudited financial statements prepared by the Company in accordance with China Accounting Standards. The following discussion and analysis should be read in conjunction with the financial statements of the Company set out in this report and the notes thereto.

##### 1. Operations during the reporting period

Recently, the market supply and demand for paper products have undergone a gradual change as a result of effective implementation of the national energy saving and environmental emission reduction policies, and the macroeconomic policies such as phasing out obsolete capacity in the paper making industry under the “Eleventh Five-Year Plan” by way of accelerated closure of the companies not up to standard environmentally and obsolete capacity. Since the second half of last year, the price of the Company’s products have been risen to certain extent, driven by many factors such as the rise in raw materials costs, further enhancing the profitability of the products of the Company. During the reporting period, the Company had continued to manage the activities in purchasing, sales, financial management, environmental protection and energy saving, and corporate governance based on multiple principles under the leadership of the Board. The Company accomplished newly launched projects while making great efforts to improve the operational efficiency of the newly launched projects. On the other hand, the Company made great efforts to develop domestic and international markets, and subsequently gained market share for our products. The Company made great efforts to overcome problems related to production and management and realized sustainable growth in several business indicators with the Company’s international advanced management experience and powerful comprehensive strength over the years.

During the reporting period, revenue from operations increased by RMB1,755 million, or 25.81% compared with the corresponding period of last year, and profit from operations increased by approximately RMB683 million, or 135.98% compared with the corresponding period of last year. Net profit attributable to the equity holders of the Company increased by RMB558 million, or 143.60% compared with the corresponding period of last year. These were mainly attributable to an expanded production scale from the commencement of production of the 98,000-tonne de-ink waste paper project of the Company and the Jilin 300-tonne daily chemical pulp production line, and the 300,000-tonne per annum super art paper project and the Jilin 180,000-tonne light weight coated paper project, both of which fully met the Company’s production targets, as well as higher production and sales volume resulted from the greater selling and management efforts. In the first half of this year, the Company realized production of 1,585,200 tonnes of machine-made paper and sales of 1,521,800 tonnes, achieving an increment of 20.09% and 14.42% respectively compared with the corresponding period of last year.



## V. Directors' Report

Unit: RMB'000

Item	January to June 2008	January to June 2007	Increase for reporting period compared with the corresponding period of
			pervious year (%)
Operating revenue	8,552,402	6,797,897	25.81%
Operating profit	1,185,780	502,499	135.98%
Net profit attributable to equity holders of the Company	947,427	388,929	143.60%

The Company is in the light industry of paper making sector. Our principal operations are production and selling of paper products, papermaking raw materials, papermaking machinery, electricity and steam. Among them, sales revenue from machine-made paper amounted to RMB801.4 million, accounting for 93.71% of the total revenue from operations of the Company during the reporting period. During the reporting period, the Company actively carried on structural adjustments according to market demand and external competitive environment, and improved some production lines in terms of production at the same time in order to make our product structure gradually keep pace with the structure of market demand. The optimized structure of the Company ensures simultaneous growth in production and sales and excellent economic efficiency.

### 2. Revenue from operations by industry and product segments

Unit: RMB'000

#### Sales revenue by industry segments

By industry	Sales revenue	Cost of sales	Gross profit margins (%)	Increase/ decrease in sales revenue compared with the corresponding period of previous year (%)	Increase/ decrease in cost of sales compared with the corresponding period of previous year (%)	Increase/ decrease in gross profit margin compared with the corresponding period of last year (% points)
Paper products	8,014,572	6,207,491	22.55	30.00	24.11	3.68
Electricity and steam	125,938	110,186	12.51	36.31	30.35	4.00
Construction materials	315,811	273,559	13.38	-26.04	-27.74	-4.76
Chemicals products	50,535	20,439	59.55	28.24	-9.50	16.87
Others	45,546	35,541	21.97	-38.47	-31.59	-7.85
Total	8,552,402	6,647,216	22.28	25.81	20.63	3.34



## V. Directors' Report

Unit: RMB'000

### Sales revenue by products

By product	Sales revenue	Cost of sales	Gross profit margins (%)	Increase/decrease in sales revenue compared with the corresponding period of last year (%)	Increase/decrease in cost of sales compared with the corresponding period of last year (%)	Increase/decrease in gross profit margin compared with the corresponding period of previous year (% points)
Light weight coated paper	922,522	740,306	19.75	0.90	-1.68	2.10
Duplex press paper	1,207,069	916,320	24.09	38.53	34.04	2.54
Writing paper	200,738	155,625	22.47	81.59	80.63	0.41
Art paper	1,521,220	1,088,598	28.44	54.74	41.82	6.52
News press paper	1,111,130	893,548	19.58	27.61	28.04	-0.27
Paperboard	480,895	430,005	10.58	5.91	14.21	-6.50
White paper board	1,242,201	907,198	26.97	15.75	-1.45	12.75

### 3. Breakdown of sales revenue by geographical segments

Unit: RMB'000

Regions	Sales revenue	Increase/decrease in sales revenue compared with the corresponding period of last year (%)
PRC	7,611,807	31.43
Hong Kong	166,607	79.45
South Africa	151,719	10.66
Japan	64,895	-53.01
United States	21,829	-79.91
Other countries	535,495	1.11
Total	8,552,402	25.81

In addition to expansion of the production and sales scale by the Company and appropriate optimization of product structure, the Company's profit structure, principal operations and its structure did not undergo any significant changes during the reporting period. The Company did not launch any other operational activities which may have a material impact on profitability during the reporting period.



## V. Directors' Report

### 4. Problems emerged in operations and measures to resolve them

During the reporting period, the Company actively and diligently carried out various measures, such as saving energy and reducing costs, optimizing production technologies, improving production equipment technology, to strengthen cost control, and relieve pressure on the Company as a result of the rise in raw material prices. Meanwhile, we promptly adjusted product structure according to market demand, improved some production lines in terms of production, strengthened research and development and production for medium to high-end products, and catered for various needs of customers, improving operating environment. Also, the Company had to comply with new requirement for environment protection and deal with various challenges ranging from market exploration for new products to the rise in raw materials prices.

Currently, the major imported raw materials by the Company are wood pulp and wasted paper. The wood pulp price has increased for the past few years. However, as new international wood pulp production lines have commenced operation, there is a rising market supply and the wood pulp price will gradually becomes lower but such price maintain in constant level. Waste paper price has increased at a faster pace on the back of new production lines of news press paper in China, which lead to higher demand for raw materials, thus putting greater cost pressure on some paper products of the Company. For this reason, during the reporting period, the Company strictly carried out purchasing system, actively adopted measures from the cost perspective, to ensure enough inventory for production while purchasing as planned.

## II. Investments during the reporting period

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

The gross proceeds from the global offering of H shares in Hong Kong by the Company on 18 June 2008 were HK\$ 3,201 million, equivalent to RMB 2,809 million at the time of translation. As at the end of the reporting period, the proceeds amounted to RMB 2,720 million after translated into RMB (after deducting underwriting fees) the actual net proceeds received by the Company were RMB 2,706 million. As of the end of the reporting period, the proceeds of RMB 238 million were used and the remaining proceeds were deposited at special deposit bank accounts. The status of the projects relating to the proceeds during the reporting period is as follows:



## V. Directors' Report

Unit: RMB in ten thousand

Project undertaken	Proposed investment	Project changes	Actual investment	Benefits realized	Whether progressing as scheduled	Whether progressing with estimated benefits
Total proceeds	270,682			Use of total proceeds during the reporting period	23,840	
				Accumulated use of total proceeds	23,840	
Zhanjiang 700,000-tonne per annum pulp project	246,321	No	0	—	Yes	Yes
Supplement to working capital	24,361	No	23,840	—	Yes	Yes
Total	270,682	—	23,840	—	—	—
Explanation on failure to progress as scheduled and realize benefits (by specific projects)	Nil					
Explanation on reason of change and change procedure (by specific projects)	Nil					
Use of unused proceeds and their status	The unused remaining proceeds were desposited at special deposit bank accounts.					

### 2. Other investments during the reporting period

- (1) The 120,000-tonne per annum coated art paper project was financed by self-owned funds. As at the reporting date, the investment to be contributed was RMB 580 million. The project is expected to commence operation by September 2008.
- (2) The 98,000-tonne de-ink waste paper project was financed by self-owned funds and the actual total investment for the project was RMB 263 million. The project commenced operation in April 2008.
- (3) The Grand View Hotel project was financed by self-owned funds and the actual total investment for the project was RMB 260 million. The hotel commenced operation in April 2008.



## V. Directors' Report

### III. 1. Analysis of the assets and liabilities of the Company

Items	At the end of the period	At the beginning of the year	Change (%)	
Bank balances and cash	3,714,384	740,622	401.52	(1)
Bills receivable	1,060,198	1,676,684	(36.77)	(2)
Advance to suppliers	876,810	574,015	52.75	(3)
Inventories	2,600,563	1,744,493	49.06	(4)
Consumable biological assets	153,170	92,160	66.20	(5)
Short-term borrowing	2,099,397	3,594,000	(41.59)	(6)
Other payables	444,173	305,050	45.61	(7)
Non-current liabilities due within one year	1,162,787	667,746	74.14	(8)
Short-term debentures	1,218,523	506,213	140.71	(9)

#### Explanation on the main reasons leading to the changes

- (1) Bank balances and cash increased by 401.52% for the period, mainly because the Company issued H-shares of the Company on 18 June 2008 and raised fund. The unused proceeds deposited at special deposit accounts, increasing bank balances and cash.
- (2) Bills receivable decreased by 36.77% for the period, mainly because (1) discounted outstanding bills for the period was RMB 347 million, decreased by RMB 77 million from RMB 424 million at the beginning of the period; (2) during the reporting period, we fully utilized the situation where the market improved, diligently reducing the amount receivable for bills and increased the proportion of amount financed by bills to purchase which contributed the significant decrease in bill receivable.
- (3) Advance to suppliers for the period increased by 52.75%, mainly because of (1) the expansion of productivity scale of the Group for the period, raising the procurement amount for prepaid raw materials; (2) provision of inventories of certain raw materials, prices of which increased during the purchase, leading to an increase in prepayment for raw materials.
- (4) Inventories increased by 49.06% for the period, mainly due to an increase in raw material price and change in the production and selling scale of the Group and an increase in raw materials and finished products of the Group.
- (5) Biological assets increased by 66.20% for the period, mainly due to an increase in newly planted forest assets and the relevant change in the fair value in thereto during the reporting period.



## V. Directors' Report

- (6) Short-term borrowing was reduced by 41.59%, mainly due to the repayment of some of borrowing and the treatment of discounted outstanding notes as reduction of borrowing for restructuring operations over the beginning of this period.
- (7) Other accounts payable increased by 45.61% for this period, mainly because: (1) Wuhan Chenming, a subsidiary of the Company, distributed dividends during this period and certain dividends for minority interests were not yet paid, leading to an increase of RMB 66.42 million in other payables; (2) certain listing expenses for the Company's H shares have not been paid yet, leading to an increase in other payables.
- (8) Non-current liabilities due within one year increased by 74.14%, mainly due to the conversion of certain long-term borrowing to non-current liabilities due within one year.
- (9) Short-term debentures increased by 140.71%, mainly due to the issuance of short-term debentures amounting to RMB 700 million by the Company on 10 June 2008.

### 2. Significant change and analysis of income statement compared with the corresponding period of last year

*Unit: RMB in thousand*

Items	Total amount for the current reporting period	Total amount for the corresponding period of last year	Change (%)	
Selling expenses	402,926	304,204	32.45	(1)
Financial expenses	78,635	201,122	(60.90)	(2)
Losses of impairment of assets	-30,715	59,276	(151.82)	(3)
Gain from change in fair value	16,204	—	N/A	(4)
Non-operating income	168,805	120,925	39.59	(5)
Non-operating expenses	7,929	5,323	48.96	(6)
Business tax and value added tax	6,756	11,896	(43.21)	(7)



## V. Directors' Report

Explanation on the main reasons leading to the changes:

- (1) Selling expenses increased by 32.45% for the period, mainly because of achieving its production targets in current projects, increases in sales volume and freight charges, leading to an increase in selling expenses.
- (2) Financial expenses decreased by 60.90% for this period, mainly because of an increase in exchange income from appreciation in RMB, reducing finance expenses.
- (3) Impairment loss of assets were reduced by 151.82%, mainly because of greater efforts in recovery of receivables by the Group, a decrease in trade receivables and other receivables.
- (4) Gain from change in fair value was RMB 16.2 million for this period, mainly because (1) a change in fair value of forest assets of Zhanjiang Chenming Arboriculture Co., Ltd. and Yangjiang Chenming Arboriculture Co., Ltd. amounting to RMB14.97 million; (2) Jiangxi Chenming entered into the future pooling foreign exchange contracts with Chang Bei branch of China Construction Bank and Chang Bei branch of Bank of China respectively on 18 October 2007. The change in fair value of financial assets for the period was RMB 1.23 million.
- (5) Non-operating income increased by 39.59% for the period, mainly because of government grants and negative goodwill as a result of acquisition of minority interests.
- (6) Non-operating expenses for the period increased by 48.96%, mainly because of an increase in donation expenditure for the period.
- (7) Business tax and value added tax decreased by 43.21%, because Chibi Chenming Paper Co., Ltd, a subsidiary of the Company, was changed to a foreign enterprise on 29 June 2007, therefore no business tax and value added tax such as city construction tax are required.





## V. Directors' Report

### 3. Net cash flows from operating activities of the Company during the reporting period

Unit: RMB'000

Item	Current reporting period	Corresponding period of last year	Change (%)
Net cash flows from operating activities	1,710,556	403,674	323.75
Net cash flows from financing activities	1,907,705	(6,050)	316.32

Explanation on the main reasons leading to the changes:

- (1) Net cash flows from operating activities increased compared to the corresponding period of last year, mainly because (1) during the reporting period, the market environment improved and sales volume and selling price increased, leading to an increase in revenue; meanwhile, we put greater efforts in the recovery of trade receivables, leading to an increase in net cash flows from operating activities; (2) discounted outstanding notes as the end of the first half of the year was treated as borrowing and reflected as cash inflows under financing activities in cash flow statements. After the maturity day for notes in this reporting period, it was treated as repayment of loans and an increase in cash flows from operating activities, leading to an increase of RMB 420 million in net cash flows from operating activities for the period.
- (2) Net cash flows from financing activities increased compared to the corresponding period of last year, mainly because the Company received proceeds from the global offering of H shares and offsetting by the settlement of bank loans.



## V. Directors' Report

### IV. The discussion and analysis under International Financial Reporting Standards

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

#### Revenue from operations

Unit: RMB'000

By sectors or by products	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Revenue from principal operations	Percentage of revenue from operations (%)	Revenue from principal operations	Percentage of revenue from operations (%)
Paper products	8,007,817	93.98	6,194,003	91.73
Construction materials	315,811	3.71	425,433	6.30
Chemicals for papermaking	50,535	0.59	39,406	0.59
Electricity and steam	125,938	1.48	92,617	1.37
Others	20,341	0.24	760	0.01
Total	8,520,442	100	6,752,219	100

Unit: RMB'000

Regions	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Revenue from principal operations	Percentage of revenue from operations (%)	Revenue from principal operations	Percentage of revenue from operations (%)
PRC	7,579,847	88.96	5,745,684	85.09
United States	21,879	0.26	108,890	1.62
Hong Kong	166,607	1.96	92,842	1.37
Japan	64,895	0.76	138,110	2.05
South Africa	151,719	1.78	137,100	2.03
Other overseas areas	535,495	6.28	529,593	7.85
Total	8,520,442	100	6,752,219	100

Revenue from operations amounted to RMB8,520 million during the reporting period, increased by RMB1,768 million or 26.18% compared with the corresponding period of last year. Exports business maintained steady growth, mainly the increased exports to Hong Kong, China and South Africa. Revenue from operations from the exports to Hong Kong, China amounted to RMB167 million, increased by 79.45% over the corresponding period of last year, and revenue from operations from the exports to South Africa amounted to RMB152 million, increased by 10.66% over the corresponding period of last year.



## V. Directors' Report

Revenue from paper products operations amounted to RMB8,008 million, increased by 29.28% over the corresponding period of last year, mainly due to the sales of the products and prices increased substantially when compared with the corresponding period of last year as a result of the market conditions and the scale of the Group.

Revenue from electricity and steam operations amounted to RMB126 million, increased by 35.98% over the corresponding period of last year, mainly due to the selling price of steam increased significantly when compared with the corresponding period of last year.

Revenue from construction materials operations amounted to RMB316 million, decreased by 25.77% over the corresponding period of last year, mainly due to the sales plunge of the fiberboard of the market conditions in current period when compared with the corresponding period of last year.

Revenue from chemicals for papermaking operations amounted to RMB51 million, increased by 28.24% over the corresponding period of last year, mainly due to the surge of the sales and the selling unit price of chemical products in the current period when compared with the corresponding period of last year, and thus the operation income grew.

### Cost of sales and gross profit

The ratio of cost of sales to revenue from operations

*Unit: RMB'000*

By industry	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Cost of sales	Percentage of product segment revenue (%)	Cost of sales	Percentage of product segment revenue (%)
Paper products	6,190,828	77.31%	5,001,492	80.75%
Construction materials	273,559	86.62%	332,590	78.18%
Chemicals for papermaking	20,439	40.45%	22,584	57.31%
Electricity and steam	110,185	87.49%	84,532	91.27%
Others	12,727	62.57%	853	112.24%
Total	6,607,738	77.55%	5,442,051	80.60%



## V. Directors' Report

### Gross Profit and Gross Profit Margin

Unit: RMB'000

By industry	For the six months ended 30 June 2008		For the six months ended 30 June 2007	
	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)
Paper products	1,816,989	22.69%	1,192,511	19.25%
Electricity and steam	15,753	12.51%	8,085	8.73%
Construction materials	42,252	13.38%	92,843	21.82%
Chemicals for papermaking	30,096	59.55%	16,822	42.69%
Others	7,614	37.43%	-93	-12.24%
Total	1,912,704	22.45%	1,310,168	19.40%

Cost of sales of the Group amounted to RMB6,608 million during the first half of 2008, increased by 21.42% over the corresponding period of last year. As compared with the corresponding period of last year, gross profit increased by 45.99% to RMB1,913 million, primarily due to the strong promotion of its product sales during the reporting period, resulting a significant growth in the sales volume and sales revenue, and in turn, the cost of sales increased. The increase in gross profit margin was mainly attributable to the enhanced operation efficiency of products and steady operation of a new product line, causing both of the production volume and sales volume increased substantially as compared with the corresponding period of last year. At the same time, the selling price of the Group's products maintained a favorable growth momentum during the reporting period.

Cost of sales of the paper products operations amounted to RMB6,191 million, increased by 23.78% over the corresponding period of last year, mainly due to the enhanced operation efficiency of products and the substantial increase of sales volume as compared with the corresponding period of last year, and the rise in the cost of sales as a result of the rise in the raw materials prices.

Cost of sales of the electricity and steam operations amounted to RMB110 million, increased by 30.35% over the corresponding period of last year, mainly due to the rise in the cost of sales attributable to the increase of the materials costs.

Cost of sales of the construction materials operations amounted to RMB274 million, decreased by 17.75% over the corresponding period of last year, mainly due to the decrease in the sales volume of fiberboard in the current period in the market.

Cost of sales of the paper manufacturing chemicals business was RMB20 million, decreased by 9.5% over the corresponding period of last year, mainly due to the resumption of the repaired chemical products production line for the obsolescence evaporator, and the decrease in the cost as a result of the increase of the production volume.



## V. Directors' Report

### Other income

Other income of the Group amounted to RMB340 million during the first half of 2008, increased by 81.02% over the corresponding period of last year, mainly due to: (1) the foreign exchange gain increased by RMB104 million when compared with the corresponding period of last year due to appreciation of RMB; (2) the government grant increased by RMB54 million in this period when compared with the corresponding period of last year.

### Distribution expenses

Distribution expenses of the Group amounted to RMB403 million during the first half of 2008, increased by 32.35% over the corresponding period of last year, mainly attributable to the preliminary projects achieved the production targets, the scale of sales increased and the transportation expenses increased.

### Administrative expenses

Administrative expenses of the Group amounted to RMB244 million during the first half of 2008, decreased by 24.85% over the corresponding period of last year, mainly due to more efforts put by the Group in collection of trade receivables, the provision of bad debt decreased as a result of the trade receivables plunged when compared with the corresponding period of last year, and thus decreased the administrative expenses.

### Gain on change in fair value of derivative financial instruments

Gain on change in fair value of derivative financial instruments of the Group amounted to RMB1.23 million during the first half of 2008, increased by RMB1.23 million over the corresponding period of last year, mainly due to the foreign exchange contracts entered into by Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, with Changbei branch of China Construction Bank and Changbei branch of Bank of China on 18 October 2007 respectively, which resulted in a change of fair value in the financial assets amounting to RMB 1.23 million in this period.

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

Gain on changes in fair value less estimated point-of-sale cost of biological assets of the Group amounted to RMB14.97 million during the first half of 2008, mainly due to the change of the fair value of the Group's biological asset.

### Finance costs

Finance costs of the Group amounted to RMB244 million during the first half of 2008, decreased by 24.85% over the corresponding period of last year, mainly due to invigoration of the Group's financing capability with the bank loans decreased when compared with the corresponding period of last year. On the other hand, the interest rate expense decreased when compared with the corresponding period of last year as the convertibles of the Company were fully redeemed on 14 May, 2008.



## V. Directors' Report

### Income tax expense

Income tax expense of the Group amounted to RMB267 million during the first half of 2008, increased by 106.38% over the corresponding period of last year, mainly due to the gradual increase in the profit when compared with the corresponding period of last year as a result of the increase in the turnover and the gross profit of the Group, and thus the increase of the income tax.

### Profit attributable to minority interests

Profit attributable to minority interests amounted to RMB136 million during the first half of 2008, increased by 34.07% over the corresponding period of last year, mainly due to (1) the greater net profit margin and thus the greater profit attributable to the minority interests, and (2) the profit attributable to minority interests decreased while the Company acquired the minority interests of 35.71% of Power Supply Holdings, a subsidiary of the Company.

### Profit and profit margin attributable to equity holders of the Company

Profit and profit margin of attributable to equity holders of the Company were RMB960 million (before minority interests) and 11.78% (before minority interests) respectively during the first half of 2008, net profit increased by 161.78% over the corresponding period of last year, net profit margin increased by 5.90% composed with the rate of 5.47% in the corresponding period of last year. It is mainly attributable to the increase in sales volume and gross profit of sales in the current reporting period when compared with the corresponding period of last year.

### Liquidity

During the first half of 2008, the cash flows from operating activities, the cash flows from investing activities and the cash flows from financing activities of the Group were RMB1,711 million, -RMB611 million and RMB1,908 million respectively, increased by 1,781.12%, -23.97% and 241.36% from the corresponding period of last year. Among other things,

- (1) the cash flows from operating activities increased mainly due to:
  1. the revenue increase as a result of the rise of sales volume and the sales prices benefiting from the more favorable market conditions during the reporting period, as well as our greater efforts in the recovery of trade receivables, thus leading to the increase of the net cash flows from operating activities; and
  2. the reflection of discounted bills outstanding deemed as borrowings at the prior year end in the cash inflows from financing activities in the cash flow statement. The cash inflows from operating activities also increased due to deemed repayment of borrowings when bills becoming due during the reporting period, thus leading to an increase of the net cash flows from operating activities by RMB 420 million;
- (2) the cash flows from investing activities increased mainly due to the change of restricted bank deposits, including letters of credit and acceptance deposits, a decrease in investment levels during the reporting period, and an increase of the special funds from the government; and
- (3) the cash flows from financing activities increased mainly due to receipt of the proceeds from the issuance of H shares during the reporting period and the change in borrowings.



## V. Directors' Report

### Whether there is significant seasonal effect on the capital requirements of the Company

In 2008, there is no significant seasonal effect on the capital requirements of the Company.

### Principal sources of funding

During the first half of 2008, the principal sources of funding of the Group mainly derived from the revenue from production operations, bank loans, issuance of the short-term debentures and financing activities of new H shares offering on the main board of Hong Kong capital market.

### Bank borrowings and interest rate of borrowings of the Company during the reporting period

During the reporting period, the Group's new bank borrowings were increased by RMB3,110 million and the repayment of loan amounted to RMB4,300 million. The borrowings was bearing interest from 5.06% to 7.62%.

### Gearing ratio of the Company

As at 30 June 2008, the gearing ratio of the Group was 37.74%, being dropped by 8.69% compared with the ratio of 46.43% at the end of the corresponding period of last year, mainly due to the Company increased the capital by the way of H shares issue, as well as the Company repaid part of the loans in the reporting period, thus the loans from banks dropped.

### Secured assets of the Company at the end of the reporting period

As at 30 June 2008, the secured assets of the Group included: International Finance Corporation ("IFC"), Deutsche Bank AG ("DEG") and China Construction Bank Nanchang Changbei Branch entered into an loan agreement with Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. The net book value of the collateral with regard to fixed assets was RMB 1,174,658,072.50 and that with regard to the land use rights or intangible assets was RMB 75,454,889.54.

### Contingent liabilities of the Company

As at 30 June 2008, there were no contingent liabilities of the Company.

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



## V. Directors' Report

### **Risk of fluctuations in foreign exchange rate and any relevant hedging**

During the reporting period, the exchange gains of the Company was RMB166 million, mainly due to: the exchange gain from the foreign currency borrowings and accounts payable due to appreciation of RMB.

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

During the period under review of the six months period ended 30 June 2008, the Group had used derivative financial instruments denominated in US dollars for hedging purposes. However, the Group will continue to monitor the exposure of proceeds from global offering to foreign exchange fluctuations.

### **V. Warning on any potential loss in retained net profit for the period from the beginning of the year to the end of the next reporting period or any material change from the corresponding period of last year and the reason thereof**

The Group has recorded a significant increase in profit from principal operations mainly attributable to higher production and sales volume benefiting from the 300,000-tonne per annum super coated art paper project of the Company and the Jilin 180,000-tonne light weight coated paper project, both of which have fully met the Company's production targets in 2008, and the commencement of production of the Shandong Shouguang 98,000-tonne per annum de-ink waste paper project and the Jilin 300-tonne daily chemical pulp production line, as well as a concurrent rise in the prices of the major products of the Company to varying extent. It is expected that retained net profit of the Group for the period from January to September of 2008 will increase by 50% to 100% from the corresponding period of last year.





## V. Directors' Report

### VI. Business outlook for the second half of 2008

In relation to the second half of 2008, the Company will be committed to achieving the goals as set in the beginning of the year. With a view to improving economic efficiency, the Company will continue to implement restructuring policy and enhance independent innovation, energy saving, emission reduction, and brand building, in order to keep the good growth momentum as seen in the first half of the year, mainly in terms of the following aspects:

**1. To accelerate the structural adjustment and achieve scientific development**

We will promote structural adjustment with project construction by optimizing the low value-added and resource-consuming products, eliminating obsolete techniques, equipment and raw materials, improving technical equipment and product grade; accomplishing newly launched project construction, meeting targeted production levels and efficiency as soon as possible, exploring and justifying projects with high technological level and high added value according to market demand and making a good project data preparation.

**2. To enhance independent innovation**

We enhance cooperation with leading international paper making enterprises and domestic and international scientific research institutes; accelerate the improvement of our proprietary pulp production lines, improve the quality and production capacity of our proprietary pulp, further optimize the raw materials structure; accelerate the development of new products, and actively develop the production of new products with high added value and high technological level.

**3. To enhance energy saving and emission reduction and sustainable development capacity**

We set reduction in water resources consumption as the focal point for enhancement of energy saving and emission reduction, develop and promote the use of new water saving technologies, new techniques and new equipment, improve the repeated utilization ratio of water; accomplish paper-making waste water advanced treatment recycle projects, raise the repeated utilization ratio of neutral water, accelerate progress on the technological transformation for sewage disposal systems, solid waste retrieval and desulphurization for thermo-electric systems, and enhance environmental protection levels.

**4. To accelerate the forestry-pulp-paper integration**

We make great efforts to speed up the progress on the Zhanjiang Chenming pulp project and the construction of raw timber base to realize the coordinated development with the pulp projects, and accelerate the construction of Hubei forestry project base to build an industry chain of "forestry-pulp-paper integration".

**5. To enhance construction of projects financed by proceeds**

The issuance of H-shares of the Company had been completed during the reporting period. This financing activity greatly improved our asset and liability structure, thereby fundamentally solving the financing issue of Zhanjiang pulp project construction. The Company will use the proceeds strictly in accordance with the intended usage with careful organization and scientific deployment in more rational and effective manner to create all favorable conditions, enabling the project construction progress to be of high quality as planned.



## VI. Material Matters

### I. PERSONNEL INFORMATION

#### 1. Personnel movement

Please refer to part “IV. Directors, Supervisors and Senior Management”.

#### 2. Staff of the Company and the remuneration policy

As at 30 June 2008, the Company had 16,762 employees in aggregate, including 12,215 production staff, 545 sales staff, 711 technical staff, 278 financial staff, 1,957 administrative staff and 1,056 other staff for other divisions. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

### II. THE CORPORATE GOVERNANCE STRUCTURE DURING THE REPORTING PERIOD

#### 1. The Company’s corporate governance is generally in compliance with the relevant requirements of China Securities Regulatory Commission (CSRC)

The Company performed due diligence on its operations in accordance with the Notice on Matters Pertaining to Special Activities in Strengthening Corporate Governance of Listed Companies issued by CSRC in 2007 and proposed the scheme of rectification and improvement on existing problems at the same time and seriously further implemented the standardized operation. During the first half of 2008, the Company complied with the Notice of Further Advancing the Company to Manage the Special Activity Thoroughly in 2008 (《關於2008年進一步深入推進公司治理專項活動的通知》) (Listing department letter [2008] No. 116) as promulgated by listing division of CSRC and the relevant requirements by Stated-owned Assets Supervision and Administration Committee of Shandong Province. The Company’s special activity task team reevaluated the rectification and improvement situation of rectification and improvement items set out in “Report of rectification and improvement” as at 30 June 2008 and especially rectification and improvement effects from continuous improvement issues. After the special activity of the corporate governance performed by the Company, standard of corporate governance was raised significantly. Not only the Company’s internal control system further improves, but also the Company’s directors, supervisors and senior management become more aware of the importance of corporate governance, and strengthen their consciousness of standardized operations, establishing the foundation on which the Company continues to improve its governance.

In 2008, the Company relies on the consolidated basis of achievement for special activity of the corporate governance and is in compliance with the principles of the relevant rules of CSRC, in pursuit of further advancing the Company to manage the special activity thoroughly and improving the standard of the corporate governance of the Company. The Company will pay special attention to the following: further consummate our internal control system, regulate related transactions, set up an effective system to prevent major shareholders and related parties from embezzling the Company’s fund and encroaching on the listed company; strictly carry out the Company’s information disclosure management system, guaranteeing that the disclosure of information is true, accurate, complete, prompt and justice; strictly to continue carrying out the Company’s information disclosure



## VI. Material Matters

management system, prevent insider trading and manipulating stock prices and protect medium and minority shareholder's interests. We strengthen training and communication related to information disclosure management by subsidiaries of the Company, ensuring the effective implementation of information disclosure management by subsidiaries of the Company.

### 2. Corporate governance

The Group had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Hong Kong Listing Rules during the reporting period.

### 3. Securities transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules as the model code of conduct required regarding securities transactions by the Directors and Supervisors. Having made specific 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 and the Code of Conduct in this Code regarding the securities transactions by the Directors and Supervisors during the reporting period.

### 4. Audit committee

The Audit Committee of the Company had discussed with the management the accounting standards and practices adopted by the Company, and had also discussed and reviewed this report, including the financial statements of the Company as at 30 June 2008 prepared in accordance with China Accounting Standards and International Financial Reporting Standards respectively.

## III. THE 2007 PROFIT DISTRIBUTION PROPOSAL, PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES AND THE 2008 PROFIT DISTRIBUTION PROPOSAL FOR THE SIX MONTHS PERIOD

- (1) The 2007 profit distribution proposal of the Company of RMB1.60 (tax included) (after deduction of tax, RMB 1.44 for every 10 shares will be paid to the individual shareholders and investment funds, and in respect of B share shareholders, tax excluded temporarily) to be paid to all the shareholders for every 10 shares on the basis of the Company's total share capital of 1,706,345,941 shares as at 31 December 2007, was considered and approved at the 2007 annual general meeting. Cash bonus of RMB 273,015,350.56 (tax included) was distributed in this distribution in aggregate.

For A shares, the ex-rights date was 8 July 2008. For B shares, the ex-rights date was 11 July 2008. Cash bonus of RMB 1.6 for every 10 shares (tax included) are paid on the basis of the share capital as at the above dates.

- (2) The Company does not propose any profit distributions or share capital increase by way of transfer from reserves in the interim period.



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### IV. MATERIAL ACQUISITION AND DISPOSAL OF ASSETS, AND MERGER AND ACQUISITIONS OF THE COMPANY DURING THE REPORTING PERIOD

The fifth meeting of the fifth session of the Board of the Company held on 19 January 2008 approved the resolution to further increase the shareholdings in Shandong Chenming Power Supply Holdings Co., Ltd. by agreeing to purchase the state-owned shares and collective shares of Shandong Chenming Power Supply Holdings Co., Ltd, the subsidiary of the State-owned Assets Supervision and Administration Commission of Shouguang City and the Government of Shouguang City. The relevant procedure of the asset acquisition had been completed in the reporting period. This acquisition constituted as a connected transaction, the detailed information is disclosed under the “Connected Transactions”.

### V. MATERIAL LITIGATION AND ARBITRATION

The Company was not subject to any material litigation during the reporting period.

### VI. COMMITMENTS BY HOLDERS OF NON-TRADABLE SHARES DURING THE REFORM OF CONVERSION

#### 1. Commitments during the reform of Conversion

The Company completed the reform of Conversion on 29 March 2006. State-owned Assets Supervision and Administration Commission of Shouguang City, the controlling shareholder, and other holders of non-tradable shares transferred some of their shares to all of the shareholders of tradable A Shares in the proportion of 2.6 shares for every 10 tradable A Shares. In 2006, the controlling shareholder of the Company changed to Shouguang Chenming Holdings Co., Ltd from State-owned Assets Supervision and Administration Commission of Shouguang City. Shouguang Chenming Holdings Co., Ltd and Shouguang Chenming Holdings Co., Ltd promises it will fulfill the following commitments made by the original controlling shareholder, State-owned Assets Supervision and Administration Commission of Shouguang City, during the reform of Conversion:

- (1) According the audited financial reports (standard and without qualified opinion) of the Company for 2005-2007, if the compound annual growth rate of the Company's net profit for 2005 to 2007 is less than 20%, then it shall be determined the register day for the top-up matching price share right (i.e. the tenth trading day of disclosing the 2007 annual report) after the fifth trading day of disclosing the 2007 annual report and disclosed the top-up matching price announcement and complete the implementation of top-up matching-price on the first trading day after the top-up matching price share right register day. Shouguang Chenming Holdings Co., Ltd will transfer, without consideration, 5% of the total number of tradable A Shares on share right register day to implement the scheme to holders of tradable A Shares with no restricted conditions registered after the close of register day to top-up matching-price share right. (If this scheme is implemented between stock right register day to the top-up matching price share right register day, there is a change in capital due to bonus issue and transfer to capital surplus, it shall adjust number of shares for this top-up matching price arrangement.)
- (2) Shares held by Shouguang Chenming Holdings Co., Ltd shall not be listed and traded within 48 months from the date of the reform of Conversion.



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- (3) After this reform scheme of Conversion has been approved to implement, Shouguang Chenming Holdings Co., Ltd proposed the bonus distribution at the shareholders' meetings of the Company for 2005, 2006 and 2007, proposing profit allocation proportion not lower than 30% of those of realized distributable profit in those years (i.e. net profit for those years set out in the income statement net of amount transferred to statutory common reserve fund and statutory public welfare reserve) and guarantee to vote for this proposal when proposed at the shareholders' meeting.

### 2. Undertakings and their performance during the reporting period

The financial reports of the Company for the three years ended from 2005 to 2007 were audited by Deloitte Touche Tohmatsu CPA Ltd., while it issued auditors' reports of 德師京(審)報字(06)第173號, 德師報(審)第PB006號, 德師報(審)字(08)第P0262號 respectively, all of them were also of without qualified opinion. The net profit of Company amounted to RMB 503,721,298.14, RMB602,433,342.24, RMB602,967,195.37 and RMB967,636,172.39 in 2004, 2005, 2006 and 2007 respectively.

The Company's compound annual growth rate of net profit from 2005-2007 amounted to 24.31% (i.e. higher than 20%) and did not trigger the performance condition of top-up price matching shares, thus Chenming Holdings was not required to further increase the matching price.

18,653,854 shares were kept under the custody of the Shenzhen branch of China Securities Depository and Clearing Corporation temporarily to be used for top-up price matching in the undertakings. The temporary custody of these shares was released during the reporting period and the nature of such shares remained restricted state-owned legal person shares.

For the end of the reporting period, Shouguang Chenming Holdings Co., Ltd., the controlling shareholders of the Company has fulfilled all the commitments which made during the reform of Conversion, except the "Shares held by Shouguang Chenming Holdings Co., Ltd. shall not be listed and traded within 48 months from the date of reform of Conversion".

3. Additional undertaking on shares subject to trading moratorium by shareholders with 5% or more (including 5%) of the Company's shares in the reporting period.



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### VII. CONNECTED TRANSACTIONS

The fifth meeting of the fifth session of the Board held on 19 January 2008 approved the resolution to further increase the shareholdings in Shandong Chenming Power Supply Holdings Co., Ltd. by agreeing to purchase the state-owned shares and collective shares of Shandong Chenming Power Supply Holdings Co., Ltd, the subsidiary of the State-owned Assets Supervision and Administration Commission of Shouguang City and the Government of Shouguang City. This acquisition constituted as a connected transaction under the requirement of the Rule 10.1.3(5) of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. The independent directors had issued their independent opinion in respect of this transaction. The Company had already disclosed information of this connected transaction and its details were published in *China Securities Journal*, *Hong Kong Commercial Daily* and the website of CHINF ([www.cninfo.com.cn](http://www.cninfo.com.cn)) on 22 January 2008.

### VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the reporting period, Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, entered into Zhangjiang Pulp Project Syndicated Loan Contract 《湛江木漿專案銀團貸款合同》 and Syndicated Loan Mortgage Contract 《銀團貸款抵押合同》 with a syndicate of banks, which included China Development Bank, Zhanjiang branch of Agricultural Bank of China, Zhanjiang branch of Industrial and Commercial Bank of China Limited, Zhanjiang branch of China Construction Bank Corporation, Qingdao Branch of China Merchants Bank Co., Ltd., and Shenzhen Branch OF China CITIC Bank Corporation Limited. The syndicated loan was intended to finance the project of Zhanjiang Chenming Paper Pulp. In the meantime, the Company entered into Syndicated Loan Guarantee Contract 《銀團貸款保證合同》 with a syndicate of banks, pursuant to which, the Company provided joint responsibility guarantees to a syndicate of banks for Zhanjiang Chemming for the insolvent part of the debts except for the future asset pledged as collateral. The details of the loan agreement were published in *China Securities Journal*, *Hong Kong Commercial Daily* and the website of CHINF ([www.cninfo.com.cn](http://www.cninfo.com.cn)) on 22 January 2008.



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### IX. EXTERNAL GUARANTEES

During the reporting period, the Company did not provide any external guarantees or illegal guarantees.

The Company provided guarantees of RMB921.4927 million for its subsidiaries as at 30 June 2008, representing 7.59% of the net assets attributable to equity holders of the Company.

External guarantees provided by the Company (excluding guarantees for subsidiaries)

Unit:RMB in ten thousand

Name of the guaranteed entity	Date of incurrence (Agreement signing date)	Guarantee Amount	Type of Guarantee	Guarantee Period	Completed or not	Guarantee for connected parties (Yes or No)
Total guarantee amounts during the reporting period	Nil	Nil	Nil	Nil	Nil	Nil
Balance of guarantees during the reporting period (A)	Nil	Nil	Nil	Nil	Nil	Nil
<b>Guarantees provided by the Company for subsidiaries</b>						
Total guarantee amounts for subsidiaries during the reporting period						10,694
Balance of guarantees for subsidiaries at the end of the reporting period (B)						92,149.27



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Name of the guaranteed entity	Date of incurrence (Agreement signing date)	Guarantee Amount	Type of Guarantee	Guarantee Period	Completed or not	Guarantee for connected parties (Yes or No)
Total guarantee amounts provided by the Company (including guarantees for subsidiaries)						
Total guarantee amounts(A+B)	—	—	—	—	—	92,149.27
Total guarantee amounts as a percentage of net assets						
	—	—	—	—	—	7.59%
Of which:						
Guarantee amounts provided for shareholders, the de facto controller and connected parties (C)						
	—	—	—	—	—	—
Guarantee amounts provided directly or indirectly for entities with						
	—	—	—	—	—	—
Guarantee amounts provided by the debtors of guarantee with gearing ratio exceeding 70%						
	—	—	—	—	—	46,743.64
Total guarantee amounts exceeding 50% of net assets (E)						
	—	—	—	—	—	45,405.63
Total amounts of the three guarantees mentioned above* (C+D+E)						
	—	—	—	—	—	92,149.27





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### X. OTHER NOTES AND ANALYSIS OF THE PROGRESS OF SIGNIFICANT EVENTS AND THEIR IMPACT AND SOLUTION

1. During the reporting period, the Company did not invest in any securities, and the Company did not hold any equity interests of other listed companies, unlisted financial institutions and prospective listed companies.
2. Except for the provision of entrusted loans to subsidiaries of the Company (Please see note 8 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details), the Company did not appoint any person to manage the Company's funds during the reporting period or in the preceding reporting period which had been carried over to this reporting period. Also, there was no trust, subcontracting and lease of the assets between the Company and other companies during the reporting period or in the preceding reporting period which had been carried over to this reporting period.
3. Independent opinion from independent directors in respect of the related parties from embezzling the Company's fund and external guarantees during the reported period as follows:

After inspection, Shouguang Chenming Holdings Limited, the controlling shareholder, and other related parties had not embezzled the Company's fund during the reported period, except for the connected transactions which entered into between the Company and its subsidiaries and fellow subsidiaries (Please see note 9 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details). The connected transactions are comparably true and accurate to represent the routine connected transactions of the Company, which complied with the principle of fair and reasonable, and related requirements of the Company Law and the Articles of Associations. The price of the transactions are true and fair and not resulted in impairment of the interests of the Company and other shareholders, especially the interest of medium and minority shareholders, and non-associated shareholders.

After inspection, the external guarantee amounts of the Company in the current period of the first half of 2008 and the aggregated external guarantee amounts both are nil, except for the guarantees provided to subsidiaries (Please see note 9 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details). The Company strictly complied with the related requirements of "Notice on Regulating External Guarantees made by Listed Companies" (Zheng Jian Fa [2005] No. 120) And the Articles of Associations, the Company has been in strict compliance with the obligation of disclose of the information about external guarantees, and truly provide the information of all the external guarantees to the qualified accountant according to the rule. During the reported period, the guarantees provided to subsidiaries by the Company conform to the requirements of the routine production and operation and reasonable utilization of the funds of the Company, its decision making procedure is legitimate, and not resulted in impairment of the interests of the Company and other shareholders, especially the interest of medium and minority shareholders, and non-associated shareholders.



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### XI. RECEPTION OF ACTIVITIES INCLUDING RESEARCH, COMMUNICATION AND INTERVIEWS DURING THE REPORTING PERIOD

Time of reception	Place of reception	Manner of reception	Received Party	Main contents of conversation and information provided
January 2008	Shouguang, Shandong	Investigation and research on site	Analysts of Changjiang Securities, Hillhouse Capital Beijing office and Orient Securities	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
March 2008	Shouguang, Shandong	Investigation and research on site	Analysts of Citic Securities and investment manager of Huatai Asset Management Company Limited	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
March 2008	Shouguang, Shandong	Investigation and research on site	Institution analysts and fund managers Guotai Junan, China Jianyin Investment Securities, Sinolink Securities, China Merchants Securities, Changsheng Fund, Harvest Fund and Lion Fund	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
March 2008	Shouguang, Shandong	Investigation and research on site	Analysts and fund managers of China International Capital Corporation Limited, Fortune SGAM Fund, 寶鋼財務, Fullgoal Fund LibraCap (QFI) and Harvest Fund	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.



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Time of reception	Place of reception	Manner of reception	Received Party	Main contents of conversation and information provided
March 2008	Shouguang, Shandong	Investigation and research on site	Analysts and investment managers of Changjiang securities, ANB Amro Teda Fund, Bosera Funds, First Capital Securities, ICBC Credit Suisse Asset and CNGC North Industries Group Finance	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
March 2008	Shouguang, Shandong	Investigation and research on site	Analysts and fund managers of BOC International, Tianhong Asset, Hua An Funds, Fortis Haitong Investment, Zhonghai Fund, Ping An Asset, Lehman Brothers and Greatwall Fund	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
June 2008	Shouguang, Shandong	Investigation and research on site	Chief securities sales officer and analyst of Merrill Lynch Group, and the representative of Fidelity Investments	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.
June 2008	Shouguang, Shandong	Investigation and research on site	Chief Investment Officer and industry research analyst of Zhonghai Fund	Recent development trend of the industry, the manufacture and operation of the Company, as well as the strategies in the future and the progress of the issuance of H shares and etc.



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### XII. THE IMPLEMENTATION OF THE SOCIAL RESPONSIBILITY OF THE COMPANY DURING THE REPORTING PERIOD

In the recent years, as the Company grows bigger with greater economic benefits and great corporate development, the Group has devoted contributing to society and participates in a variety of public welfare undertakings.

After Southern China suffered from ice disaster in February 2008, the senior management of the Company paid close attention to the lives of people in disaster areas through various channels, raised RMB 2 million to support the post-disaster reconstruction of Southern China in the shortest possible time, and conveyed the supporting message to the victims through Red Cross Society. The Company hoped that the plight of victims can be remedied, and they can rebuild their beautiful homeland.

After the 8.0 Ms Sichuan - Wenchuan earthquake in May 2008, the Company decided to propose a proposal of donation to all the staffs, make appeal to donate for the victims from the disaster regions, and help the victims from the disaster regions tide over the difficulties. After the earthquake, the Company and all the staff donated over RMB 4 million in aggregate, including voluntary contributions and special party fees. The abovementioned donations had been donated to relevant organizations according to relevant procedures.



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### XIII. DIRECTORY OF THE DISCLOSED INFORMATION IN THE FIRST HALF OF 2008

Date of announcement	Relevant matter	Publishing media and websites
2008-1-10	Clarification Announcement	C12 of <i>China Securities Journal</i> , B6 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-1-22	Announcement in respect of the resolutions passes at the fifth meeting of the fifth session of the board of directors	D045 of <i>China Securities Journal</i> , B3 of <i>Hong Kong Commercial Daily</i>
	Announcement in respect of the resolutions passes at the fifth meeting of the fourth session of the board of directors	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
	Connected transaction announcement and announcement in respect of the Zhanjiang Chenming and the syndicated loan agreement	
	Independent opinion of the independent directors in respect of the reorganization of bad debt loss of the sales company	
	Independent opinion of the independent directors in respect of further increase the shareholdings of the Company in Chenming Power	
2008-2-26	Indicative Announcement in respect of the listing of foreign shares listed overseas approved by the CSRC	D005 of <i>China Securities Journal</i> , A9 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-3-25	Announcement in respect of the granting of financial subsidy, Announcement in respect of the resolutions passes at the fifth meeting of the sixth session of the board of directors; and Notice in respect of the convention of 2008 First Extraordinary General Meeting	C12 of <i>China Securities Journal</i> , B7 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>



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Date of announcement	Relevant matter	Publishing media and websites
2008-3-26	Announcement in respect of the external guarantees	D141 of <i>China Securities Journal</i> , B9 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-4-12	Announcement in respect of the resolutions passes at the 2008 First Extraordinary General Meeting	C045 of <i>China Securities Journal</i> , A3 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-4-15	Summary of 2007 Annual Report, Announcement in respect of the resolutions passes at the fifth meeting of the seventh session of the board of directors; and Announcement in respect of the resolutions passes at the fifth meeting of the fifth session of the board of directors	D053 of <i>China Securities Journal</i> , A7 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-4-24	Indicative Announcement in respect of the change of the disclosure date of 2008 first quarter report	A28 of <i>China Securities Journal</i> , A9 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-4-29	Summary of the first quarter report of 2008	D076 of <i>China Securities Journal</i> , A10 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-5-10	Announcement in respect of the undertakings associated with the share reform  Announcement in respect of the change of on-going monitoring sponsor for the share reform	C005 of <i>China Securities Journal</i> , A9 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>



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Date of announcement	Relevant matter	Publishing media and websites
2008-5-24	Announcement in respect of the application of the issue and listing of the H shares of the Company considered by the Hong Kong Stock Exchange and the web proof information pack of H shares issue	C021 of <i>China Securities Journal</i> , A10 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-5-31	Announcement in respect of the resolutions passes at the fifth meeting of the eighth session of the board of directors	C009 of <i>China Securities Journal</i> , B6 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-6-4	Announcement in respect of the relevant matters of H share prospectus, price range of H shares and the H share Hong Kong Public Offering	B of <i>China Securities Journal</i> , B3 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-6-7	Announcement in respect of the resolutions passes at the fifth meeting of the ninth session of the board of directors	C012 of <i>China Securities Journal</i> , A8 of <i>Hong Kong Commercial Daily</i>
	Notice in respect of the convention of 2007 General Meeting	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-6-11	Announcement in respect of the offering price for the IPO of foreign shares listed overseas(H share)	D005 of <i>China Securities Journal</i> , B5 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2008-6-17	Announcement in respect of the listing and quotation for the foreign shares listed overseas(H share) of IPO	D004 of <i>China Securities Journal</i> , B5 of <i>Hong Kong Commercial Daily</i>  <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

Note: The Company announced 44 disclosures in the first half of 2008.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### Balance Sheets

As at 30 June 2008

ASSETS	Notes	Consolidated		The Company	
		30 June 2008 RMB	31 December 2007 RMB	30 June 2008 RMB	31 December 2007 RMB
<b>CURRENT ASSETS</b>					
Bank balances and cash	VIII.1	3,714,383,576.78	740,621,843.91	3,199,087,163.69	348,948,724.68
Derivative financial instruments	VIII.2	7,187,697.00	5,955,480.00	—	—
Bills receivable	VIII.3	1,060,198,464.41	1,676,684,054.95	405,502,240.90	998,809,409.00
Accounts receivable	VIII.4	1,448,599,988.48	1,660,020,696.84	1,349,046,095.45	1,466,109,588.60
Advance to suppliers	VIII.5	876,809,957.73	574,014,801.43	414,127,678.67	279,890,382.88
Dividends receivable		—	—	145,674,997.10	42,933,862.14
Other receivables	VIII.6	184,705,743.35	196,162,672.11	538,081,786.52	776,521,148.45
Inventories	VIII.7	2,600,562,908.51	1,744,492,612.36	1,280,690,241.77	721,354,749.54
Entrusted loans due within one year	VIII.8	—	—	2,501,700,000.00	1,864,000,000.00
<b>Total current assets</b>		<b>9,892,448,336.26</b>	<b>6,597,952,161.60</b>	<b>9,833,910,204.10</b>	<b>6,498,567,865.29</b>
<b>NON-CURRENT ASSETS</b>					
Entrusted loans	VIII.8	—	—	590,000,000.00	625,000,000.00
Long-term investments	VIII.9	83,914,596.38	96,289,936.43	2,278,653,121.69	2,194,652,949.31
Investment properties	VIII.10	29,033,852.17	29,902,980.19	29,033,852.17	29,902,980.19
Fixed assets	VIII.11	13,562,622,447.73	13,243,156,039.93	6,569,813,273.65	6,555,767,873.32
Construction in progress	VIII.12	811,995,951.52	904,753,634.02	46,397,314.96	275,351,308.78
Project materials		59,191,829.45	44,433,213.61	3,253,753.06	6,850,752.92
Intangible assets	VIII.13	887,763,409.02	822,301,826.32	372,402,202.77	377,022,979.83
Goodwill	VIII.14	20,283,787.17	20,283,787.17	—	—
Long-term deferred expenditure	VIII.15	43,815,389.53	56,513,234.75	—	—
Deferred income tax assets	VIII.16	98,168,565.04	103,361,571.98	67,460,809.69	72,516,429.65
Consumable biological assets	VIII.17	153,170,000.00	92,159,871.29	—	—
<b>Total non-current assets</b>		<b>15,749,959,828.01</b>	<b>15,413,156,095.69</b>	<b>9,957,014,327.99</b>	<b>10,137,065,274.00</b>
<b>TOTAL ASSETS</b>		<b>25,642,408,164.27</b>	<b>22,011,108,257.29</b>	<b>19,790,924,532.09</b>	<b>16,635,633,139.29</b>



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

LIABILITIES AND OWNERS' EQUITY	Notes	Consolidated		The Company	
		30 June 2008 RMB	31 December 2007 RMB (restated)	30 June 2008 RMB	31 December 2007 RMB (restated)
<b>CURRENT LIABILITIES</b>					
Short-term loans	VIII.19	2,099,397,384.04	3,594,000,057.28	1,727,816,192.59	3,350,420,391.17
Notes payable	VIII.20	147,082,514.36	130,056,316.74	47,961,845.35	121,487,222.14
Accounts payable	VIII.21	2,127,943,709.74	1,656,706,980.62	1,642,110,177.74	1,332,552,331.70
Advances from customers	VIII.22	177,133,497.30	170,286,629.21	106,152,262.79	92,126,887.49
Employee benefits payable	VIII.23	218,307,517.64	234,880,219.06	126,039,020.68	119,224,432.42
Taxes payable	VIII.24	118,666,630.82	102,444,450.86	125,749,839.19	100,151,250.80
Dividends payable	VIII.25	273,051,425.73	36,075.17	273,051,425.73	36,075.17
Other payables	VIII.26	444,172,768.68	305,050,016.38	319,950,176.74	278,838,344.66
Non-current liabilities					
due within one year	VIII.27	1,162,787,480.82	667,746,417.91	1,008,538,675.00	586,144,500.00
Short-term debentures	VIII.28	1,218,523,194.44	506,212,916.67	702,123,333.33	—
<b>Total current liabilities</b>		<b>7,987,066,123.57</b>	<b>7,367,420,079.90</b>	<b>6,079,492,949.14</b>	<b>5,980,981,435.55</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term loans	VIII.29	3,708,482,090.26	4,056,194,662.35	2,638,079,535.94	2,899,617,835.94
Special payables		—	—	—	—
Deferred income	VIII.30	41,131,083.32	830,000.00	1,809,000.00	—
Deferred income tax liabilities	VIII.31	9,846,910.15	6,103,850.08	—	—
<b>Total non-current liabilities</b>		<b>3,759,460,083.73</b>	<b>4,063,128,512.43</b>	<b>2,639,888,535.94</b>	<b>2,899,617,835.94</b>
<b>TOTAL LIABILITIES</b>		<b>11,746,526,207.30</b>	<b>11,430,548,592.33</b>	<b>8,719,381,485.08</b>	<b>8,880,599,271.49</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

LIABILITIES AND OWNERS' EQUITY	Notes	Consolidated		The Company	
		30 June 2008 RMB	31 December 2007 RMB (restated)	30 June 2008 RMB	31 December 2007 RMB (restated)
OWNERS' EQUITY					
Share capital	VIII.32	2,062,045,941.00	1,706,345,941.00	2,062,045,941.00	1,706,345,941.00
Capital surplus	VIII.33	6,100,544,240.89	3,737,991,906.21	6,192,089,748.26	3,827,378,359.74
Surplus reserve .	VIII.34	723,742,920.58	723,742,920.58	711,553,338.67	711,553,338.67
Undistributed profits	VIII.35	3,251,062,407.86	2,576,650,349.38	2,105,854,019.08	1,509,756,228.39
Translation reserve .		774,075.80	303,894.68	—	—
Equity attributable to equity holders of the company					
Total equity		12,138,169,586.13	8,745,035,011.85	11,071,543,047.01	7,755,033,867.80
Minority Interests	VIII.36	1,757,712,370.84	1,835,524,653.11	—	—
Total equity .		13,895,881,956.97	10,580,559,664.96	11,071,543,047.01	7,755,033,867.80
TOTAL LIABILITIES AND OWNERS' EQUITY		25,642,408,164.27	22,011,108,257.29	19,790,924,532.09	16,635,633,139.29

The notes form an integral part of the financial statements.

The financial statements and notes thereto, and the supplemental information provided by the management have been signed by:

Head of Corporation: Chen Hongguo

Chief Financial Officer: Liu Junwu

Head of the finance section: Wang Chunfang

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### INCOME STATEMENTS

For the year ended 30 June 2008

	Notes	Consolidated		The Company	
		January – June 2008 RMB	January – June 2007 RMB	January – June 2008 RMB	January – June 2007 RMB
Operating Revenue	VIII.37	8,552,402,269.40	6,797,896,720.16	7,253,178,510.24	5,671,924,984.93
Less: Cost of main operations	VIII.38	6,647,216,143.91	5,510,418,331.42	6,161,287,463.14	5,003,493,491.98
Tax and levies on main operations	VIII.39	6,755,555.55	11,895,855.09	135,343.88	2,859,977.01
Selling and distribution expenses		402,926,002.43	304,204,074.67	197,903,117.82	135,334,159.33
General and administrative expenses		265,718,708.42	208,290,535.85	102,326,327.25	82,924,306.70
Finance expenses	VIII.40	78,635,192.38	201,121,690.39	30,691,691.51	154,665,213.73
Loss on impairment of assets	VIII.41	(30,714,668.67)	59,276,005.63	(21,862,543.25)	6,098,143.74
Add: Gain on change in fair value	VIII.42	16,204,457.27	—	—	—
Investment income	VIII.43	(12,289,463.09)	(190,912.12)	230,665,587.59	55,720,620.11
Including: Investment income from associates and joint ventures		—	—	—	—
Operating profit		1,185,780,329.56	502,499,314.99	1,013,362,697.48	342,270,312.55
Add: Non-operating income	VIII.44	168,804,618.70	120,924,970.26	80,045,436.63	65,418,025.12
Less: Non-operating expenses	VIII.45	7,929,167.09	5,322,844.56	5,943,534.62	3,064,797.43
Including: Loss on disposal of non-current assets		—	—	—	—
Total profit		1,346,655,781.17	618,101,440.69	1,087,464,599.49	404,623,540.24
Less: Income tax expenses	VIII.46	267,002,051.55	132,187,730.90	218,351,458.24	83,241,309.64
Net profit		1,079,653,729.62	485,913,709.79	869,113,141.25	321,382,230.60

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

Notes	Consolidated		The Company	
	January – June 2008 RMB	January – June 2007 RMB	January – June 2008 RMB	January – June 2007 RMB
Net profit attributable to the equity holders of the Company	947,427,409.04	388,928,937.34	869,113,141.25	321,382,230.60
Minority interests	132,226,320.58	96,984,772.45	—	—
Earnings per share				
Basic	0.55	0.26	0.50	0.21
Diluted	N/A	N/A	N/A	N/A

The notes form an integral part of the financial statements.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### CASH FLOW STATEMENTS

For the six months ended 30 June 2008

Notes	Consolidated		The Company	
	January – June 2008 RMB	January – June 2007 RMB	January – June 2008 RMB	January – June 2007 RMB
Cash Flows from				
Operating Activities				
Cash received from				
sales of goods,				
rendering of services	8,936,604,199.60	6,609,813,627.46	7,474,230,963.24	4,717,761,752.15
Refund of taxes and levies	25,236,318.81	45,021,691.39	—	—
Cash received relating to				
other operating activities VIII.51	168,013,655.24	114,854,387.01	84,287,436.24	39,920,824.26
Subtotal of cash inflows				
from operating activities	9,129,854,173.65	6,769,689,705.86	7,558,518,399.48	4,757,682,576.41
Cash paid for goods and services	5,892,637,854.74	5,375,374,896.20	5,392,150,045.39	4,246,078,859.76
Cash paid to and on behalf				
of employees	306,891,001.32	227,727,432.91	104,585,529.37	94,911,426.89
Payments of taxes and levies	829,151,747.45	508,244,069.47	503,373,439.22	229,271,513.06
Cash paid relating to other				
operating activities VIII.52	390,618,258.84	254,669,195.13	4,837,439.32	(624,603,334.40)
Subtotal of cash outflows				
from operating activities	7,419,298,862.35	6,366,015,593.71	6,004,946,453.30	3,945,658,465.31
Net cash flows from				
Investing activities	1,710,555,311.30	403,674,112.15	1,553,571,946.18	812,024,111.10
Cash Flows from Investing Activities				
Cash received from				
investments	—	—	210,300,000.00	90,000,000.00
Cash received from returns				
on investments	85,876.96	—	122,215,844.01	55,911,532.23
Cash received from				
disposal of fixed assets, intangible				
assets and other				
long-term assets	335,259.76	533,031.00	1,006,638.42	493,610.50
Cash received relating				
to other investing activities	65,922,610.10	4,385,569.53	42,656,386.46	—
Subtotal of cash inflows				
from investing activities	66,343,746.82	4,918,600.53	376,178,868.89	146,405,142.73

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

Notes	Consolidated		The Company	
	January – June 2008 RMB	January – June 2007 RMB	January – June 2008 RMB	January – June 2007 RMB
Cash paid to acquire fixed assets, intangible assets and other long-term assets	677,118,558.42	587,708,513.82	46,319,258.93	142,960,866.07
Cash paid on investments	10,000.00	—	813,000,000.00	883,400,000.00
Cash paid relating to other investing activities	—	5,934,284.87	—	—
Subtotal of cash outflows from investing activities	677,128,558.42	593,642,798.69	859,319,258.93	1,026,360,866.07
Net cash flows from investing activities	(610,784,811.60)	(588,724,198.16)	(483,140,390.04)	(879,955,723.34)
Cash Flows from Financing Activities				
Cash received from investment	2,661,332,038.20	—	2,661,332,038.20	—
Cash received from borrowings	3,110,154,795.66	2,006,534,916.15	2,644,282,458.86	1,544,534,809.69
Cash received from issuance of bonds	—	15,768.48	—	—
Cash received relating to other financing activities VIII.53	697,200,000.00	—	697,200,000.00	—
Subtotal of cash inflows from financing activities	6,468,686,833.86	2,006,550,684.63	6,002,814,497.06	1,544,534,809.69
Cash repayments of amounts borrowed	4,301,820,243.76	1,572,239,751.62	3,978,801,801.18	1,369,255,377.82
Cash payments for interest expenses, and distribution of dividends or profits	259,162,049.91	436,413,462.10	194,312,585.36	307,339,363.89
Cash payments for conversion of short-term debentures	—	—	—	—
Cash payments relating to other financing activities	—	3,947,154.33	—	3,748,552.40
Subtotal of cash outflows from financing activities	4,560,982,293.67	2,012,600,368.05	4,173,114,386.54	1,680,343,294.11

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

Notes	Consolidated		The Company	
	January – June 2008 RMB	January – June 2007 RMB	January – June 2008 RMB	January – June 2007 RMB
Net cash flows from financing activities	1,907,704,540.19	(6,049,683.42)	1,829,700,110.52	(135,808,484.42)
Effect of foreign exchange rate changes on cash	(8,091,780.24)	7,556,371.50	(7,336,841.19)	(1,163,801.63)
Net increase in cash and cash equivalents	2,999,383,259.65	(183,543,397.93)	2,892,794,825.47	(204,903,898.29)
Add: Balance of cash and cash equivalents at the beginning of the period	613,826,456.62	826,269,791.68	235,957,551.29	431,939,246.80
Balance of cash and cash equivalents at the end of the period	3,613,209,716.27	642,726,393.75	3,128,752,376.76	227,035,348.51

The notes form an integral part of the financial statements.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2008

	Consolidated						The Company						
	Share capital	Capital surplus	Surplus reserve	Undistributed profit	Exchange differences	Attributable to the equity holders of the parent company	Minority interests	Total equity	Share capital	Capital surplus	Surplus reserve	Undistributed profit	Total equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
I. Balance at prior year end	1,706,345,941.00	3,737,891,906.21	723,742,920.58	2,576,650,349.38	303,894.68	8,745,035,011.85	1,835,524,653.11	10,580,559,664.96	1,706,345,941.00	3,827,378,359.74	711,553,338.67	1,509,756,228.39	7,755,033,867.80
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of the current year	1,706,345,941.00	3,737,891,906.21	723,742,920.58	2,576,650,349.38	303,894.68	8,745,035,011.85	1,835,524,653.11	10,580,559,664.96	1,706,345,941.00	3,827,378,359.74	711,553,338.67	1,509,756,228.39	7,755,033,867.80
III. Changes in the current year (+/-)	355,700,000.00	2,362,552,334.68	674,412,058.48	674,412,058.48	470,181.12	3,393,134,574.28	-77,812,282.27	3,315,322,292.01	355,700,000.00	2,364,711,386.52	596,097,790.69	869,113,141.25	3,316,509,179.21
(I) Net profit			947,427,409.04	947,427,409.04		947,427,409.04	132,226,320.58	1,079,653,729.62					869,113,141.25
(II) Profit and loss directly dealt with in shareholders' equity					470,181.12	470,181.12		470,181.12		2,159,053.84			2,159,053.84
I. Others					470,181.12	470,181.12		470,181.12		2,159,053.84			2,159,053.84
Sub-total of (I) and (II)			947,427,409.04	947,427,409.04	470,181.12	947,897,590.16	132,226,320.58	1,080,123,930.74		2,159,053.84		869,113,141.25	871,272,195.09
(III) Shareholders' contributions and decrease in capital	355,700,000.00	2,362,552,334.68				2,718,252,334.68		2,718,252,334.68	355,700,000.00	2,362,552,334.68			2,718,252,334.68
1. Shareholders' contributions in capital	355,700,000.00	2,362,552,334.68				2,718,252,334.68		2,718,252,334.68	355,700,000.00	2,362,552,334.68			2,718,252,334.68
2. Increase in capital from conversion of convertible bonds													
(IV) Profit distribution			-273,015,350.56	-273,015,350.56		-273,015,350.56	-138,055,082.26	-411,070,412.82				-273,015,350.56	-273,015,350.56
1. Transfer to surplus reserves													
2. Distribution to shareholders			-273,015,350.56	-273,015,350.56		-273,015,350.56	-138,055,082.26	-411,070,412.82				-273,015,350.56	-273,015,350.56
(V) Acquisition of minority interest							-71,983,540.59	-71,983,540.59					0.00
IV. Balance at the end of the current year	2,062,045,941.00	6,100,544,240.89	723,742,920.58	3,251,062,407.86	774,075.80	12,138,169,586.13	1,757,712,370.84	13,885,881,956.97	2,062,045,941.00	6,192,089,748.26	711,553,338.67	2,105,864,019.08	11,071,543,047.01

The notes form an integral part of the financial statements.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### Notes to the financial statements

For the six months ended 30 June 2008

#### I. General Information

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

On 26 May 1997, with the approval issued by the Securities Committee of the State Council (Zheng Wei Fa [1997] Document No. 26), the Company issued 115 million B Shares in connection with its international offering and listing on the Shenzhen Stock Exchange.

In September 2000, with the approval issued by China Securities Regulatory Committee (hereinafter referred as the “CSRC”) (Zheng Jian Gong Si Zi [2000] Document No. 151), the Company issued 70 million A Shares in connection with its listing on the Shenzhen Stock Exchange on 20 November 2000.

On 15 September 2004, the Company was authorized by CSRC to issue 5-year convertible loan notes in the principal amount of RMB2 billion (Chenming Convertible Loan Notes). As at 14 May 2007, the Company redeemed all the outstanding Chenming Convertible Loan Notes in the amount of RMB532087.27, and as such the Company has a total of 1,706,345,941 shares.

In February 2008, with the approval issued by CSRC (Zheng Jian Xu Ke [2008] No. 290) and the approval of the Hong Kong Stock Exchange, the Company issued 355,700,000 H shares in connection with its global offering and they were listed for trading on the Hong Kong Stock Exchange on 18 June 2008. As at 30 June 2008, the Company has a total of 2,062,045,941 shares.

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



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### II. Basis of the Preparation of Financial Statements

Prior to 1 January 2007, the company adopted the Accounting Standards for Business Enterprises (old edition) and the Accounting Systems for Business Enterprises. Since 1 January 2007, the Company adopted the Accounting Standards for Business Enterprises (“Cai Kuai [2006] No.3”) and its supplementary rules issued by the Ministry of Finance on 15 February 2006. The financial statements hereby were restated, and accordingly items were adjusted retrospectively to comply with the requirements of Accounting Standards for Business Enterprises No. 38 “First time adoption of Accounting Standards for Business Enterprises”, and “Q&A on Criteria of Information Disclosure by Companies Offering Securities to the Public No.7 – Preparation and Disclosure of Comparative Financial Information in Transition Period of Former and New Accounting Standards”(“Zheng Jian Kuai Ji Zi [2007] No. 10”) issued by CSRC.

The financial statements of the Company have been prepared on a going concern basis, and recognized and measured based on actual transactions and events.

Prior to 31 December 2006, the company adopted the Accounting Standards for Business Enterprises (old edition), the Accounting Systems for Business Enterprises and its supplementary rules (hereinafter referred as the “former ASBEs”). Since 1 January 2007, the Company adopted the Enterprise Accounting Standards (hereinafter referred as the “new ASBEs”) issued by the Ministry of Finance on 15 February 2006. The 2008 financial statements have been prepared in accordance with the new ASBEs.

## **VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards**

### **III. Statement of Compliance with the ASBEs**

The financial statements have been prepared in conformity with the new ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 30 June 2008, and the operating results and cash flows of the Company and the Group for the half year ended 30 June 2008.

### **IV. Significant Accounting Policies and Estimates**

The following principal accounting policies and accounting estimates are determined based on the new ASBEs.

#### **Accounting Year**

The fiscal year of the Group is from 1 January to 31 December of each calendar year.

#### **Reporting currency**

The currency of the primary economic environment in which the Group operates is Renminbi (“RMB”), which is also the Group’s reporting currency.

#### **Basis of preparation and principle of measurement**

The Group’s financial statements have been prepared on an accrual basis. Except for consumable biological assets and certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention. A provision for impairment of assets was made according to the accounting policies.

#### **Cash equivalents**

Cash equivalents held by the Group represent short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of value change.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Foreign currency translation

On initial recognition, foreign currency transactions are translated into the reporting currency using the spot exchange rate prevailing at the date of transaction.

At the balance sheet date, monetary items denominated in foreign currencies are translated to RMB using the spot exchange rate at that date. Exchange differences arising from the difference between the spot exchange rate on the balance sheet date on which foreign currency monetary items are translated at the spot exchange rate and the spot exchange rate at the time of initial recognition or on the last balance sheet date shall be recorded into the profit or loss for the current period, except that the exchange differences arising from special foreign currency borrowings eligible for capitalization shall be capitalized in the capitalization period and charged to cost of relevant assets and the exchange difference arising from hedging instruments for hedging foreign exchange risks shall be treated using the hedge accounting method.

Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated into the reporting currency at the spot exchange rate at the date of transaction.

#### Financial Instruments

The Group recognizes financial assets or financial liabilities when it acts as a party to a contract. Financial assets and financial liabilities are initially recognized at fair value. For financial assets and financial liabilities classified as at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss for the current period. For financial assets and financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognized.

#### Derivative Instruments

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

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Classification and measurement of financial assets

Financial assets are classified at initial recognition with reference to the nature and the purpose of holding. The Group's financial assets are mainly trading financial assets and loans and accounts receivable.

#### Trading financial assets

Trading financial assets refer to financial assets that meet one of the following criteria: (1) the financial assets are obtained primarily to be sold or repurchased in the short term; (2) the financial assets is part of an identifiable financial portfolio subject to centralized management, and there is objective evidence indicating that the Group manages the portfolio in order to realize profit in the short term; (3) the financial assets are derivatives, except for derivatives that are designated as effective hedge, as part of a financial guarantee contract, and that are not quoted in active market and whose fair value is not linked with reliably measured equity instruments and subject to settlement by delivering the equity instrument.

Trading financial assets are subsequently measured at fair value, and gains or losses arising on changes in fair value and dividends and interest income related to these financial assets are accounted for as profit or loss for the current period.

#### Loans and accounts receivable

Loans and accounts receivable refer to non-derivative financial assets that are not being quoted in active market with fixed or known amount upon recovery, which include entrusted loans and various kinds of accounts receivable.

Loans and accounts receivable are subsequently measured using effective interest method and at amortized cost, and gains or losses arising from derecognition, impairment or amortization shall be charged to profit or loss for the current period.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Impairment of loans and accounts receivable

At each balance sheet date, the Group reviews the carrying amount of loans and accounts receivable. If there is objective evidence indicating that loans and accounts receivable have suffered impairment, impairment provision shall be charged.

The carrying amount of loans and accounts receivable is subsequently reduced to the present value discounted from its projected future cash flow. The reduced amount is recognized as impairment loss and recorded as profit or loss for the period. Upon recognition of the impairment loss, if there is objective evidence showing recovery in value of the amount so impaired and which is related to any event occurring after such recognition, the impairment loss originally recognized shall be reversed to the extent that the carrying value of the asset upon reversal will not exceed the amortized cost as at the reversal date assuming there is no provision for impairment.

#### Derecognition of Financial Asset

Financial asset that satisfied any of the following criteria shall be derecognized: (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; (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.

#### Inventories

Inventories include purchasing cost, processing cost and other expenses that help deliver the inventories to the current location and situation.

Inventories are stated at standard costs upon delivery. The amount is adjusted for price variance to arrive at actual cost at the end of month.

The inventory taking system shall use permanent inventory system.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Provision for Inventory Impairment

At the balance sheet date, inventories were calculated at the lower of cost and net realizable value. Provision for inventory impairment is made when the net realizable 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 realizable value.

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

Net realizable 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 realizable 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.

#### Consumable biological assets

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

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

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

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Investment Property

Investment property is held to earn rentals or for capital appreciation or both, including buildings leased out.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

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

In the event that an owner-occupied property 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.

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 recognized in profit or loss for the current period.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Long-term equity investments

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the cost of acquisition. The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost.

Cost method is used to account for a long-term equity investment where the investor can exercise control over the investee (but only to the extent of financial statements) or does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investment with joint control or significant influence on the investee is accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets. When ascertaining whether there is a control or significant influence over the investee, potential voting factors such as current convertible corporate bonds and current exercisable warrants shall be taken into account.

#### Long-term equity investment accounted for using the cost method

Under the cost method, a long-term equity investment is measured at its initial investment cost. Investment income recognized in the current period shall be limited to the amount distributed to it out of accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions declared by the investee received in excess of this amount shall be treated as return of initial investment cost to reduce the carrying amount of the investment.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Long-term equity investment accounted for using the equity method

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

Under the equity method, investment gain or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. For any changes in shareholders' equity other than net profits or losses in the investee, the Group shall adjust the carrying amount of the long-term equity investment and include the corresponding adjustment in shareholders' equity.

The Group's share of net losses of the investee shall be recognized 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 recognizing its share of profits after setting off against the share of unrecognized losses.

#### Disposal of long-term equity investments

On disposal of a long-term investment, the difference between the carrying amount of the investment and the actual consideration paid is recognized in current profit or loss. Where the equity method is adopted, the amount attributable to the long-term equity investment previously included shareholders' equity shall be transferred to current profit or loss on a pro-rata basis.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Fixed assets and depreciation

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

Category	Estimated residual value	Useful life	Annual depreciation rate
Buildings and structures	5-10%	20-40 years	2.25- 4.75%
Machinery and equipment	5-10%	8-20 years	4.50-11.88%
Vehicles	5-10%	5-8 years	11.25-19.00%
Electronic equipment and others	5-10%	5 years	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.

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

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.

When a fixed asset is sold, transferred, retired or damaged, the Group shall recognize 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.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Construction in progress

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

#### Intangible assets

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

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

Land use right acquired shall normally be recognized 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 recognized in full as fixed assets.

All the intangible assets of the Group have a finite useful life. An intangible asset with a finite useful life shall be amortized using the straight-line method over its useful life when the asset is available for use. The Group shall review the useful life of intangible asset and the amortization method applied at least at each financial year-end. A change in the useful life or amortization method used shall be accounted for as a change in accounting estimate.

The estimated useful life of the Company's intangible assets is set out as follows:

Category	Useful life
Land use rights	50 years
Software	5 years

#### Long-term deferred expenses

Long-term deferred expenses are expenditures and other expenses which have incurred but that shall be amortized over the current period and subsequent periods of more than one year. Long-term deferred expenses are amortized evenly over the estimated benefit period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Impairment of non-monetary assets

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

Goodwill arising in a business combination shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, goodwill shall be considered together with the related asset groups or sets of asset groups. For the purpose of impairment testing, the carrying amount of goodwill shall, from the acquisition date, be allocated on a reasonable basis to each of the related asset groups. If the recoverable amount is less than the carrying amount, the Group shall recognize 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.

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.

An impairment loss recognized shall not be reversed in a subsequent period.

#### Financial liability

At initial recognition, financial liabilities are classified either as "financial liabilities at fair value through profit or loss" or "other financial liabilities". The financial liabilities of the Group are mainly other financial liabilities, which include payables, loans and debenture payables.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition or amortization is recognized in profit or loss for the period.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Financial Guarantee Contract

Financial guarantee contracts other than those designated as financial liabilities at fair value through profit or loss are initially recognized at fair value, and shall be subsequently measured at the higher of the following: (1) the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 “Contingencies”; and (2) the amount initially recognized less cumulative amortization recognized in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 “Revenue”.

#### Employee Benefits

In the accounting period in which an employee has rendered services, the Group shall recognize the employee benefits payable as a liability.

The Group participates in social security systems operated by the government. Payments of social security contributions for employees, such as premiums or contributions on pensions, medical insurance, payments of housing funds and other social welfare contributions shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the profit or loss for the current period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in profit or loss for the period when the recognition criteria for provisions are met (termination benefits).

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Convertible bonds

Convertible bonds issued by the Company that contain a liability and conversion option components are classified separately into respective items on initial recognition. A conversion option which will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the equity instruments is accounted for in equity.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar nonconvertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component representing the conversion option for the holder to convert the bonds into equity is included in “capital reserves - other capital reserves (conversion option)”.

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. Upon the exercise of the embedded option by holders of the convertible bonds, the equity component included in “capital reserves - other capital reserves (conversion option)” will be transferred to “capital reserves - share premium”. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

#### Revenue recognition

##### Revenue from sales of goods

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

#### Interest income

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



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Government grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration, excluding capital considerations from the government as an owner of the Group. Government grants are classified into government grants related to assets and government grants related to income. Government grant shall be recognized when, and only when the related criteria are met.

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 recognized immediately in profit or loss for the current period.

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

For the repayment of a government grant already recognized, 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 recognized in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognized immediately in profit or loss for the current period.

#### Borrowing costs

Borrowing costs include interest, amortization 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 capitalized as part of the cost of that asset; and capitalization shall discontinue when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognized as expense in the period in which they are incurred.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### **Borrowing costs** (continued)

Where funds are borrowed for a specific purpose, the amount of interest to be capitalized 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 capitalized on such borrowings by applying a capitalization 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 capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

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

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

Capitalization 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.

#### **Income Tax**

##### **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 period in accordance with relevant requirements of tax laws.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### 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 recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognized 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 recognizes the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Group able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognized 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 recognizes 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 utilized, 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 utilized.

The Company recognizes 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 utilized.

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 realized or the liability is settled, according to the requirements of tax laws.

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

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### 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: current income tax and deferred income tax related to transactions or events that are directly recognized in owners' equity, which are recognized directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

#### Lease

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

#### Operating lease business with the Group recorded as lessee

Lease payment for operating lease is recognized 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 accounted in profit or loss for the current period. Contingent rent is recognized as profit or loss for the current period upon occurrence.

#### Operating lease business with the Group recorded as lessor

Rental income is recognized 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 capitalized 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. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

#### Business combination

Business combination refers the transaction or event to combine two or more independent entities into one reporting subject. Business combination is classified into business combination under common control and not under common control.

The Group recognizes assets and liabilities obtained arising from business combination recognized on the date of merger or acquisition. The date of merger or acquisition means the date on which the controlling right of the entity being merged or of the acquiree is obtained, which is the date on which the control over the net assets or production and management decision is assigned to the Group.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### **Business combinations involving enterprises under common control**

Business combination involving enterprise under common control is a business combination in which all of the combined enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. On the combination date, the party which obtains control of other enterprises that participated in the combination is the absorbing party, while the other enterprises participating in the combination is the party being absorbed.

Assets and liabilities obtained by the absorbing party in a business combination are measured at their carrying amounts at the combination date as recorded by the party being absorbed. 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 share premium account in capital reserve. If the capital reserve 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 combination shall be charged to profit or loss in the period in which they are incurred.

#### **Basis for Preparation of Consolidated Financial Statements**

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities.

The Group recognizes the date when it substantially transferred the risks and benefits related to the shares of the subsidiaries acquired or disposed as the date of acquisition or disposal. For those subsidiaries acquired or disposed that are not controlled by the same parent, the operating results and cash flows after the acquisition date and before the disposal date have been properly included in the consolidated income statement and consolidated cash flow statement.

Major accounting policies and accounting periods adopted by the subsidiaries are defined according to the standardized accounting policies and accounting periods stipulated by the Company.

All significant intra-group accounts and transactions between the parent company and its subsidiaries or between subsidiaries are eliminated on consolidation.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Basis for Preparation of Consolidated Financial Statements (continued)

The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interests and presented as "minority interest" in the consolidated balance sheet within owners' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, where the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make an additional investment to cover the loss, the excess amount shall be allocated against minority interest; otherwise the excess amount shall be allocated against shareholders' equity attributable to the parent. If the subsidiary subsequently reports profits, such profits shall be allocated to shareholders' equity attributable to the parent until the minority shareholders' share of losses previously absorbed by the parent has been recovered.

#### Translation of Financial Statements Denominated in Foreign Currency

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in comply with the following requirement: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; all equity items except for unappropriated profits are translated at the spot exchange rates at the dates on which such items arose; income and expenses in the income statement are translated at the spot exchange rate at the date of transaction; the unappropriated profits brought forward are reported at the prior year's closing balance; the unappropriated profits carried forward are calculated, based on the translated amounts of profits and other profit appropriation items; and all exchange differences resulting from the translation are recognized separately as "translation reserve" in the shareholders' equity on the balance sheet.

On disposal of foreign operations, exchange differences arising from the translation of financial statements denominated in foreign currencies related to the disposed foreign operation which has been included in shareholders' 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 and cash equivalents shall be presented separately as "Effect of changes in exchange rates on cash and cash equivalents" in the cash flow statement.

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



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IV. Significant Accounting Policies and Estimates (continued)

#### Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party.

### V. Critical judgments based on Significant Accounting Policies and Key Assumptions and Uncertainties in Accounting Estimates

In the application of the Group's accounting policies, which are described in Note 4, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements due to the uncertainties associated with operating activities. These judgments, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly by the Group on a going concern basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Provision for bad debts

The Group recognizes provision for bad debts according to the recoverability of receivables. When there is evidence indicating that a receivable item is not collectible, provision for bad debts will be recognized. Recognition of bad debts requires the use of judgments and estimates. If the result of new estimates differs from the original estimates, such difference will impact the carrying amount of receivables for the corresponding period.

#### Provision for inventory impairment

Provision for inventory impairment is recognized according to the net realizable value of the inventory. Provision for inventory impairment will be recognized when there is evidence indicating that the net realizable value is lower than the cost. Recognition of net realizable value involves the use of judgments and estimates. If the result of new estimates differs from the original estimates, such difference will impact the carrying value of inventory for the corresponding period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### V. Critical judgments based on Significant Accounting Policies and Key Assumptions and Uncertainties in Accounting Estimates (continued)

#### Recognition of deferred income tax assets

The Group assesses whether recognition of deferred income tax assets is required at each balance sheet date. Deferred income tax assets relating to certain deductible temporary differences and tax losses are recognized when the Group considers it is probable that future deductible taxable profits will be available against which the temporary differences or tax losses can be utilized. In assessing whether it is probable that future deductible taxable profits will be available against which the temporary differences or tax losses can be utilized requires the use of appropriate judgments and estimates. When calculating deferred income tax assets, the Group needs to estimate applicable tax rate during the process of repossession of relevant assets or repayment of relevant liabilities. Where such estimated tax rate differs from the actual rate, the difference will impact the income tax expense and deferred income tax assets during the period when such judgment was made.

#### Impairment of goodwill

When conducting goodwill impairment test, the present value of projected future cash flow of the underlying assets or portfolio of assets incorporating such goodwill will be calculated, and projection of the future cash flow of those assets or portfolio of assets will be made, and a pre-tax interest rate shall be determined which can properly reflect the prevailing time value of currency in the market as well as the specific risks relevant to such assets. Due to impact from factors such as market interest rate, inflation, foreign exchange reserve and macroeconomic control, in case such estimated interest rate differs from the actual interest rate, the difference will impact the goodwill impairment during the period when such judgment was made.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation

Taxes that the Group is subject to include value added tax, enterprise income tax, business tax, property tax and land use tax.

#### Value Added Tax

Value added tax (“VAT”) payable is the net difference between output VAT less deductible input VAT. The effective tax rates of output VAT and input VAT of the Group’s relevant VAT items are as follows:

Item	Tax rate %
Product sold in the domestic market (output VAT)	17
Paper core sales, printing (output VAT)	17
Purchase of barley grass, pampas grass (input VAT)	13
Steam power for production use (input VAT)	13
Electric power for production use (input VAT)	17
Sodium silicate, paperboard for production use (input VAT)	17
Purchase of waste paper (input VAT)	10
Coal (input VAT)	13

Pursuant to Cai Shui [1995] No. 44 “Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources” issued by the State Administration of Taxation (《國家稅務總局對部分資源綜合利用產品免徵增值稅的通知》), enterprises engaged in utilization 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 buildings products shall be exempted from VAT. Wuhan Chenjian New-style Wall Materials Co., Ltd. (武漢晨建新型牆體材料有限公司), a subsidiary of the Company, utilizes raw materials containing above 30% of coal ash in its production. It is thus qualified as an enterprise engaged in the utilization of waste in production and is exempted from VAT.

Pursuant to Cai Shui [2001] No. 78 “Circular on the VAT Policy concerning Waste Collection Business” issued by the State Administration of Taxation (《國家稅務總局關於廢舊物資回收經營業務有關增值稅政策的通知》), since 2001, general taxpayers engaging in the sale of waste materials business will be exempted from VAT. Accordingly, Qihe Chenming Waste Collection Co., Ltd. (齊河晨鳴廢舊物資收購有限公司) and Jilin Chenming Waste Collection Co., Ltd. (吉林晨鳴廢舊物資回收有限公司), both are subsidiaries of the Company, are covered by the preferential policy of VAT exemption.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation (continued)

Pursuant to Cai Shui Zi [1995] No. 44 “Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources” issued by the Ministry of Finance and the State Administration of Taxation (《財政部、國家稅務總局關於對部分資源綜合利用產品免徵增值稅問題的通知》) and the relevant requirements of Cai Shui Zi [2001] Document No. 72, Shandong Chenming Panels Co., Ltd. (山東晨鳴板材有限責任公司), Qihe Chenming Panels Co., Ltd. (齊河晨鳴板材有限公司), Juancheng Chenming Panels Co., Ltd (鄆城晨鳴板材有限公司) and Heze Chenming Panels Co., Ltd. (荷澤晨鳴板材有限責任公司), all being subsidiaries of the Company and produce products that applied integrated use of resources, are subject to an immediate VAT refund policy.

#### Other Taxes

##### Enterprise Income Tax

##### Income tax rates applicable to the Company and its subsidiaries

The Company is an enterprise with foreign investment (“EFI”) established in the coastal open areas of the PRC. Pursuant to the new Enterprise Income Tax Law, the Company is subject to the income tax rate of 25% starting 1 January 2008.

Hailaer Chenming Paper Co., Ltd. (海拉爾晨鳴紙業有限責任公司), a subsidiary of the Company established in the Inner Mongolia Autonomous Region and covered by the preferential tax policy for industries encouraged by the State Government, enjoyed the preferential income tax rate of 15% from 2001 to 2010 pursuant to Guo Shui Fa (2002) Document No. 47 issued by the State Administration of Taxation. Pursuant to Cai Shui [2008] Document No. 21 “Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy” (《財政部國家稅務總局關於貫徹落實國際國務院關於實施企業所得稅過渡優惠政策有關問題的通知》) issued by the Ministry of Finance and the State Administration of Taxation which stipulates the rules regarding the continuation of the preferential tax policies on development of the Western Region, the subsidiary continued to enjoy the preferential income tax rate of 15% in the reporting period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation (continued)

#### Other Taxes (continued)

Pursuant to the Guo Xi Ban Zong [2001] Document No. 10 “Written Reply concerning the Application of the Preferential Tax Policies on Development of the Western Region in Yanbian Korean Autonomous Prefecture” issued by the Office of the Leading Group for Western Region Development of the State Council (《國家稅西部開發辦關於延邊朝鮮族自治州參照報行國家西部大開發優惠政策的復函》) and Yanzhou local tax notice [2001] Document No. 99 “Letter confirming the entitlement of 吉林晨鳴亞松漿紙有限公司 to preferential tax policy” issued by the local tax bureau of Yanbian Korean Autonomous Prefecture (《延邊州地方稅務局關於吉林晨鳴亞松紙有限公司享受稅收優惠政策承諾的函》), Yanbian Chenming Paper Co., Ltd. (延邊晨鳴紙業有限公司), a subsidiary of the Company, is covered by the preferential tax policies on development of the Western Region and thus enjoys preferential tax rate of 15% from 2001 to 2010. Pursuant to Cai Shui [2008] Document No. 21 “Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy” issued by the Ministry of Finance and the State Administration of Taxation which stipulates the rules regarding the continuation of the preferential tax policies on development of the Western Region, the subsidiary continued to enjoy the preferential income tax rate of 15% in the reporting period.

Shandong Chenming Xinli Power Co., Ltd. (山東晨鳴新力熱電有限公司), a subsidiary of the Company, was established in 2001 as a Sino-foreign joint venture and engaged in the business of electric power and thermal power generation. Pursuant to Rule No. 73 of “Detailed Rules on the Implementation of the Income Tax Law of The People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》) and rules under the State Council’s Circular on Expanding Application Scope of Income Tax Preferential Treatment on Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (《國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定使用範圍的通知》) (Guo Fa [1999] No. 13), and Guo Shui Han [2002] Document No. 1032 “Written Reply on issues regarding the application of preferential enterprise income tax rate to Shandong Chenming Xinli Power Co., Ltd.” from the State Council (《國家稅務總局關於山東晨鳴新力熱電有限公司適用企業所得稅率問題的批復》), Shandong Chenming Xinli Power Co., Ltd. is subject to income tax rate of 15%. Pursuant to Cai Shui [2008] Document No. 21 “Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy” issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional preferential enterprise income tax policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary enjoyed the preferential income tax rate of 18% in the reporting period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation (continued)

#### Other Taxes (continued)

Wuhan Chenming Hanyang Paper Co., Ltd. (武漢晨鳴漢陽紙業股份有限公司), a subsidiary of the Company, was transformed into an EFI in April 2005. Pursuant to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, this is the second year of tax relief period which entitles the subsidiary to a 50% reduction in enterprise income tax. In addition, pursuant to Cai Shui [2008] Document No. 21 "Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policies" issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional enterprise income tax preferential policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary enjoyed the preferential income tax rate of 9% in the reporting period.

Jiangxi Chenming Paper Co., Ltd. (江西晨鳴紙業有限責任公司), a subsidiary of the Company, was transformed into an EFI in 2004. It engaged in production with a period of operation of more than 10 years. Pursuant to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, it shall be exempted from enterprise income tax for two years starting from the first profit-making year and a 50% reduction in income tax payable for the next three years. This is its second profit-making year of the tax relief period. In addition, pursuant to Cai Shui [2008] Document No. 21 "Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy" issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional preferential enterprise income tax policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary still enjoyed income tax exemption in the reporting period.

Jilin Chenming Paper Co., Ltd. (吉林晨鳴紙業有限責任公司), a subsidiary of the Company established in 2005, is engaged in production with a period of operation of more than 10 years. Jilin Chenming Paper Co., Ltd. registered negative taxable income for 2005, 2006 and 2007. In addition, pursuant to Cai Shui [2008] Document No. 21 "Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy" issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional preferential enterprise income tax policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary still enjoyed income tax exemption in the reporting period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation (continued)

#### Other Taxes (continued)

Wuhan Chenming New-Style Wall Materials Co., Ltd. (武漢晨建新型牆體材料有限公司) is a subsidiary of the Company that utilizes bulk quantity of coal ash sourcing from external suppliers independent of the Group as major raw materials for its production. Pursuant to Cai Shui [1994] Document No. 1 “Rules concerning Certain Issues on Enterprise Income Tax Policy” (《企業所得稅若干政策問題的規定》), starting from the commencement of its business, the subsidiary is exempted from PRC income tax for the first 5 years. Pursuant to Cai Shui [2008] Document No. 21 “Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy” issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional preferential enterprise income tax policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary still enjoyed income tax exemption in the reporting period as this is the fifth year after its commencement date.

Shouguang Chenming Modern Logistics Co., Ltd. (壽光晨鳴現代物流有限公司), a subsidiary of the Company, was founded by the Company in 2007 and engaged in the business of transportation and storage of goods. Pursuant to Cai Shui [1994] Document No. 001 “Circular on Certain Preferential Income Tax Policy” issued by the Ministry of Finance and the State Administration of Taxation (《財政部、國家稅務總局關於所得稅若干優惠政策的通知》) and Cai Shui [2006] Document No. 1 “Circular on the Criteria for the Recognition of Newly Established Enterprises that are Eligible for Preferential Enterprise Income Tax Policies” issued by the Ministry of Finance and the State Administration of Taxation (《財政部、國家稅務總局關於享受企業所得稅優惠政策的新企業認定標準的通知》), starting from the commencement of its business, the subsidiary shall be entitled to income tax exemption in the first year and a 50% reduction in income tax in the second year. Pursuant to Cai Shui [2008] Document No. 21 “Circular on Issues concerning the Implementation of Transitional Preferential Enterprise Income Tax Policy” issued by the Ministry of Finance and the State Administration of Taxation, according to the transitional preferential enterprise income tax policies applicable to enterprises established prior to the promulgation of the new Tax Law, the subsidiary was entitled to a 50% reduction in income tax in the reporting period.

Except for the above subsidiaries, the other subsidiaries of the Company are subject to enterprise income tax rate of 25% in the reporting period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VI. Taxation (continued)

#### Crediting Payment on Purchase of Domestically-Made Equipment as Investments

Pursuant to the Circular on Several Issues concerning Crediting Payment on Purchase of Domestically-Made Equipment as Investments against Enterprise Income Tax by Foreign-invested Enterprises and Foreign Enterprises (《關於外商投資企業和外國企業購買國產設備投資抵免企業所得稅有關問題的通知》) issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2000] No. 49) and the Provisional Measures concerning Crediting Payment on Purchase of Technologically Improved Domestically-Made Equipment as Investments against Enterprise Income Tax (《技術改造國產設備投資抵免企業所得稅暫行辦法》) (Cai Shui Zi [1999] No. 290), the 40 percent of the Group's payments on domestically-made equipment is creditable against the increased amount in its enterprise income taxes in the year of purchase over that of the year before. The allowable tax credit of an enterprise shall not exceed its newly increased enterprise income tax for the year of purchase over that of the year before. If the amount of newly increased enterprise income tax is not sufficient for tax credit, the remaining part of the investment which exceeds the tax credit shall be refundable against the newly increased tax of the next year over that of the year before the year of purchase. However, the period for continuous tax credit shall not exceed five years.

#### Business tax

Business tax is calculated and paid at 5% of the maintenance fee income and interest income, and at 3% of transportation fee income.

#### Urban maintenance and construction tax and educational surcharges

The Company and certain of its subsidiaries, including Wuhan Chenming Hanyang Paper Co., Ltd., Shandong Chenming Xinli Power Co., Ltd., Jiangxi Chenming Paper Co., Ltd., Chibi Chenming Paper Co., Ltd. and Jilin Chenming Paper Co., Ltd. are EFIs, and therefore are exempted from urban maintenance and construction tax and education surcharges. As for Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., urban maintenance and construction tax and education surcharges are calculated and paid at 5% and 4%, respectively, on the total amount of VAT payable and business tax payable; while that for other subsidiaries of the Company are calculated and paid at 7% and 3%, respectively, on the total amount of VAT payable and business tax payable.

#### Individual income tax

Individual income tax payable by the Group's employees is withheld and paid by the Group.

#### Property tax and land use tax

Property tax is levied based on 70% of the original cost of the building properties of the Group at the tax rate of 1.2%. Land use tax is calculated based on the actual area of land used by the Group and is levied in accordance with the stipulated tax rate.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries

The subsidiaries of the Company were established in the purpose of investment:

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
武漢晨鳴漢陽紙業股份有限公司(Wuhan Chenming Hanyang Paper Holdings Co., Ltd.)	Wuhan City	50.93	—	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	Foreign investment enterprise	Chen Hongguo	50.93
山東晨鳴紙業集團齊河板紙有限公司(Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.)	Qihe, Shandong	100.00	—	Manufacture , processing and sales of paperboard and packaging paper	Limited liability company	Xing Fangtong	100.00
山東晨鳴熱電股份有限公司(Shandong Chenming Power Supply Holdings Co., Ltd.)	Shouguang, Shandong	86.71	—	Manufacture and supply of electricity and heat	Joint stock limited company	孫洪吉	86.71
延邊晨鳴紙業有限責任公司(Yanbian Chenming Paper Co., Ltd.)	Longjing, Jilin	76.73	—	Mucilage glue fiber pulp, pulp and machine-made paper	Limited liability company	Wu Bingyu	76.73
江西晨鳴紙業有限責任公司(Jiangxi Chenming Paper Co., Ltd.)	Nanchang city	51.00	—	Production and sales of high-grade paper, paperboard (ex. newsprint) and homemade pulp	Foreign investment enterprise	候煥才	51.00



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
壽光市晨鳴天園林業有限公司 (Shouguang Chenming Tianyuan Arboriculture Co., Ltd.)	Shouguang, Shandong	68.00	—	Development, nurture and sales of fast growth poplar, forest, vegetable and fruit	Limited liability company	陳貴華	68.00
海拉爾晨鳴紙業有限責任公司 (Hailaer Chenming Paper Co., Ltd.)	Hailare City	75.00	—	Processing and sales of machine-made paper and pulp paper	Limited liability company	高子偉	75.00
赤壁晨鳴紙業有限公司 (Chibi Chenming Paper Co., Ltd.)	Chibi, Hubei	20.00	31.00	Production and sales of paper pulp, paper products and the materials of production of paper, and Production, processing, import and export of the machine of manufacture of paper	Limited liability company	陳建明	51.00
襄樊晨鳴銅版紙有限責任公司 (Xiangfan Chenming Copperplate Paper Co., Ltd.)	Xiangfan, Wubei	20.00	31.00	Production and sales of copperplate paper, machine-made paper, and transportation of truck	Limited liability company	Chen Hongguo	51.00

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
武漢晨鳴乾能熱電 有限責任公司 (Wuhan Chenming Qianneng Electric Power Co., Ltd.)	Hanyang, Wuhan	—	51.00	Generation of electricity and heat	Limited liability company	孫曉波	51.00
武漢晨建新型牆體 材料有限公司 (Wuhan Chenjian New-style Wall Materials Co., Ltd.)	Wuhan city	—	51.00	Production, operation and sales of aerated fly ash Concrete block	Limited liability company	樊鳳蘭	51.00
山東晨鳴新力熱電 有限公司(Shandong Chenming Xinli Power Co., Ltd.)	Shouguang, Shandong	—	51.00	Generation and supply of electricity and heat	Foreign investment enterprise	孫洪吉	51.00
壽光市晨鳴水泥 有限公司(Shouguang Chenming Cement Co., Ltd.)	Shouguang, Shandong	—	100.00	Utilization of ash in the production of cement and sales of cement	Limited liability company	李學濤	100.00
山東晨鳴板材有限 責任公司(Shandong Chenming Panels Co., Ltd.)	Shouguang, Shandong	—	100.00	Production, processing and sales of the decorative board of the layer of laminated board, wooden products, laminated board, fortified wooden floorboard and impregnated paper	Limited liability company	劉樹森	100.00



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
壽光晨鳴地板有限責任公司(Shouguang Chenming Floor Board Co., Ltd.)	Shouguang, Shandong	—	100.00	Production, processing and sales of fortified wooden floorboard and impregnated paper	Limited liability company	劉樹森	100.00
齊河晨鳴板材有限公司(Qihe Chenming Panels Co., Ltd.)	Qihe, Shandong	—	100.00	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	Limited liability company		100.00
菏澤晨鳴板材有限責任公司(Heze Chenming Panels Co., Ltd.)	Heze, Shandong	—	67.00	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	Limited liability company		67.00
陽江晨鳴林業發展有限公司(Yangjiang Chenming Arboriculture Co., Ltd.)	Yangjiang, Guangdong	—	100.00	Cultivation and development forest, and technology consultation of forestry	Limited liability company	陳貴華	100.00

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
湛江晨鳴林業發展有限公司(Zhanjiang Chenming Arboriculture Co., Ltd.)	Zhanjiang, Guandong	—	100.00	Cultivation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	Limited liability company	王在國	100.00
吉林晨鳴紙業有限責任公司(Jilin Chenming Paper Co., Ltd.)	Jilin City, Jilin province	100.00	—	Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper	Foreign investment enterprise	張春林	100.00
鄆城晨鳴板材有限公司(Juancheng Chenming Panels Co., Ltd.)	Juancheng, Shandong	100.00	—	Production and sales of particle board, decorative particle board and melamine impregnated paper	Limited liability company	劉樹森	100.00
山東禦景大酒店有限公司(Shandong Grand View Hotel Co., Ltd.)	Shouguang, Shandong	70.00	—	Beverage customer and related customer	Foreign investment enterprise	張德三	70.00

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
湛江晨鳴漿紙有限公司 (Zhanjiang Chenming Paper Pulp Co., Ltd.)	Zhanjiang, Guangdong	100.00	—	Improvement of plant fostering, true planting and soil, research of forestry, manufacture, production, processing and sales of paper pulp	Limited liability company	尹同遠	100.00
晨鳴(香港)有限公司 (Chenming (HK) Limited)	Hong Kong, China	100.00	—	Export and import trade of paper products and market research	Limited liability company	魏克雨	100.00
壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.)	Shouguang, Shandong	100.00	—	Transportation of good	Limited liability company	陳洪國	100.00
壽光晨鳴美術紙有限公司 (Shouguang Chenming Art Paper Co., Ltd.)	Shouguang, Shandong	75.00	—	Production of art paper, and sales of the product which produced by the Company	Limited liability company	尹同遠	75.00
齊河晨鳴廢舊物資收購有限公司 (Qihe Chenming Waste Collection Co., Ltd.)	Qihe, Shandong	—	98.00	Purchase and sales of waste and old material	Limited liability company	李峰	98.00

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VII. The scope of consolidated financial statement and holding subsidiaries (continued)

Name of subsidiaries	Place of Incorporation	Company and/or subsidiary		Principal activity	Economic nature or category	Legal representative	The aggregate
		Directly held %	Indirectly held %				voting rights held by the Company %
吉林晨鳴廢舊物資回收有限公司 (Jilin Chenming Waste Collection Co., Ltd.)	Jilin	—	100.00	Purchase and sales of waste and old material	Limited liability company	張邦吉	100.00
吉林市晨鳴機械製造有限公司 (Jilin Chenming Machinery Manufacturing Co., Ltd.)	Jilin	—	100.00	Processing of machinery, manufacture, installation and repair of the equipment of machinery	Limited liability company	張春林	100.00
南昌晨鳴林業發展有限公司 (Nanchang Chenming Arboriculture Co., Ltd.)	Nanchang, Jiangxi	—	100.00	Processing and sales of wood chips	Limited liability company	候煥才	100.00
富裕晨鳴紙業股份有限公司 (Fuyu Chenming Paper Co., Ltd.)	Fuyu County, Qiqihar City	100.00	—	Production and sales of machine-made paper and paperboard	Limited liability company	劉春山	100.00
黃岡晨鳴林業發展有限公司 (Huanggang Chenming Arboriculture Co., Ltd.)	Huanggang city	100.00	—	Nutrition of forest resources, cultivation, processing and sales of forest	Limited liability company	王在國	100.00

Note 1 : Subsidiaries which consolidated in this year:

The Company contributed capital to set up Huanggang Chenming Arboriculture Co., Ltd. in 23 January 2008, its registered capital amounts RMB 1,000,000, wholly owned by Shandong Chenming Paper Holdings Limited.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements

#### 1. Cash & cash equivalents

The Group	2008.6.30			2007.12.31		
	Foreign current amount	Exchange Rate	RMB	Foreign current amount	Exchange Rate	RMB
Cash						
RMB	—	—	2,755,220.05	—	—	2,575,501.44
USD	71,963.86	6.8591	493,607.31	15,464.00	7.3046	112,958.33
Cash in Bank						
RMB	—	—	749,843,974.28	—	—	480,381,438.50
HKD	3,020,846,583.07	0.8792	2,655,837,690.44	25,388.73	0.9347	23,730.85
USD	29,244,079.54	6.8591	200,588,098.25	17,855,321.74	7.3046	130,425,983.18
EURO	87,485.54	10.8302	947,485.94	30,586.86	10.0319	306,844.32
Cash and cash equivalent						
RMB	—	—	98,007,112.88	—	—	126,795,387.29
USD	847,215.52	6.8591	5,811,136.00	—	—	—
EURO	91,64.34	10.8302	99,251.63	—	—	—
Total	—	—	3,714,383,576.78	—	—	740,621,843.91

As at 30 June 2008, balance of other cash and cash equivalents contained bank acceptance deposit of RMB29,359,786.93, letter of credit deposit of RMB72,579,713.58 and covenants of deposits of RMB1,978,000.00.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 1. Cash & cash equivalents (continued)

The Company	2008.6.30			2007.12.31		
	Foreign current amount	Exchange Rate	RMB	Foreign current amount	Exchange Rate	RMB
Cash						
RMB	—	—	51,947.05	—	—	11,938.36
USD	71,963.86	6.8591	493,607.31	15,464.00	7.3046	112,958.33
Cash in Bank						
RMB	—	—	466,038,440.95	—	—	207,482,933.56
HKD	3,020,846,583.07	0.8792	2,655,837,690.44	—	—	—
USD	922,950.20	6.8591	6,330,607.73	3,881,077.82	7.3046	28,349,721.04
EURO	7.69	10.8302	83.28	—	—	—
Cash and cash equivalents						
RMB	—	—	70,334,786.93	—	—	112,991,173.39
USD	—	—	—	—	—	—
Total	—	—	3,199,087,163.69	—	—	348,948,724.68

As at 30 June 2008, the balance of other fund contained bank acceptance deposit of RMB29,359,786.93, and letter of credit deposit of RMB40,975,000.00.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 2. Held-for-sale financial assets

##### The Group

Category	Fair value on 2008.6.30 RMB	Fair value on 2007.12.31 RMB
Derivate Financial Instruments	7,187,697.00	5,955,480.00
Total	7,187,697.00	5,955,480.00

Note : On 18 October 2007, Jiangxi Chenming Paper Co., Ltd., the subsidiary of the Company, entered into foreign exchange contracts with Changbei branch of China Construction Bank and Changbei branch of Bank of China, pursuant to which, the period lasted from 24 January 2008 to 24 October 2008, the exchange rate of RMB/USD range from 7.0496 to 7.5344, and the nominal amount of the contract USD amounts 34,000,000. The Company decided that the rate is based on the foreign exchange settlement rate of the same settlement date in 30 June 2008 of the banks, and confirmed that the fair value of the financial assets amounts RMB 7,187,697.00.

#### 3. Bills receivable

##### The Group

	2008.6.30 RMB	2007.12.31 RMB
Bank acceptance	1,060,198,464.41	1,676,684,054.95
Total	1,060,198,464.41	1,676,684,054.95

As at 30 June 2008, the bank acceptance of the Group (including bank acceptance discounted with recourse) amounts RMB 346,792,259.01(31 December 2007: RMB 428,227,235.41)

As at 30 June 2008, the balance of the commercial paper of the Company which used for pledge of the bank acceptance amounts RMB 20,634,702.70.

As at 30 June 2008, no outstanding amount within the bills receivable due from shareholders holding 5% or more (including 5%) in the shares.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 3. Bills receivable (continued)

##### The Company

	2008.6.30 RMB	2007.12.31 RMB
Bank acceptance	405,502,240.90	998,809,409.00
Total	405,502,240.90	998,809,409.00

As at 30 June 2008, the bank acceptance of the Group (including bank acceptance discounted with recourse) amounts RMB 129,139,722.21(31 December 2007: RMB 405,483,351.17)

As at 30 June 2008, the balance of the commercial paper of the Company which used for pledge of the bank acceptance amounts RMB 20,634,702.70.

As at 30 June 2008, no outstanding amount within the notes receivable due from shareholders holding 5% or more (including 5%) in the shares.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 4. Accounts receivable

##### The Group

Aging analysis of accounts receivable is as follows:

	2008.6.30				2007.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Less than 1 year	1,552,567,634.90	94.48	(128,403,058.60)	1,424,164,576.30	1,787,271,407.44	95.10	(172,892,897.67)	1,614,378,509.77
1 to 2 years	27,150,457.98	1.65	(2,715,045.80)	24,435,412.18	45,856,276.10	2.44	(5,373,708.79)	40,482,567.31
2 to 3 years	18,398,520.03	1.12	18,398,520.03	—	6,830,375.88	0.36	(1,670,756.12)	5,159,619.76
3 to 4 years	9,628,370.54	0.59	(9,628,370.54)	—	10,454,274.19	0.56	(10,454,274.19)	—
Over 4 years	35,478,024.81	2.16	(35,478,024.81)	—	28,914,026.07	1.54	(28,914,026.07)	—
Total	1,643,223,008.26	100.00	(194,623,019.78)	1,448,599,988.48	1,879,326,359.68	100.00	(219,305,662.84)	1,660,020,696.84

The movements of the provision of the bad debts of accounts receivable see notes VIII.18.

Top five accounts receivable is as follows:

Top five balances of accounts receivable RMB	Total balance of accounts receivable %
182,915,029.07	11.14

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 4. Accounts Receivable (continued)

##### The Company

Aging analysis of accounts receivable is as follows:

	2008.6.30				2007.12.31			
	Amount RMB	Ratio (%)	Bad debts		Amount RMB	Ratio (%)	Bad debts	
			Provision RMB	Book value RMB			Provision RMB	Book value RMB
Less than 1 year	1,474,645,748.19	98.52	(131,308,682.38)	1,343,337,065.81	1,598,791,086.58	97.86	(153,712,615.62)	1,445,078,470.96
1 to 2 years	6,343,366.27	0.42	(634,336.63)	5,709,029.64	22,545,280.51	1.38	(2,254,528.05)	20,290,752.46
2 to 3 years	4,491,072.42	0.30	(4,491,072.42)	—	863,657.72	0.05	(123,292.54)	740,365.18
3 to 4 years	1,009,170.57	0.07	(1,009,170.57)	—	3,877,308.99	0.24	(3,877,308.99)	—
Over 4 years	10,280,553.55	0.69	(10,280,553.55)	—	7,603,430.23	0.47	(7,603,430.23)	—
<b>Total</b>	<b>1,496,769,911.00</b>	<b>100.00</b>	<b>(147,723,815.55)</b>	<b>1,349,046,095.45</b>	<b>1,633,680,764.03</b>	<b>100.00</b>	<b>(167,571,175.43)</b>	<b>1,466,109,588.60</b>

Top five accounts receivable is as follows:

Top five balances of accounts receivable RMB	Total balance of accounts receivable %
182,915,029.07	12.22

No outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the accounts receivable of the Company and the Group in the end of reported period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 5. Advance to suppliers

##### The Group

Aging Analysis of the advance to suppliers is as follows:

	2008.6.30		2007.12.31	
	Amounts RMB	Percentage (%)	Amounts RMB	Percentage (%)
Less than 1 year	758,787,145.42	86.54	480,857,224.46	83.77
1 to 2 years	118,022,812.31	13.46	93,157,576.97	16.23
<b>Total</b>	<b>876,809,957.73</b>	<b>100.00</b>	<b>574,014,801.43</b>	<b>100.00</b>

##### The Company

Aging analysis of the advance to suppliers is as follows:

	2008.6.30		2007.12.31	
	Amounts RMB	Percentage (%)	Amounts RMB	Percentage (%)
Less than 1 year	382,166,232.57	92.28	265,774,588.11	94.96
1 to 2 years	31,961,446.10	7.72	14,115,794.77	5.04
<b>Total</b>	<b>414,127,678.67</b>	<b>100.00</b>	<b>279,890,382.88</b>	<b>100.00</b>

No outstanding amount within the advance to suppliers due from shareholders holding 5% or more (including 5%) in the shares of the Company and the Group as at 30 June 2008.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 6. Other receivables

##### The Group

Aging analysis of other receivables is as follows:

	2008.6.30				2007.12.31			
	Amounts RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amounts RMB	Percentage (%)	Bad debts provision RMB	Book value RMB
Less than 1 year	172,072,215.13	72.52	(1,720,921.82)	170,351,293.31	159,129,344.63	62.26	(2,771,058.73)	156,358,285.90
1 to 2 years	11,312,589.00	4.77	(1,131,258.90)	10,181,330.10	24,068,633.93	9.42	(3,573,370.18)	20,495,263.75
2 to 3 years	5,216,399.93	2.20	(1,043,279.99)	4,173,119.94	35,160,118.15	13.76	(15,850,995.69)	19,309,122.46
3 to 4 years	18,514,282.44	7.80	(18,514,282.44)	—	8,383,711.19	3.28	(8,383,711.19)	—
Over 4 years	30,161,066.42	12.71	(30,161,066.42)	—	28,825,828.19	11.28	(28,825,828.19)	—
Total	237,276,552.92	100.00	(52,570,809.57)	184,705,743.35	255,567,636.09	100.00	(59,404,963.98)	196,162,672.11

The movements of the provision of the bad debts of other receivables see notes VIII.18.

Top five other receivables is as follows:

Top five balances of other receivables RMB	Total balance of other receivables %
122,191,866.93	51.50

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 6. Other receivables (continued)

##### The Company

Aging analysis of other receivables is as follows:

	2008.6.30				2007.12.31			
	Amounts RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amounts RMB	Percentage (%)	provision RMB	Book value RMB
Less than 1 year	534,646,708.40	96.93	(3,033,670.18)	531,613,038.22	722,772,013.66	91.18	(1,960,790.29)	720,811,223.37
1 to 2 years	5,900,350.97	1.07	(590,035.10)	5,310,315.87	47,844,292.42	6.04	(1,299,726.66)	46,544,565.76
2 to 3 years	1,448,040.54	0.26	(289,608.11)	1,158,432.43	11,022,711.25	1.39	(1,857,351.93)	9,165,359.32
3 to 4 years	1,075,081.00	0.19	(1,075,081.00)	—	2,848,382.90	0.36	(2,848,382.90)	—
Over 4 years	8,528,642.48	1.55	(8,528,642.48)	—	8,174,993.62	1.03	(8,174,993.62)	—
Total	551,598,823.39	100.00	(13,517,036.87)	538,081,786.52	792,662,393.85	100.00	(16,141,245.40)	776,521,148.45

Top five other receivables is as follows:

Top five balances of other receivables RMB	Total balance of other receivables %
101,149,152.82	18.34

No outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company and the Group as at 30 June 2008.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 7. Inventories and provision of inventories

##### The Group

	2008.6.30			2007.12.31		
	Amounts	Provision of	Book value	Amounts	Provision of	Book value
	RMB	impairment	RMB	RMB	impairment	RMB
Raw materials	1,559,855,300.47	—	1,559,855,300.47	1,113,790,466.49	—	1,113,790,466.49
Goods-in stock	969,513,016.45	(6,114,277.85)	963,398,738.60	564,307,993.16	(6,114,277.85)	558,193,715.31
Work-in-progress	77,308,869.44	—	77,308,869.44	72,508,430.56	—	72,508,430.56
<b>Total</b>	<b>2,606,677,186.36</b>	<b>(6,114,277.85)</b>	<b>2,600,562,908.51</b>	<b>1,750,606,890.21</b>	<b>(6,114,277.85)</b>	<b>1,744,492,612.36</b>

Provision of inventories is as follows:

	Opening balance of the period RMB	Provision for the period RMB	Reversal for the period RMB	Closing balance of the period RMB
During the period				
Goods-in stock	6,114,277.85	—	—	6,114,277.85
<b>Total</b>	<b>6,114,277.85</b>	<b>—</b>	<b>—</b>	<b>6,114,277.85</b>
In the prior period				
Work-in-progress	—	—	—	—
Goods-in-stock	5,232,293.42	881,984.43	—	6,114,277.85
<b>Total</b>	<b>5,232,293.42</b>	<b>881,984.43</b>	<b>—</b>	<b>6,114,277.85</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 7. Inventories and provision of inventories (continued)

##### The Company

	2008.6.30			2007.12.31		
	Amounts	Provision of	Book value	Amounts	Provision of	Book value
	RMB	impairment	RMB	RMB	impairment	RMB
Raw materials	647,588,660.83	—	647,588,660.83	417,274,191.57	—	417,274,191.57
Goods-in stock	628,015,658.15	(6,114,277.85)	621,901,380.30	301,748,451.47	(6,114,277.85)	295,634,173.62
Work-in-progress	11,200,200.64	—	11,200,200.64	8,446,384.35	—	8,446,384.35
<b>Total</b>	<b>1,286,804,519.62</b>	<b>(6,114,277.85)</b>	<b>1,280,690,241.77</b>	<b>727,469,027.39</b>	<b>(6,114,277.85)</b>	<b>721,354,749.54</b>

The movement of the provision of inventories of the Company is consistent with the Group.

As at 30 June 2008, the Company and the Group have not secured any inventories for any debts.

#### 8. Entrusted loan

##### The Company

	Closing balance of the period RMB	Opening balance of the period RMB
Entrusted loan made to subsidiaries		
Due within in a year	2,501,700,000.00	1,864,000,000.00
Due in a year later	590,000,000.00	625,000,000.00
Less : Provision of impairment	—	—
<b>Net value of entrusted loan</b>	<b>3,091,700,000.00</b>	<b>2,489,000,000.00</b>

The Company entrusted banks to provide funds for its subsidiaries, the above terms of entrusted loan ranges from 1 to 10 years, and the interest rate ranges from 6.723% to 7.83%.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment

##### The Group

(1) The details of long-term equity investments as follow:

Name of investee companies	Initial investment	opening balance of the year (cost)	Additions for the year	Equity adjustments for the year	Cash bonus for the year	Closing balance of the year (other deductions)	Cost
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>Equity method</b>							
阿爾諾維根斯晨鳴特種紙有限公司(Arjo Wiggins Chenming Specialty Paper Co., Ltd.)							
	60,000,000.00	51,022,755.23	—	-12,376,390.34	—	—	38,646,364.89
壽光麗奔制紙有限公司(Shouguang Liben Paper Making Co., Ltd.)							
	19,550,000.00	18,867,181.20	—	1,050.29	—	—	18,868,231.49
	79,550,000.00	69,889,936.43	—	-12,375,340.05	—	—	57,514,596.38
<b>Cost method</b>							
青州市晨鳴變性澱粉有限公司責任公司(Qingzhou Chenming Denaturation Amylum Co., Ltd.)							
	540,000.00	900,000.00	—	—	—	—	900,000.00
濰坊創業投資有限公司							
	1,000,000.00	1,000,000.00	—	—	—	—	1,000,000.00
泰山保險經紀有限公司							
	2,000,000.00	2,000,000.00	—	—	—	—	2,000,000.00
山東紙業集團總公司							
	200,000.00	200,000.00	—	—	—	—	200,000.00
浙江省廣育報業印務有限公司							
	2,000,000.00	2,000,000.00	—	—	—	—	2,000,000.00
濟南商友商務有限公司							
	350,000.00	350,000.00	—	—	—	—	350,000.00
上海林嘉紙電子商務有限公司							
	—	1,400,000.00	—	—	—	—	1,400,000.00
壽光灤河水務有限公司							
	—	20,000,000.00	—	—	—	—	20,000,000.00
	6,090,000.00	27,850,000.00	—	—	—	—	27,850,000.00
<b>Total</b>	<b>85,640,000.00</b>	<b>97,739,936.43</b>	<b>—</b>	<b>-12,375,340.05</b>	<b>—</b>	<b>—</b>	<b>85,364,596.38</b>
Less : provision for impairment		-1,450,000.00					-1,450,000.00
<b>Net amount of long-term equity investment</b>		<b>96,289,936.43</b>					<b>83,914,596.38</b>



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Group (continued)

The movement of provision of impairment of long-term equity investment as follows:

Name of investee companies	Opening balance of the period RMB	Additions for the current period RMB	Retirements and disposals for the current period RMB	Closing balance of the period RMB
青州市晨鳴變性澱粉有限責任公司(Qingzhou Chenming Denaturation Amylum Co., Ltd.)	900,000.00	—	—	900,000.00
山東紙業集團總公司	200,000.00	—	—	200,000.00
濟南商友商務有限責任公司	350,000.00	—	—	350,000.00
<b>Total</b>	<b>1,450,000.00</b>	<b>—</b>	<b>—</b>	<b>1,450,000.00</b>

#### (2) List of the associates and their financial information

Name of investee units	Registration place	Nature of business	Registered capital RMB	Percentage of the registered capital of the investee units %	Percentage of the voting right of the investee units %	Total asset of the investee units in the end of the reported period RMB	Total liability of the investee units in the end of the reported period RMB	Total operation income of the investee units in the end of the reported period RMB	Total net profit of the investee units in the end of the reported period RMB
阿爾諾維根斯晨鳴特種紙有限公司(Arjo Wiggins Chenming Specialty Paper Co., Ltd.)	Shandong	Manufacture of paper	200,000,000.00	30	30	476990740.81	348169524.50	76696951.19	-41254634.46
壽光麗奔制紙有限公司(Shouguang Liben Paper Making Co., Ltd.)	Shandong	Manufacture of paper	74,070,000.00	26.4	26.4	76529893.84	5389140.82	50344333.83	3978.38

- (3) There is no restriction on the ability of the investee unit in which the long-term equity investments are held by the Group as of 30 June 2008 to transfer capital to the Group.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Company

a) The details of long-term equity investments as follow:

Name of investee companies	Initial investment RMB	2007.12.31 RMB	Investment addition for the period RMB	Investment deduction for the period RMB	Equity adjustment for the period RMB	2008.6.30 RMB
Investment made to subsidiaries						
武漢晨鳴漢陽紙業股份有限公司(Wuhan Chenming Hanyang Paper Holdings Co., Ltd.)	208,000,000.00	202,824,716.34	—	—	—	202,824,716.34
山東晨鳴紙業集團齊河板紙有限公司(Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.)	376,000,000.00	376,200,000.00	—	—	—	376,200,000.00
山東晨鳴熱電股份有限公司(Shandong Chenming Power Supply Holdings Co., Ltd.)	71,436,290.00	71,434,605.00	86,375,512.43	—	—	157,810,117.43
赤壁晨鳴紙業有限公司(Chibi Chenming Paper Co., Ltd.)	35,483,880.00	26,270,460.90	—	—	—	26,270,460.90
襄樊晨鳴銅版紙有限公司(Xiangfan Chenming Copperplate Paper Co., Ltd.)	6,452,000.00	3,552,717.43	—	—	—	3,552,717.43
延邊晨鳴紙業有限公司(Yanbian Chenming Paper Co., Ltd.)	62,633,000.00	40,083,733.01	—	—	—	40,083,733.01

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Company (continued)

##### a) The details of long-term equity investments as follow: (continued)

Name of investee companies	Initial investment RMB	2007.12.31 RMB	Investment addition for the period RMB	Investment deduction for the period RMB	Equity adjustment for the period RMB	2008.6.30 RMB
海拉爾晨鳴紙業有限 責任公司(Hailaer Chenming Paper Co., Ltd.)	12,000,000.00	12,000,000.00	—	—	—	12,000,000.00
江西晨鳴紙業有限 責任公司(Jiangxi Chenming Paper Co., Ltd.)	697,548,406.40	697,548,406.40	—	—	—	697,548,406.40
壽光市晨鳴天園 林業有限公司 (Shouguang Chenming Tianyuan Arboriculture Co., Ltd.)	7,199,000.00	7,199,000.00	—	—	—	7,199,000.00
吉林晨鳴紙業有限 公司(Jilin Chenming Paper Co., Ltd.)	401,350,000.00	401,350,000.00	—	—	—	401,350,000.00
鄆城晨鳴板材有限 公司(Juancheng Chenming Panels Co., Ltd.)	15,000,000.00	15,000,000.00	—	—	—	15,000,000.00
山東禦景大酒店 有限公司 (Shandong Grand View Hotel Co., Ltd.)	80,500,000.00	80,500,000.00	—	—	—	80,500,000.00

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Company (continued)

##### a) The details of long-term equity investments as follow: (continued)

Name of investee companies	Initial investment RMB	2007.12.31 RMB	Investment addition for the period RMB	Investment deduction for the period RMB	Equity adjustment for the period RMB	2008.6.30 RMB
湛江晨鳴林業發展有限公司 (Zhanjiang Chenming Arboriculture Co., Ltd.)	—	—	—	—	—	—
陽江晨鳴林業發展有限公司 (Yangjiang Chenming Arboriculture Co., Ltd.)	—	—	—	—	—	—
湛江晨鳴漿紙有限公司 (Zhanjiang Chenming Paper Pulp Co., Ltd.)	20,000,000.00	20,000,000.00	—	—	—	20,000,000.00
晨鳴(香港)有限公司 (Chenming (HK) Limited)	783,310.00	783,310.00	—	—	—	783,310.00
壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.)	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
壽光晨鳴美術紙有限公司 (Shouguang Chenming Art Paper Co., Ltd.)	113,616,063.80	113,616,063.80	—	—	—	113,616,063.80
富裕晨鳴紙業股份有限公司 (Fuyu Chenming Paper Co., Ltd.)	20,000,000.00	20,000,000.00	—	—	—	20,000,000.00
黃岡晨鳴林業發展有限公司 (Huanggang Chenming Arboriculture Co., Ltd.) (note 1)	—	—	10,000,000.00	—	—	10,000,000.00
Sub-total	2,138,001,950.20	2,098,363,012.88	96,375,512.43	—	—	2,194,738,525.31

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Company (continued)

##### a) The details of long-term equity investments as follow: (continued)

Name of investee Companies	Initial investment RMB	2007.12.31 RMB	Investment addition for the year RMB	Investment deduction for the year RMB	Equity adjustment for the year RMB	2008.6.30 RMB
Investment made to associates						
壽光麗奔制紙有限公司 (Shouguang Liben Paper Making Co., Ltd.)	19,550,000.00	18,867,181.20	—	—	1,050.29	18,868,231.49
阿爾諾維根斯晨鳴特種紙有限公司(Arjo Wiggins Chenming Specialty Paper Co., Ltd.)	60,000,000.00	51,022,755.23	—	—	-12,376,390.34	38,646,364.89
Sub-total	79,550,000.00	69,889,936.43	—	—	-12,375,340.05	57514596.38
Other investments						
青州市晨鳴變性澱粉有限公司 責任公司(Qingzhou Chenming Denaturation Amylum Co., Ltd.)	540,000.00	900,000.00	—	—	—	900,000.00
濰坊創業投資有限公司	1,000,000.00	1,000,000.00	—	—	—	1,000,000.00
泰山保險經紀有限公司	2,000,000.00	2,000,000.00	—	—	—	2,000,000.00
山東紙業集團總公司	200,000.00	200,000.00	—	—	—	200,000.00
浙江省廣育報業印務有限公司	2,000,000.00	2,000,000.00	—	—	—	2,000,000.00
濟南商友商務有限責任公司	350,000.00	350,000.00	—	—	—	350,000.00
壽光彌河水務有限公司	20,000,000.00	20,000,000.00	—	—	—	20,000,000.00
上海林嘉紙電子商務有限公司	1,400,000.00	1,400,000.00	—	—	—	1,400,000.00
Sub-total	27,490,000.00	27,850,000.00	—	—	—	27,850,000.00
Impairment of provision of long-term investment	—	(1,450,000.00)				(1,450,000.00)
Total	2,245,041,950.20	2,194,652,949.31	96375512.43	—	-12,375,340.05	2,278,653,121.69

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 9. Long-term equity investment (continued)

##### The Company (continued)

##### a) The details of long-term equity investments as follow: (continued)

Note 1 : The company contributed RMB 10,000,000 of the cash and cash equivalents, represents 100% of total registered capital, for the establishment of 黃岡晨鳴林業發展有限責任公司 (Huanggang Chenming Arboriculture Co., Ltd.) on 23 January 2008.

(2) There is no restriction on the ability of the investee in which the long-term equity investments are held by the Company as of 30 June 2008 to transfer capital to the Company.

#### 10. Properties held for investment

##### The Group and the Company

	Building RMB
Original value	
2007.12.31	38,291,395.70
Increased for the period	—
2008.06.30	38,291,395.70
Accumulated depreciation	
2007.12.31	8,388,415.51
Increased for the period	869,128.02
2008.06.30	9,257,543.53
Net amount	
2007.12.31	29,902,980.19
2008.06.30	29,033,852.17

The Group adopted the new accounting policy since 1 January 2007, in which part of the buildings of 北京數碼大廈 (for lease out) originally categorized in the fixed assets will be categorized in the properties held for investment according to the new policy.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 11. Fixed Assets

##### The Group

	Buildings RMB	Machinery & Equipment RMB	Vehicles RMB	Electric appliance and others RMB	Total RMB
<b>Cost</b>					
2007.12.31	2,834,298,999.94	14,113,557,143.84	121,248,746.36	361,881,284.67	17,430,986,174.81
Additions	1,992,978.03	37,141,568.27	7,714,975.49	7,548,908.37	54,398,430.16
Transfers from construction in progress	249,100,342.4	441,238,588.91	1,768,046.13	125,084,519.59	817,191,497.03
Deductions	241,862.89	5,075,284.45	2,618,789.04	909,759.85	8,845,696.23
2008.06.30	3,085,150,457.48	14,586,862,016.57	128,112,978.94	493,604,952.78	18,293,730,405.77
<b>Accumulated depreciation</b>					
2007.12.31	458,971,467.09	3,461,553,778.37	52,068,227.45	207,162,373.08	4,179,755,845.99
Additions	51,535,769.31	472,520,662.81	6,536,006.99	16,964,344.00	547,556,783.11
Deductions	89,187.27	2,175,618.86	1,361,710.91	652,442.91	4,278,959.95
2008.06.30	510,418,049.13	3,931,898,822.32	57,242,523.53	223,474,274.17	4,723,033,669.15
<b>Impairment provision</b>					
2007.12.31	6,928,487.84	1,145,801.05	—	—	8,074,288.89
Increased provision	—	—	—	—	—
Reversals	—	—	—	—	—
Other transfers	—	—	—	—	—
2008.06.30	6,928,487.84	1,145,801.05	—	—	8,074,288.89
<b>Net value</b>					
2007.12.31	2,368,399,045.01	10,650,857,564.42	69,180,518.91	154,718,911.59	13,243,156,039.93
2008.06.30	2,567,803,920.51	10,653,817,393.2	70,870,455.41	270,130,678.61	13,562,622,447.73

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 11. Fixed Assets (continued)

##### The Group (continued)

Note 1: International Finance Corporation (“IFC”), Deutsche Bank AG (“DEG”) and China Construction Bank Nanchang Changbei Branch entered into an loan agreement with Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD 17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. The net book value of the collateral with regard to fixed assets was RMB 1,174,658,072.50 and that with regard to the land use rights or intangible assets was RMB 75,454,889.54.

Note 2: As at 30 June 2008, the net book value of the buildings without house property right certificates in the fixed assets of the Group was RMB 249,718,950.92. The related house property right certificates were being applied.

##### The Company

	Buildings RMB	Machinery & equipment RMB	Vehicles RMB	Electric appliance and others RMB	Total RMB
<b>Cost</b>					
2007.12.31	972,211,978.91	7,999,338,053.06	31,396,652.54	31,464,803.11	9,034,411,487.62
Additions	334,605.40	7,842,167.37	2,055,373.54	3,480,237.77	13,712,384.08
Transfers from construction					
in progress	37,032,715.12	280,905,510.48	376,843.00	706,902.24	319,021,970.84
Deductions	—	4,017,924.78	—	479,411.04	4,497,335.82
2008.06.30	1,009,579,299.43	8,284,067,806.13	33,828,869.08	35,172,532.08	9,362,648,506.72
<b>Accumulated depreciation</b>					
2007.12.31	186,778,016.25	2,258,838,541.75	14,814,444.14	18,212,612.16	2,478,643,614.30
Additions	19,767,066.74	293,265,136.43	1,456,980.28	1,995,319.00	316,484,502.45
Deductions	—	1,923,894.45	—	368,989.23	2,292,883.68
2008.06.30	206,545,082.99	2,550,179,783.73	16,271,424.42	19,838,941.93	2,792,835,233.07
<b>Net value</b>					
2006.12.31	785,433,962.66	5,740,499,511.31	16,582,208.40	13,252,190.95	6,555,767,873.32
2007.12.31	803,034,216.44	5,733,888,022.4	17,557,444.66	15,333,590.15	6,569,813,273.65

Note 1: As at 30 June 2008, the net book value of the buildings without house property right certificates in the fixed assets of the Company was RMB 5,832,755.27. The related house property right certificates were being applied.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 12. Construction in progress

##### The Group

Items	At the beginning of the period RMB	Additions RMB	Transfers to fixed assets RMB	Other deductions RMB	At the end of the period RMB	Sources of funds	Budgeted costs RMB million	Investment to budgeted costs %
98,000 tonne waste paper de-inking project	193,142,988.50	7,020,947.54	263,345,936.04	—	—	Borrowings	—	—
200,000 tonne light weight coated paper project	1,000,000.00	740,000.00	—	—	1,740,000.00	Self-owned funds	27.50	89.87
Grand View Hotel	181,059,912.64	75,681,260.58	256,741,173.22	—	—	Self-owned funds	—	—
Technological improvement to fixed assets (Jilin Chenming)	6,880,933.81	1,356,120.19	4,550,120.61	—	3,686,933.39	Self-owned funds	—	—
Zhanjiang pulp project	14,090,236.83	2,395,513.55	—	—	16,485,750.38	Borrowings	58.22	0.28
120,000 tonne cast coated paper project	218,289,301.08	362,137,580.05	—	—	580,426,881.13	Self-owned funds	—	—
Others	290,290,261.16	211,920,392.62	292,554,267.16	—	209,656,386.62	Borrowings	—	—
<b>Total</b>	<b>904,753,634.02</b>	<b>724,433,814.53</b>	<b>817,191,497.03</b>	<b>—</b>	<b>811,995,951.52</b>			

##### The Company

Items	At the beginning of the period RMB	Additions RMB	Transfers to fixed assets RMB	Other deductions RMB	At the end of the period RMB	Sources of funds	Budgeted costs RMB *million	Investment to budgeted costs %
98,000 tonne waste paper de-inking project	193,142,988.50	70,202,947.54	263,345,936.04	—	—	Borrowings	—	—
Others	82,208,320.28	19,865,029.48	55,676,034.80	—	46,397,314.96	Self-owned funds	—	—
<b>Total</b>	<b>275,351,308.78</b>	<b>90,067,977.02</b>	<b>319,021,970.84</b>	<b>—</b>	<b>46,397,314.96</b>			

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 13. Intangible assets

##### The Group

	Land use rights RMB	Software RMB	Total RMB
<b>Cost</b>			
2007.12.31	857,421,258.25	14,818,173.05	872,239,431.30
Additions	79,646,465.96	30,000.00	79,676,465.96
Deductions	3,204,206.63	—	3,204,206.63
2008.06.30	933,863,517.58	14,848,173.05	948,711,690.63
<b>Accumulated depreciation</b>			
2007.12.31	45,860,846.80	4,076,758.18	49,937,604.98
Additions	10,270,276.95	740,399.68	11,010,676.63
Deductions	—	—	—
2008.06.30	56,131,123.75	4,817,157.86	60,948,281.61
<b>Net value</b>			
2007.12.31	811,560,411.45	10,741,414.87	822,301,826.32
2008.06.30	877,732,393.83	10,031,015.19	887,763,409.02

Note 1: For the details of intangible assets—land use rights as collateral, please refer to notes VIII.11.

Note 2: As at 30 June 2008, the net book value of the buildings without house property right certificates in the intangible assets of the Group was RMB 91,632,864.61. The related house property right certificates were being applied.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 13. Intangible assets (continued)

##### The Company

	Land use rights RMB	Software RMB	Total RMB
<b>Cost</b>			
2007.12.31	383,234,495.04	14,787,993.05	398,022,488.09
Additions	—	—	—
Deductions	—	—	—
2008.06.30	383,234,495.04	14,787,993.05	398,022,488.09
<b>Accumulated depreciation</b>			
2007.12.31	16,932,810.08	4,066,698.18	20,999,508.26
Additions	3,881,377.38	739,399.68	4,620,777.06
Deductions	—	—	—
2008.06.30	20,814,187.46	4,806,097.86	25,620,285.32
<b>Net value</b>			
2007.12.31	366,301,684.96	10,721,294.87	377,022,979.83
2008.06.30	362,420,307.58	9,981,895.19	372,402,202.77

Note 1: As at 30 June 2008, the net book value of the buildings without house property right certificates in the intangible assets of the Company was RMB 91,632,864.61. The related house property right certificates were being applied.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 14. Goodwill

##### The Group

	At the beginning of the period RMB	Additions RMB	At the end of the period RMB
Acquisition of Jilin Chenming Paper Co., Ltd (Note 1)	14,314,160.60	—	14,314,160.60
Acquisition of Shandong Chenming Panels Co., Ltd (Note 2)	5,969,626.57	—	5,969,626.57
<b>Total</b>	<b>20,283,787.17</b>	<b>—</b>	<b>20,283,787.17</b>

Note 1: On 4 August 2006, the Company and the then minority shareholders of Jilin Chenming Paper Co., Ltd entered into an equity acquisition agreement, pursuant to which, the Company acquired the goodwill as a result of 30% equity interests of Jilin Chenming Paper Co., Ltd from the minority shareholders of Jilin Chenming Paper Co., Ltd at RMB 14,850,000.

Note 2: On 20 July 2006, Shandong Chenming Power Supply Holdings Co., Ltd, a subsidiary of the Company, and the then minority shareholders of the Shandong Chenming Panels Co., Ltd entered into an equity acquisition agreement, pursuant to which, the Company acquired the goodwill as a result of 49% equity interests of Shandong Chenming Panels Co., Ltd from the minority shareholders of Shandong Chenming Panels Co., Ltd at RMB 30,572,195.20.

#### 15. Long term deferred expensed

##### The Group

Type	At the beginning		Additions RMB	Amortization RMB	Transfers RMB	At the end of
	Original RMB	of the period RMB				the period RMB
Leasing machineery & equipment (Fuyu)		14,996,890.54	—	8,998,134.32	—	5,998,756.22
Improvement to leased fixed assets		41,516,344.21	1513497.12	4,987,517.97	225,690.05	37,816,633.31
<b>Total</b>		<b>56,513,234.75</b>	<b>1513497.12</b>	<b>13,985,652.29</b>	<b>225,690.05</b>	<b>43,815,389.53</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 16. Deferred income tax assets

##### The Group

Items	Deductible / (taxable) temporary difference and deductible loss		Deferred income tax assets / (liabilities)	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
	RMB	RMB	RMB	RMB
Impairment provision	247,193,829.35	294,491,403.56	57,305,904.07	76,061,834.86
Convertibles split	—	—	—	—
Prepaid salaries of senior management	65,903,461.43	76,615,517.52	16,475,865.36	18,278,879.38
Deductible tax loss	14,228,584.41	7,072,653.00	3,595,105.76	1,768,163.25
Unpaid payables	33,816,535.67	9,467,054.69	8,454,133.92	2,366,763.67
Preliminary expenses	9,423,741.50	9,423,741.50	1,177,967.69	1,177,967.69
Unrealized profit arising from intra-group transactions	44,638,352.96	14,831,852.54	11,159,588.24	3,707,963.13
<b>Total</b>	<b>415,204,505.32</b>	<b>411,902,222.81</b>	<b>98,168,565.04</b>	<b>103,361,571.98</b>

##### The Company

Items	Deductible / (taxable) temporary difference and deductible loss		Deferred income tax assets / (liabilities)	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
	RMB	RMB	RMB	RMB
Impairment provision	170,123,241.72	191,418,908.68	42,530,810.43	53,645,227.74
Convertibles split	—	—	—	—
Prepaid salaries of senior management	65,903,461.43	67,424,634.80	16,475,865.35	16,856,158.70
Unpaid payables	33,816,535.67	8,060,172.84	8,454,113.91	2,015,043.21
<b>Total</b>	<b>269,843,238.82</b>	<b>266,903,716.32</b>	<b>67,460,809.69</b>	<b>72,516,429.65</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 17. Consumable Biological assets

##### The Group

Item	Amount (000'mu)	At the beginning	Purchase RMB	Breeding RMB	Change in fair value RMB	Fair Value at the
		of the period RMB				end of the period RMB
Trees	233	92,159,871.29	8,070,585.00	37,967,303.44	14,972,240.27	153,170,000.00

#### 18. Impairment provision

##### The Group

	2007.12.31	Charged during	Reversals	Other	2008.6.30
	RMB	the period RMB			RMB
Provisions for bad debts	278,710,626.82	6,474,473.47	(37,189,142.14)	(802,128.80)	247,193,829.35
Of which, trade receivables	219,305,662.84	3,596,187.63	(27,538,365.78)	(740,464.91)	194,623,019.78
Other receivables	59,404,963.98	2,878,285.84	(9,650,776.36)	(61,663.89)	52,570,809.57
Provisions for inventory impairment	6,114,277.85	—	—	—	6,114,277.85
Impairment provisions for long-term equity investments	1,450,000.00	—	—	—	1,450,000.00
Impairment provisions for held-to-maturity investments	142,210.00	—	—	—	142,210.00
Impairment provisions for fixed assets	8,074,288.89	—	—	—	8,074,288.89
<b>Total</b>	<b>294,491,403.56</b>	<b>6,474,473.47</b>	<b>(37,189,142.14)</b>	<b>(802,128.80)</b>	<b>262,974,606.09</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 18. Impairment provision (continued)

##### The Company

	2007.12.31	Charged during the period	Reversals	Other write-offs	2008.6.30
	RMB	RMB	RMB	RMB	RMB
Provisions for bad debts	183,712,420.83	1,291,200.35	(23,153,743.60)	(609,025.16)	161,240,852.42
Of which, trade receivables	167,571,175.43	352,342.69	(19,617,331.41)	(582,371.16)	147,723,815.55
Other receivables	16,141,245.40	938,857.66	(3,536,412.19)	(26,654.00)	13,517,036.87
Provisions for inventory impairment	6,114,277.85	—	—	—	6,114,277.85
Impairment provisions for long-term equity investments	1,450,000.00	—	—	—	1,450,000.00
Impairment provisions for held-to-maturity investments	142,210.00	—	—	—	142,210.00
<b>Total</b>	<b>191,418,908.68</b>	<b>1,291,200.35</b>	<b>(23,153,743.60)</b>	<b>(609,025.16)</b>	<b>168,947,340.27</b>

#### 19. Short-term borrowings

##### The Group

	2008.6.30	2007.12.31
	RMB	RMB
Credit loans	1,649,830,669.03	3,045,252,736.25
Secured borrowings	—	—
Charged borrowings (Note 1)	102,774,456.00	120,520,085.62
Discounted bills	346,792,259.01	428,227,235.41
<b>Total</b>	<b>2,099,397,384.04</b>	<b>3,594,000,057.28</b>

Note 1: Please see Note 9(3)(e) about guarantees provided by the Company for its subsidiaries.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 19. Short-term borrowings (continued)

##### The Company

	2008.6.30 RMB	2007.12.31 RMB
Credit loans	1,598,676,470.38	2,944,937,040.00
Discounted bills	129,139,722.21	405,483,351.17
<b>Total</b>	<b>1,727,816,192.59</b>	<b>3,350,420,391.17</b>

As at 30 June 2008, the short-term borrowings of the Group and the Company were not due.

#### 20. Bills payable

##### The Group

	2008.6.30 RMB	2007.12.31 RMB
Bank acceptance	147,082,514.36	130,056,316.74
<b>Total</b>	<b>147,082,514.36</b>	<b>130,056,316.74</b>

##### The Company

	2008.6.30 RMB	2007.12.31 RMB
Bank acceptance	47,961,845.35	121,487,222.14
<b>Total</b>	<b>47,961,845.35</b>	<b>121,487,222.14</b>

At the end of the period, the balance of the bills payable of the Group and the Company was not due to the shareholders who hold 5% or more (including 5%) of the Company's voting capital.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 21. Accounts payable

##### The Group

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 years	1,993,380,690.68	93.68	1,533,347,279.46	92.55
1-2 years	88,261,325.28	4.15	88,003,635.88	5.31
2-3 years	24,632,385.87	1.16	19,819,086.27	1.20
over 3 years	21,669,307.91	1.01	15,536,979.01	0.94
<b>Total</b>	<b>2,127,943,709.74</b>	<b>100.00</b>	<b>1,656,706,980.62</b>	<b>100.00</b>

##### The Company

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 years	1,621,984,069.02	98.77	1,302,127,014.93	97.72
1-2 years	6,601,892.39	0.4	25,899,318.42	1.94
2-3 years	9,925,724.93	0.6	1,289,808.76	0.10
over 3 years	3,598,491.40	0.23	3,236,189.59	0.24
<b>Total</b>	<b>1,642,110,177.74</b>	<b>100.00</b>	<b>1,332,552,331.70</b>	<b>100.00</b>

At the end of the period, the balance of the accounts payable of the Group and the Company was not due to the shareholders who hold 5% or more (including 5%) of the Company's voting capital.

As at 30 June 2008, the accounts payable of the Group and the Company aged over three years were insignificant. There was no significant payable aged over three years.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 22. Advance receipts

##### The Group

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 years	170,656,567.64	96.34	162,869,863.04	95.64
Over 1 years	6,476,929.66	3.66	7,416,766.17	4.36
<b>Total</b>	<b>177,133,497.30</b>	<b>100.00</b>	<b>170,286,629.21</b>	<b>100.00</b>

##### The Company

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 years	103,498,788.06	97.50	85,788,060.04	93.12
Over 1 years	2,653,474.73	2.50	6,338,827.45	6.88
<b>Total</b>	<b>106,152,262.79</b>	<b>100.00</b>	<b>92,126,887.49</b>	<b>100.00</b>

The advance receipts of the Group and the Company were not received from the shareholders who hold 5% or more (including 5%) of the Company's voting capital.

As at 30 June 2008, the advance receipts of the Group and the Company aged over one year were insignificant. There was no significant advance receipts aged over one years.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 23. Employee Benefits payable

##### The Group

	2007.12.31	Accrued during the period	Paid during the period	2008.6.30
	RMB	RMB	RMB	RMB
Salaries, bonuses, allowance and subsidies	155,039,793.16	147,482,554.65	169,679,717.78	132,842,630.03
Staff welfare	7,019,619.05	9,857,787.22	12,845,075.89	4,032,330.38
Social securities	22,548,644.71	50,535,123.66	42,188,518.96	30,895,249.41
Of which:				
1. Medical insurance	181,336.86	21,669,421.61	9,319,772.77	12,530,985.70
2. Pension insurance	4,029,979.45	33,567,344.03	31,134,378.85	6,462,944.63
3. Unemployment insurance	395,861.50	1,889,765.33	1,677,302.57	608,324.26
4. Work injury insurance	40.00	879,018.18	956,157.56	-77,099.38
5. Maternity insurance	2,104.50	2,492,554.77	283,168.96	2,211,490.31
Housing funds	3,190,239.43	15,659,339.26	9,362,264.38	9,487,314.31
Union running costs and employee education costs	21,264,973.94	5,867,166.01	5,692,599.13	21,439,540.82
Others	25,816,948.77	69,764.62	6,276,260.70	19,610,452.69
Of which: housing subsidies for Chinese employees	18,722,869.49	—	—	18,722,869.49
<b>Total</b>	<b>234,880,219.06</b>	<b>229,471,735.42</b>	<b>246,044,436.84</b>	<b>218,307,517.64</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 23. Employee Benefits payable (continued)

##### The Company

	2007.12.31	Accrued during the period	Paid during the period	2008.6.30
	RMB	RMB	RMB	RMB
Salaries, bonuses, allowance and subsidies	91,012,875.58	31,982,761.65	28,621,848.54	94,373,788.69
Social securities	—	17,211,507.63	14,530,685.91	2,680,821.72
Of which:1. Medical insurance	—	1,052,063.98	826,378.78	225,685.20
2. Pension insurance	—	15,959,157.08	13,704,307.13	2,254,849.95
Housing funds	301,429.93	3,458,632.70	2,710,994.14	1,049,068.49
Union running costs and employee education costs	7,615,692.55	1,681,232.74	84,453.00	9,212,472.29
Others	20,294,434.36	—	1,571,564.87	18,722,869.49
Of which: housing subsidies	18,722,869.49	—	—	18,722,869.49
<b>Total</b>	<b>119,224,432.42</b>	<b>54,334,134.72</b>	<b>47,519,546.46</b>	<b>126,039,020.68</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 24. Tax payables

##### The Group

	2008.6.30 RMB	2007.12.31 RMB
Value added tax	7,113,387.14	(37,746,067.23)
Business tax	9,655,371.16	8,857,642.18
Urban maintenance & construction tax	758,365.79	603,652.91
Corporate income tax	149,972,298.51	95,828,694.44
Individual income tax	2,800,946.75	9,884,850.76
Property tax	4,919,634.63	4,235,238.17
Stamp duty	2,987,007.18	3,377,040.15
Land use tax	14,931,558.20	12,020,128.08
Educational surcharges	472,255.95	1,097,118.40
Others	(74,944,194.49)	4,286,153.00
<b>Total</b>	<b>118,666,630.82</b>	<b>102,444,450.86</b>

##### The Company

	2008.6.30 RMB	2007.12.31 RMB
Value added tax	(16,007,620.05)	10,924,722.22
Business tax	9,374,685.35	8,695,193.52
Corporate income tax	127,531,100.91	63,493,393.03
Individual income tax	472,444.06	9,111,505.66
Property tax	1,780,901.62	1,750,586.84
Stamp duty	1,407,715.61	1,889,696.53
Land use tax	5,017,996.88	4,286,153.00
Others	(3,827,385.19)	0.00
<b>Total</b>	<b>125,749,839.19</b>	<b>100,151,250.80</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 25. Dividend payable

The Group and The Company

	2008.6.30 RMB	2007.12.31 RMB
Public shares	220,443,565.44	—
Legal person shares	52,607,860.29	36,075.17
<b>Total</b>	<b>273,051,425.73</b>	<b>36,075.17</b>

#### 26. Other payables

The Group

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
within 1 years	211,368,395.47	47.59	107,189,167.02	35.14
1-2 years	166,150,991.72	37.41	121,510,348.87	39.83
2-3years	22,799,411.44	5.13	40,351,763.92	13.23
over 3 years	43,853,970.05	9.87	35,998,736.57	11.80
<b>Total</b>	<b>444,172,768.68</b>	<b>100.00</b>	<b>305,050,016.38</b>	<b>100.00</b>

The Company

	2008.6.30		2007.12.31	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
within 1 years	161,480,053.80	50.47	116,758,545.18	41.87
1-2 years	139,811,460.13	43.70	146,015,185.86	52.37
2-3years	6,620,078.50	2.07	9,606,328.08	3.45
over 3 years	12,038,584.31	3.76	6,458,285.54	2.31
<b>Total</b>	<b>319,950,176.74</b>	<b>100.00</b>	<b>278,838,344.66</b>	<b>100.00</b>

The other payables of the Group and the Company were not due to the shareholders who hold 5% or more (including 5%) of the Company's voting capital.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 27. Non-current liabilities due within one year

##### The Group

Type	At the end of the period RMB	At the beginning of the period RMB
Long-term borrowings due within one year	1,162,787,480.82	667,746,417.91
<b>Total</b>	<b>1,162,787,480.82</b>	<b>667,746,417.91</b>

##### The Company

Type	At the end of the period RMB	At the beginning of the period RMB
Long-term borrowings due within one year	1,008,538,675.00	586,144,500.00
<b>Total</b>	<b>1,008,538,675.00</b>	<b>586,144,500.00</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 28. Short-term debentures payable

##### The Group

Type	2008.6.30 RMB	2007.12.31 RMB
Short-term debentures (Note 1)	1,218,523,194.44	506,212,916.67
Total	1,218,523,194.44	506,212,916.67

Note 1: Jiangxi Chenming", a subsidiary of the Company, was approved, by a circular issued by the the People's Bank of China (Yinfa [2007] No. 289), to issue short-term debentures due within one year of total face value of RMB 500,000,000.00 on 10 September 2007, which were underwritten by China Construction Bank Corporation. The short-term debentures, fully guaranteed by China Construction Bank Corporation against joint liability, was interest bearing at 4.03% per annum and repayable on maturity with a one-off interest payment.

The Company was approved, by a circular issued by the the People's Bank of China (Yinfa [2007] No. 427), to issue short-term debentures due within one year of total face value of RMB 700,000,000.00 on 10 June 2008, which were underwritten by China Merchants Bank Co., Ltd. The short-term debentures was interest bearing at 5.2% per annum and repayable on maturity with a one-off interest payment.

##### The Company

Type	2008.6.30 RMB	2007.12.31 RMB
Short-term debentures (Note 2)	702,123,333.33	—
Total	702,123,333.33	—

Note: The Company was approved, by a circular issued by the the People's Bank of China (Yinfa [2007] No. 427), to issue short-term debentures due within one year of total face value of RMB 700,000,000.00 on 10 June 2008, which were underwritten by China Merchants Bank Co., Ltd. The short-term debentures was interest bearing at 5.2% per annum and repayable on maturity with a one-off interest payment.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 29. Long-term borrowings

##### The Group

Type	2008.6.30			2007.12.31		
	Amounts in original currency	Exchange rate on translation	RMB	Amount in original currency	Exchange rate on translation	RMB
Credit loans – RMB	1,944,103,202.11	1.0000	1,904,103,202.11	1,436,896,605.93	1.0000	1,436,896,605.93
Credit loans – USD	254,250,000.00	6.8591	1,743,926,175.00	280,500,000.00	7.3046	2,048,940,300.00
Secured borrowings – RMB	–	–	–	–	–	–
Secured borrowings – USD	58,975,958.07	6.8591	404,521,993.97	62,398,977.95	7.3046	455,799,574.33
Charged borrowings – RMB (Note 1)	765,000,000.00	1.0000	805,000,000.00	775,000,000.00	1.0000	775,000,000.00
Charged borrowings – USD (Note 1)	2,000,000.00	6.8591	13,718,200.00	1,000,000.00	7.3046	7,304,600.00
<b>Total</b>			<b>4,871,269,571.08</b>			<b>4,723,941,080.26</b>
Less: long-term borrowings due after one year			1,162,787,480.82			667,746,417.91
Including: Credit loans – RMB	122,044,275.00	1.0000	122,044,275.00	166,204,570.00	1.0000	166,204,570.00
Credit loans – USD	129,250,000.00	6.8591	886,538,675.00	57,500,000.00	7.3046	420,014,500.00
Secured borrowings – RMB	–	–	–	–	–	–
Secured borrowings – USD	9,360,489.11	6.8591	64,204,530.82	6,369,595.58	7.3046	46,527,347.91
Charged borrowings – RMB	90,000,000.00	1.0000	90,000,000.00	35,000,000.00	1.0000	35,000,000.00
Charged borrowings – USD	–	–	–	–	–	–
<b>Long-term borrowings due after one year</b>			<b>3,708,482,090.26</b>			<b>4,056,194,662.35</b>

The above borrowings were interest bearing at 5.265% to 7.56% per annum.

Note 1: Please see Note 9(3)(e) about borrowings guarantees provided by the Company for its subsidiaries.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 29. Long-term borrowings (continued)

##### The Company

Type	2008.6.30			2007.12.31		
	Amounts in original currency	Exchange rate on translation	RMB	Amounts in original currency	Exchange rate on translation	RMB
Credit loans – RMB	1,902,692,035.94	1.0000	1,902,692,035.94	1,436,822,035.94	1.0000	1,436,822,035.94
Credit loans – USD	254,250,000.00	6.8591	1,743,926,175.00	280,500,000.00	7.3046	2,048,940,300.00
<b>Total</b>			<b>3,646,618,210.94</b>			<b>3,485,762,335.94</b>
Less: long-term borrowings due after one year			1,008,538,675.00			586,144,500.00
Including: Credit loans – RMB	122,000,000.00	1.0000	122,000,000.00	166,130,000.00	1.0000	166,130,000.00
Credit loans – USD	129,250,000.00	6.8591	886,538,675.00	57,500,000.00	7.3046	420,014,500.00
<b>Long-term borrowings due after one year</b>			<b>2,638,079,535.94</b>			<b>2,899,617,835.94</b>

The above borrowings were interest bearing at 5.265% to 7.56% per annum.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 30. Deferred income

##### The Group

Type	At the beginning of the period RMB	Increase for the period RMB	Decrease for the period RMB	At the end of the period RMB
Amortization of the special fund for Songhuaijiang environmental project	—	24,100,000.00	401,666.68	23,698,333.32
Waste water treatment improvement project	—	1,750,000.00	—	1,750,000.00
Alkaline recycling system improvement	—	1,493,750.00	—	1,493,750.00
Water pollution integrated treatment project	—	6,550,000.00	—	6,550,000.00
Environmental special fund	750,000.00	—	—	750,000.00
Special project funds for Science and technology	80,000.00	—	—	80,000.00
Central environmental project fund for deposal system of mud burning	—	5,000,000.00	—	5,000,000.00
Ministry of Science and technology national technological support scheme project fund	—	2,010,000.00	201,000.00	1,809,000.00
<b>Total</b>	<b>830,000.00</b>	<b>40,903,750.00</b>	<b>602,666.68</b>	<b>41,131,083.32</b>

#### 31. Deferred income tax liabilities

##### The Group

Temporary difference	Taxable temporary difference		Deferred Income tax liabilities	
	At the end of the year RMB	At the beginning of the year RMB	At the end of the year RMB	At the beginning of the year RMB
Changes of fair value of consumable biological assets	39,387,640.58	24,415,400.31	9,846,910.15	6,103,850.08
<b>Total</b>	<b>39,387,640.58</b>	<b>24,415,400.31</b>	<b>9,846,910.15</b>	<b>6,103,850.08</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 32. Share capital

##### a. Changes of shareholdings of the Company during the reporting period:

	Increase / decrease (share) during the period							At the end of the period (share)
	At the beginning of the period (share)	New Issue (H share)	Lock-up of the shareholdings of the new directors	Expiry of lock-up	Transfer of state-owned shares	Others	Sub-total	
Restricted shares								
State-owned legal person shares	328,573,657	—	—	—	(35,570,000)	—	(35,570,000)	293,003,657
Domestic non-state-owned								
legal person shares	—	—	—	—	—	—	—	—
Other domestic shares	10,926,796	—	—	(120,101)	—	—	(120,101)	10,806,695
Including:								
Domestic legal-person shares	—	—	—	—	—	—	—	—
Domestic natural person shares	10,926,796	—	—	(120,101)	—	—	(120,101)	10,806,695
<b>Total number of restricted shares</b>	<b>339,500,453</b>	<b>—</b>	<b>—</b>	<b>(120,101)</b>	<b>(35,570,000)</b>	<b>—</b>	<b>(35,690,101)</b>	<b>303,810,352</b>
Listed tradable shares								
RMB ordinary shares	809,348,003	—	—	120,101	—	—	120,101	809,468,104
Domestic listed foreign shares (B share)	557,497,485	—	—	—	—	—	—	557,497,485
Hong Kong listed foreign shares (H share)	—	355,700,000	—	—	35,570,000	—	391,270,000	391,270,000
<b>Total listed tradable shares</b>	<b>1,366,845,488</b>	<b>355,700,000</b>	<b>—</b>	<b>—</b>	<b>35,570,000</b>	<b>—</b>	<b>391,390,101</b>	<b>1,758,235,589</b>
<b>Total shares</b>	<b>1,706,345,941</b>	<b>355,700,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>355,700,000</b>	<b>2,062,045,941</b>

Note 1: In February 2008, as approved by the approval document: No. [2008] 290 from China Securities Regulatory Commission, and the Hong Kong Stock Exchange, the Company offered 355,700,000 H shares for the global public offering. The Company was listed on the main board of the Hong Kong Stock Exchange on 18 June 2008. During the reporting period, the Company increased 355,700,000 H shares.

Note 2: Pursuant to the Notice of the Provisional Administrative Measures for State-owned Shares reduction for Raising Social Security Fund promulgated by the State Council (《國務院關於印發減持國有股籌集社會保障資金管理暫行辦法的通知》), the State-owned Assets Supervision and Administration Commission of the State Council approved that Shouguang Chenming Holdings Co., Ltd. was to transfer to the Social Security Fund Council (the "NSSF Council") such number of A shares held by it in aggregate equivalent to 10% of the number of the offer shares, representing 35,570,000 state-owned legal person shares, which were to be converted into overseas listed foreign shares (H shares) and listed on the main board of the Hong Kong Stock Exchange, in the event of the issue of overseas listed foreign shares (H shares) by the Company.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 32. Share capital (continued)

##### b. Changes of the Company's shareholdings in 2007:

	As at the beginning of the period (share)	Conversion from convertible bonds (Note 1)	Lock-up of the shareholdings of the new directors	Increase / decrease (share) during the period			Sub-total	As at the end of the period (share)
				Expiry of lock-up	Share reform	Others		
Restricted shares								
State-owned legal person shares	328,573,657	—	—	—	—	—	—	328,573,657
Domestic non-state-owned legal person shares	9,517,139	—	—	(9,517,139)	—	—	(9,517,139)	—
Other domestic shares	16,718,345	—	16,400	(5,807,949)	—	—	(5,791,549)	10,926,796
Including:								
Domestic legal-person shares	—	—	—	—	—	—	—	—
Domestic natural person shares	16,718,345	—	16,400	(5,807,949)	—	—	(5,791,549)	10,926,796
<b>Total number of restricted shares</b>	<b>354,809,141</b>	<b>—</b>	<b>16,400</b>	<b>(15,325,088)</b>	<b>—</b>	<b>—</b>	<b>(15,308,688)</b>	<b>339,500,453</b>
Listed tradable shares								
RMB ordinary shares	453,363,529	340,675,786	(16,400)	15,325,088	—	—	355,984,474	809,348,003
Domestic listed foreign shares (B share)	557,497,485	—	—	—	—	—	—	557,497,485
<b>Total listed tradable shares</b>	<b>1,010,861,014</b>	<b>340,675,786</b>	<b>(16,400)</b>	<b>15,325,088</b>	<b>—</b>	<b>—</b>	<b>355,984,474</b>	<b>1,366,845,488</b>
<b>Total shares</b>	<b>1,365,670,155</b>	<b>340,675,786</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>340,675,786</b>	<b>1,706,345,941</b>

Note 1: The conversion period of Chenming convertible bonds started on 15 March 2005. Pursuant to the approval by the twenty-first meeting of the forth session of the Board of Directors, the Company early redeemed all the Company's remaining convertible bonds on 14 May 2007. Upon the redemption, Chenming Paper accumulated an increment of 359,754,087 shares due to the conversion. During the reporting period, the increment of shares due to conversion was 340,675,786 shares.

Changes of the share capital as mentioned above were reviewed by China Rightson Certified Public Accountants. A capital review report No. II [2007] 018 was published for the certification of the review.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 33. Capital Surplus

##### The Group

The reporting period

	At the beginning of the period RMB	Increase for the period RMB	Decrease for the period RMB	At the end of the period RMB
Premium of share capital				
The Company's convertible bonds				
Exercise of conversion rights	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from Investors	1,754,786,187.93	2,362,552,334.68	—	4,117,338,522.61
Shares issued by way of capitalization of capital reserve	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserve				
Share of interest attributable to the Company's convertible bonds	—	—	—	—
Transfer from capital surplus under the original system	463,813,228.85	—	—	463,813,228.85
Provision for long-term investment	237,198,605.60	—	—	237,198,605.60
Others	1,000,000.00	—	—	1,000,000.00
<b>Total</b>	<b>3,737,991,906.21</b>	<b>2,362,552,334.68</b>	<b>—</b>	<b>6,100,544,240.89</b>

Premium of share capital RMB 2,362,552,334.68 was due to the issuance of H shares by the Company for the current year.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 33. Capital Surplus (continued)

2007

	At the beginning of the period RMB	Increase for the period RMB	Decrease for the period RMB	At the end of the period RMB
Premium of share capital				
The Company's convertible bonds				
Exercise of conversion rights	334,276,467.95	1,683,938,834.03	—	2,018,215,301.98
Capital contribution from Investors	1,754,786,187.93	—	—	1,754,786,187.93
Shares issued by way of capitalization of capital reserve	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserve				
Share of interest attributable to the Company's convertible bonds	195,402,946.14	61,687,883.12	(257,090,829.26)	—
Transfer from capital surplus under the original system	463,813,228.85	—	—	463,813,228.85
Provision for long-term investment	237,198,605.60	—	—	237,198,605.60
Others	—	1,000,000.00	—	1,000,000.00
<b>Total</b>	<b>2,248,456,018.32</b>	<b>1,746,626,717.15</b>	<b>(257,090,829.26)</b>	<b>3,737,991,906.21</b>

Increase in premium of share capital of RMB 1,426,848,004.77 was mainly due to the conversion of the Company's convertible bonds into RMB ordinary A shares. And increase in premium of share capital of RMB 257,090,829.26 was due to the completion of conversion of part of the interest in the Company's convertible bonds into shares.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 33. Capital Surplus (continued)

##### The Company

The reporting period

	At the beginning of the period RMB	Increase for the period RMB	Decrease for the period RMB	At the end of the period RMB
Premium of share capital				
The Company's convertible bonds				
Exercise of conversion rights	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from Investors	1,754,786,187.93	2,362,552,334.68	—	4,117,338,522.61
Shares issued by way of capitalization of capital reserve	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserve				
Share of interest attributable to the Company's convertible bonds				
Transfer from capital surplus under the original system	—	—	—	—
Provision for long-term investment	778,727,767.93	—	—	778,727,767.93
Others	12,670,520.05	2,159,053.84	—	14,829,573.89
<b>Total</b>	<b>3,827,378,359.74</b>	<b>2,364,711,388.52</b>		<b>6,192,089,748.26</b>



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 33. Capital Surplus (continued)

2007

	As at the beginning of the period RMB	Increase for the period RMB	Decrease for the period RMB	As at the end of the period RMB
Premium of share capital				
The Company's convertible bonds				
Exercise of conversion rights	334,276,467.95	1,683,938,834.03	—	2,018,215,301.98
Capital contribution from Investors	1,754,786,187.93	—	—	1,754,786,187.93
Shares issued by way of capitalization of capital reserve	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserve				
Share of interest attributable to the Company's convertible bonds	195,402,946.14	61,687,883.12	(257,090,829.26)	—
Transfer from capital surplus under the original system	778,727,767.93	—	—	778,727,767.93
Provision for long-term investment				
Others	—	12,670,520.05	—	12,670,520.05
<b>Total</b>	<b>2,326,171,951.80</b>	<b>1,758,297,237.20</b>	<b>(257,090,829.26)</b>	<b>3,827,378,359.74</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 34. Surplus Reserve

The Group

The reporting period

	Statutory surplus reserve RMB	Statutory public welfare reserve RMB	Total RMB
Balance as at the beginning of the year	723,742,920.58	—	723,742,920.58
Accruals of the year	—	—	—
Decrease of the year	—	—	—
Balance as at the end of the year	723,742,920.58	—	723,742,920.58

2007

	Statutory surplus reserve RMB	Statutory public welfare reserve RMB	Total RMB
Balance as at the beginning of the year	642,691,568.68	—	642,691,568.68
Accruals of the year	81,051,351.90	—	81,051,351.90
Decrease of the year	—	—	—
Balance as at the end of the year	723,742,920.58	—	723,742,920.58

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 34. Surplus Reserve (continued)

The Company

The reporting period

	Statutory surplus reserve RMB	Statutory public welfare reserve RMB	Total RMB
Balance as at the beginning of the year	711,553,338.67	—	711,553,338.67
Accruals of the year	—	—	—
Decrease of the year	—	—	—
Balance as at the end of the year	711,553,338.67	—	711,553,338.67

2007

	Statutory surplus reserve RMB	Statutory public welfare reserve RMB	Total RMB
Balance as at the beginning of the year	630,501,986.77	—	630,501,986.77
Accrual of the year	81,051,351.90	—	81,051,351.90
Decrease of the year	—	—	—
Balance as at the end of the year	711,553,338.67	—	711,553,338.67

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 35. Undistributed profit

##### The Group

	At the end of the reporting period RMB	At the end of the prior period RMB
Undistributed profit as at the beginning of the year	2,576,650,349.38	1,894,827,041.81
Add: Net profit of the year	947,427,409.04	967,636,172.39
Less: Appropriation of statutory surplus reserve	—	(81,051,351.90)
Profit available for distribution of shareholders	3,524,077,758.42	2,781,411,862.30
Less: Dividends payable – last year's/ previous year's cash dividends approved on the general shareholders' meeting	(273,015,350.56)	(204,761,512.92)
Undistributed profit as at the end of the year	3,251,062,407.86	2,576,650,349.38
Including: Cash dividend/ profit decided to be distributed after the balance sheet date	—	273,015,350.56

##### The Company

	2008 RMB	2007 RMB
Undistributed profit as at the beginning of the year (after adjustment, for details, please see Note 6 )	1,509,756,228.39	985,055,574.16
Add: Net profit of the year	869,113,141.25	810,513,519.05
Less: Appropriation of statutory surplus reserve	—	(81,051,351.90)
Profit available for distribution of shareholders	2,378,869,369.64	1,714,517,741.31
Less: Dividends payable – last year's/ previous year's cash dividends approved on the general shareholders' meeting	(273,015,350.56)	(204,761,512.92)
Undistributed profit as at the end of the year	2,105,854,019.08	1,509,756,228.39
Including: Cash dividend/ profit decided to be distributed after the balance sheet date	—	273,015,350.56

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 36. Minority Interest

Minority interests of the Group's subsidiaries were as follows:

	At the end of the reporting period RMB	At the beginning of the year RMB
Jiangxi Chenming Paper Co., Ltd.	804,020,219.95	753,466,734.73
Wuhan Chenming Hanyang Paper Co. Ltd.	378,779,391.69	420,169,505.46
Chibi Chenming Paper Co., Ltd.	314,420,102.57	282,226,459.32
Shandong Chenming Power Supply Holdings. Co., Ltd.	113,231,884.96	232,633,036.75
Yanbian Chenming Paper Co. Ltd.	65,339,618.06	61,872,157.72
Hailaer Chenming Paper Co. Ltd.	27,683,001.81	25,252,081.12
Shandong Grand View Hotel Co., Ltd.	28,047,479.50	33,221,256.38
Others	26,190,672.30	26,683,421.63
<b>Total</b>	<b>1,757,712,370.84</b>	<b>1,835,524,653.11</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 37. Operating Income

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Principal operations		
Including: Machine-made paper	8,014,572,108.45	6,165,080,616.76
Electricity and steam supply	125,937,828.75	92,393,548.00
Building materials	315,811,262.25	426,995,552.11
Papermaking chemicals	50,535,484.98	39,405,834.78
Papermaking equipment	3,659,979.80	—
Others	16,681,062.50	760,107.60
Other business		
Including: Sales of raw materials and semi-products	19,596,767.41	65,705,418.50
Installation engineering and machine repair workshop	849,188.82	1,565,853.12
Rental income	350,075.00	1,427,560.33
Others	4,408,511.44	4,562,228.01
<b>Total</b>	<b>8,552,402,269.40</b>	<b>6,797,896,720.16</b>

- (1) The following table sets forth the breakdown of the income from principal operations of paper products by geographical segments:

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
PRC	7,073,977,581.46	5,158,545,929.00
United States	21,878,867.28	108,889,810.37
Hong Kong	166,607,456.20	92,842,189.87
Japan	64,894,940.18	138,110,027.12
South Africa	151,718,534.73	137,100,142.05
Other overseas countries	535,494,728.60	529,592,518.35
<b>Total</b>	<b>8,014,572,108.45</b>	<b>6,165,080,616.76</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 37. Operating Income (continued)

(2) Income from sales to the top 5 customers as a percentage of the total sales income:

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Total income from the top 5 customers	496,720,755.86	428,135,809.44
Percentage	5.81%	6.30%

#### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to July of 2007 RMB
Principal operations		
Including: machine-made paper	7,085,159,170.83	5,480,845,282.55
Add: Electricity and steam supply	73,000,537.28	62,856,677.46
Other operations		
Including: Sales of raw materials and semi-products	94,219,312.96	127,564,353.02
Rental income	73,000,537.28	62,856,677.46
Others	799,489.17	658,671.90
Total	7,253,178,510.24	5,671,924,984.93

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 38. Cost of operations

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Principal operations		
Including: Machine-made paper	6,207,491,180.45	5,001,791,055.03
Electricity and steam supply	110,185,475.69	84,531,668.36
Construction materials	273,559,132.71	349,559,830.62
Papermaking chemicals	20,439,106.15	22,583,861.54
Papermaking equipment	2,204,774.61	—
Others	10,521,827.27	852,681.31
Other operations		
Including: Sales of raw materials and semi-products	18,422,151.89	49,031,565.69
Rental expenses	614.86	15,053.94
Others	4,391,880.28	2,052,614.92
<b>Total</b>	<b>6,647,216,143.91</b>	<b>5,510,418,331.42</b>

##### The Company

	Accrued from January to June of 2008 RMB	Accrued amount from January to June of 2007 RMB
Principal operations		
Including: machine-made paper	6,003,784,187.38	4,830,366,071.20
Add: Electricity and steam supply	62,618,292.13	45,947,842.24
Other operations		
Including: Sales of raw materials and semi-products	94,877,062.87	127,137,119.20
Others	7,920.76	42,459.34
<b>Total</b>	<b>6,161,287,463.14</b>	<b>5,003,493,491.98</b>



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 39. Tax and levies on operations

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Operating Tax	964,729.69	2,875,054.68
Urban maintenances and construction tax	3,376,866.70	5,485,439.86
Educational Surcharges	2,352,706.52	3,531,013.84
Flood prevention fund	—	3,908.58
Others	61,252.64	438.13
<b>Total</b>	<b>6,755,555.55</b>	<b>11,895,855.09</b>

##### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Operating Tax	135,343.88	2,859,977.01
<b>Total</b>	<b>135,343.88</b>	<b>2,859,977.01</b>

#### 40. Finance costs

##### The Group

	Accrued from January to June of 2008 RMB	Accrued amount from January to June of 2007 RMB
Interest expenses	244,012,030.75	267,037,619.44
Less: interest income	(8,855,309.87)	(11,723,769.63)
Foreign exchange loss	26,909,440.74	29,050,753.77
Less: foreign exchange gain	(192,606,302.35)	(90,832,907.83)
Handling charges of financial institutions	9,175,333.11	7,589,994.64
<b>Total</b>	<b>78,635,192.38</b>	<b>201,121,690.39</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 40. Finance costs (continued)

##### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Interest expenses	199,805,699.71	207,620,367.80
Less: interest income	(7,953,456.88)	(7,104,015.41)
Less: foreign exchange gain	(165,293,292.06)	(51,629,350.55)
Handling charges of financial institutions	4,132,740.74	5,778,211.89
<b>Total</b>	<b>30,691,691.51</b>	<b>154,665,213.73</b>

#### 41. Loss on impairment of assets

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Provision of bad debt	(30,714,668.67)	59,942,407.48
Provision of decreasing price of inventory	—	(666,401.85)
Provision of impairment on long-term investment	—	—
Provision of impairment on fixed assets	—	—
<b>Total</b>	<b>(30,714,668.67)</b>	<b>59,276,005.63</b>

##### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Provision of bad debt	(21,862,543.25)	6,764,545.59
Provision of decreasing price of inventory	—	(666,401.85)
Provision of impairment on long-term investment	—	—
<b>Total</b>	<b>(21,862,543.25)</b>	<b>(6,098,143.74)</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 42. Profit and Loss on changes of fair values

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Biological assets at fair value	14,972,240.27	—
Financial derivatives at fair value	1,232,217.00	—
<b>Total</b>	<b>16,204,457.27</b>	<b>—</b>

#### 43. Investment income

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Profit distributed by investees accounted for under the cost method	85,876.96	—
Shares of net profit of investees accounted for under the equity method	(12,375,340.05)	(190,912.12)
Dealt with gain from long-term equity investment	—	—
<b>Total</b>	<b>(12,289,463.09)</b>	<b>(190,912.12)</b>

##### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Shares of net profit of investees accounted for under the equity method	(12,375,340.05)	(190,912.12)
Gain from disposal of long-term equity investment	—	—
Gain on entrusted loan	94,039,907.47	55,911,532.23
Cash dividend distributed and declared by the subsidiaries	148,915,143.21	—
Profit distributed by investees accounted for under the cost method	85,876.96	—
<b>Total</b>	<b>230,665,587.59</b>	<b>55,720,620.11</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. Notes to the financial statements (continued)

#### 44. Non-operating income

##### The Group

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Net income on disposal of fixed assets	1,577,355.30	626,566.98
Insurance claims	7,834,099.22	3,631,738.68
Income from default penalty and fine	181,840.00	—
Income from debt reconstructing	25,651.03	—
Unpaid debts	999,953.94	—
Negative goodwill arising on acquisition of minority interests	28,211,118.08	—
Government grant (Note VIII 47)	128,992,446.44	86,259,617.01
Others	982,154.69	30,407,047.59
<b>Total</b>	<b>168,804,618.70</b>	<b>120,924,970.26</b>

##### The Company

	Accrued from January to June of 2008 RMB	Accrued from January to June of 2007 RMB
Net income on disposal of fixed assets	—	112,993.84
Income from default penalty and fine	—	41,470.75
Income from debt reconstructing	—	1,687,907.47
Unpaid debts	1,564.34	2,718,108.81
Negative goodwill arising on acquisition of minority interests	—	—
Government grant (Note VIII 47)	80,030,000.00	37,916,745.00
Others	13,872.29	22,940,799.25
<b>Total</b>	<b>80,045,436.63</b>	<b>65,418,025.12</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 45. Non-operating expenses

The Group	Accumulated as at Jan- Jun of 2008 RMB	Accumulated as at Jan- Jun of 2007 RMB
Net loss from disposal of assets	1,394,490.60	4,849,429.02
Donation expenses	5,628,666.60	—
Extraordinary expenses	2,210.00	2,340.00
Loss from debt restructuring	617,224.68	338,969.88
Influence from change in conversion price (note 1)	—	—
Other	286,575.21	132,105.66
<b>Total</b>	<b>7,929,167.09</b>	<b>5,322,844.56</b>
The Company	Accumulated as at Jan- Jun of 2008 RMB	Accumulated as at Jan- Jun of 2007 RMB
Net loss from disposal of assets	739,683.34	2,725,827.55
Donation expenses	4,586,626.60	—
Extraordinary expenses	—	—
Loss from debt restructuring	617,224.68	338,969.88
Other	—	—
<b>Total</b>	<b>5,943,534.62</b>	<b>3,064,797.43</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 46. Income tax expenses

##### The Group

	Accumulated as at Jan- Jun of 2008 RMB	Accumulated as at Jan- Jun of 2007 RMB
Income tax expenses for current year	258,065,984.54	112,478,738.36
Deferred income tax expenses	8,936,067.01	19,708,992.54
<b>Total</b>	<b>267,002,051.55</b>	<b>132,187,730.90</b>

##### The Company

	Accumulated as at Jan- Jun of 2008 RMB	Accumulated as at Jan- Jun of 2007 RMB
Income tax expenses for current year	213,295,838.28	70,309,112.95
Deferred income tax expenses	5,055,619.96	12,932,196.69
<b>Total</b>	<b>218,351,458.24</b>	<b>83,241,309.64</b>

#### 47. Government grants

##### The Group

	Accumulated as at Jan- Jun of 2008 RMB	Accumulated as at Jan- Jun of 2007 RMB
Reversal of tax	25,236,318.81	23,961,010.34
Finance support fund	103,756,127.63	62,298,606.67
<b>Total</b>	<b>128,992,446.44</b>	<b>86,259,617.01</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 48. Net profit after extraordinary gain and loss

	30 June 2008 RMB	30 June 2007 RMB
Net profit	1,079,653,729.62	485,913,709.79
Add: extraordinary gain and loss items		
Net gain and loss from disposal of non-current assets	(182,864.70)	4,222,862.04
Government grants	106,938,176.97	(62,298,606.67)
Net gain and loss from debt restructuring	591,573.65	338,969.88
Negative goodwill from acquisition of minority interests	(28,211,118.08)	
Reversal of impairment provision for accounts receivable after independent impairment tests	(12,470,039.30)	(6,866,397.17)
Reversal of impairment of stock		(506,405.41)
Non-operating net gain and loss other than the above	(20,285,053.31)	(15,573,625.62)
Add: influence from extraordinary gain and loss	38,506,287.00	33,794,460.16
Net profits after extraordinary gain and loss	950,664,337.91	439,024,967.00
Attributable to equity holders of the Company	823,334,761.83	352,868,732.01
Attributable to minority interests	127,329,576.08	86,156,234.99

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 49. Cash and cash equivalents

The Group	30 June 2008 RMB	30 June 2007 RMB
Cash	3,613,209,716.27	613,826,456.62
Of which: Treasury cash	3,248,827.36	2,688,459.77
Bank deposit withdrawn on demand	3,609,960,888.91	611,137,996.85
Balance of cash and cash equivalents	3,613,209,716.27	613,826,456.62
The Company	30 June 2008 RMB	30 June 2007 RMB
Cash	3,128,752,376.76	235,957,551.29
Of which: Treasury cash	545,554.36	124,896.69
Bank deposit withdrawn on demand	3,128,206,822.40	235,832,654.60
Balance of cash and cash equivalents	3,128,752,376.76	235,957,551.29



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 50. Updated information on cash flow statements

The Group	Accumulated for this year RMB	Accumulated for last year RMB
Reconciliation of net profit as cash flows from operating activities		
Net profit	1,079,653,729.62	485,913,709.79
Add: provision of impaired assets	(30,714,668.67)	59,276,005.63
Depreciation of fixed assets	547,556,783.11	488,965,307.81
Depreciation of real estate held for investment	—	—
Intangible assets amortized	11,010,676.63	4,066,853.50
Long-term deferred expenditure amortized	13,985,652.29	3,447,803.07
Gain on investment	12,289,463.09	(190,912.12)
Net loss from disposal of fixed assets (minus: gain)	1,394,490.60	739,683.34
Financial expenses	247,610,785.34	264,512,589.31
Downward adjustment of recognized loss from convertible bonds by management	—	—
Decrease in stock (minus: increase)	(904,282,716.55)	(280,547,191.11)
Decrease in consumable biological assets (minus: increase)	—	—
Loss from change in fair value (minus: gain)	(16,204,457.27)	—
Decrease in deferred income tax assets (minus: increase)	5,193,006.94	(19,708,992.54)
Increase in deferred income tax debt (minus: decrease)	3,743,060.07	—
Negative goodwill from acquisition of minority interests	(28,211,118.08)	—
Decrease in operating receivables (minus: increase)	285,044,458.54	(705,501,870.23)
Increase in operating payables (minus: decrease)	482,486,165.64	102,701,125.70
Net cash flows from operating activities	1,710,555,311.30	403,674,112.15
Major investments and fund-raising activities not involved in cash revenue and expenses		
Capital converted from debt	—	—
Convertible bonds due in one year	—	—
Fixed assets rented by financial lease	—	—
Net change in cash and cash equivalents		
Cash at the end of period	3,613,209,716.27	642,726,393.75
Minus: cash at the beginning of period	613,826,456.62	826,269,791.68
Net increase in cash and cash	2,999,383,259.65	(183,543,397.93)

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 50. Updated information on cash flow statements (continued)

The Company	Accumulated for this year RMB	Accumulated for last year RMB
Reconciliation of net profit as cash flows from operating activities		
Net profit	869,978,299.16	321,382,230.60
Add: provision of impaired assets	(21,862,543.25)	6,098,143.74
Depreciation of fixed assets	316,484,502.45	283,551,190.85
Depreciation of real estate held for investment	—	—
Intangible assets amortized	4,620,777.06	2,127,766.82
Gain on investment	(230,665,587.59)	(55,720,620.11)
Net loss from disposal of fixed assets	739,683.34	493,610.50
Financial expenses	35,666,705.75	162,062,000.05
Downward adjustment of recognized loss from convertible bonds by management	—	—
Decrease in stock (minus: increase)	(559,335,492.23)	(121,540,097.36)
Decrease in deferred income tax assets (minus: increase)	5,055,619.96	(12,932,196.69)
Decrease in operating receivables (minus: increase)	641,637,828.76	61,421,234.76
Increase in operating payables (minus: decrease)	491,252,152.77	165,080,847.94
Net cash flows from operating activities	1,553,571,946.18	812,024,111.10
Major investments and fund-raising activities not involved in cash revenue and expenses		
Capital converted from debt	—	—
Net change in cash and cash equivalents		
Cash at the end of period	3,128,752,376.76	227,035,348.51
Minus: cash at the beginning of period	235,957,551.29	431,939,246.80
Net increase in cash and cash	2,892,794,825.47	(204,903,898.29)

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 51. Cash received relating to other operating activities

The Group	As at Jan-Jun of 2008 RMB	As at Jan-Jun of 2007 RMB
Finance support fund	103,756,127.63	62,298,606.67
Reversal of tax	—	23,961,010.34
Interest income	7,941,905.77	3,010,609.85
Other income	56,315,621.84	25,584,160.15
<b>Total</b>	<b>168,013,655.24</b>	<b>114,854,387.01</b>
<b>The Company</b>	<b>Accumulated for this year RMB</b>	<b>Accumulated for last year RMB</b>
Finance support fund	80,030,000.00	37,916,745.00
Interest income	4,065,321.36	1,936,722.01
Other income	192,114.88	67,357.25
<b>Total</b>	<b>84,287,436.24</b>	<b>39,920,824.26</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 52. Cash paid relating to other operating activities

##### The Group

	As at Jan-Jun of 2008 RMB	As at Jan-Jun of 2007 RMB
Traffic expense	240,769,650.14	96,144,473.59
Hospitality expense	17,281,215.27	19,197,545.54
Rental expense	1,563,779.26	2,559,673.30
Travel expense	11,775,234.88	10,745,250.90
Office expense	5,800,591.57	2,316,892.10
Waste disposal expense	20,300,747.17	37,146,462.63
Insurance premium	9,967,305.71	3,133,850.02
Water and electricity expense	5,058,022.87	—
Repair expense	5,374,976.47	—
Advertising expense	—	—
Intermediary service expense	7,820,674.19	—
Quality compensation	2,803,811.33	—
Other	62,102,249.98	83,425,047.05
	<b>390,618,258.84</b>	<b>254,669,195.13</b>

##### The Company

	As at Jan-Jun of 2008 RMB	As at Jan-Jun of 2007 RMB
Traffic expense	139,493,590.05	—
Hospitality expense	13,506,808.38	17,848,362.27
Rental expense	1,442,013.25	2,027,384.59
Travel expense	8,088,575.22	12,357,224.88
Office expense	2,833,848.07	1,815,493.98
Waste disposal expense	5,757,805.97	6,081,101.71
Insurance premium	6,865,708.19	6,324,124.63
Water and electricity expense	828,560.52	700,437.63
Repair expense	5,127,855.51	1,210,471.56
Advertising expense	—	—
Intermediary service expense	6,870,171.49	3,116,394.58
Quality compensation	2,329,776.54	496,931.68
Payment to subsidiaries	(229,691,500.00)	(700,321,282.86)
Other	41,384,226.13	23,740,020.95
Total	<b>4,837,439.32</b>	<b>(624,603,334.40)</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 53. Cash received relating to other fund-raising activities

##### The Group

	As at Jan-Jun of 2008 RMB	As at Jan-Jun of 2007 RMB
Cash received from issuance of short-term securities	697,200,000.00	—
<b>Total</b>	<b>697,200,000.00</b>	<b>—</b>

##### The Company

	As at Jan-Jun of 2008 RMB	As at Jan-Jun of 2007 RMB
Cash received from issuance of short-term securities	697,200,000.00	—
<b>Total</b>	<b>697,200,000.00</b>	<b>—</b>

### IX. RELATED PARTY RELATIONS AND TRANSACTIONS

#### (1) Save as subsidiaries set out in note 8, information on the first major shareholder:

Name of related party	Place of incorporation	Principal operations	Relation with the Company	Economic nature or type	Legal representative
Shouguang Chenming Holdings Co., Ltd	Shouguang City	Investment on papermaking, electricity, coal, forestry's projects	The first major shareholder	Limited company	Chen Hongguo

Shouguang Chenming Holdings Co., Ltd (hereafter referred to as "Shouguang Chenming Holdings") was established on 30 December 2005 by Shouguang SASAC which contributed its state-owned shares to set up the Company. The China Securities Regulatory Commission approved the changes in state-owned Shares of the Company and its type of equity interests as a result of the incorporation of Shouguang Chenming Holdings on 14 August 2006 ( State asset right [2005] No. 1539) . Since then, the first major shareholder of the Company was Shouguang Chenming Holdings changed from State-owned Assets Supervision and Administration Commission of Shouguang City.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IX. RELATED PARTY RELATIONS AND TRANSACTIONS (Continued)

- (2) Other related party which entered into transactions with the Group with controlling relation as follows:

	Organization Code	Related party relation
Shouguang Liben Paper Making Co., Ltd.	61358854-8	Related enterprise
Qingzhou Chenming Denaturation Amylum Co., Ltd.	16937769-8	Related enterprise
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	78233868-9	Related enterprise

- (3) Major related transactions entered into the Company and related party for the year as follows:

- (a) Sell and purchase

Details of sales and purchase of goods to or from related party by the Company are as follows:

	30 June 2008 Amount RMB	30 June 2007 Amount RMB
Sales and provision of labor service Shouguang Liben Paper Making Co., Ltd.		
– Electricity expenses received	4,274,357.12	4,326,848.49
– Gas and water expenses received	129,119.18	117,327.24
– Technological guidance fee received		391,882.18
– Other	183,960.43	220,431.91
	<b>4,587,436.73</b>	<b>5,056,489.82</b>
Sales and provision of labor service – Arjo Wiggins Chenming Specialty Paper Co., Ltd.		
– Electricity expenses received	11,186,608.00	173,061.12
– Gas and water expenses received	6,354,056.00	993,102.00
– Technological guidance fee received		
– Other	669,992.44	
	<b>18,210,656.44</b>	<b>1,166,163.12</b>
Purchase –Qingzhou Chenming Denaturation Amylum Co., Ltd.		
	–	795,365.20
	–	795,365.20

The Company sells and purchases to or from related party according to the market prices agreed by both parties.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IX. RELATED PARTY RELATIONS AND TRANSACTIONS (Continued)

#### (3) Major related transactions entered into the Company and related party for the year as follows: (Continued)

##### (b) Lending and borrowing

Details of lending and borrowing between the Company and related party are as follows:

Name of Subsidiaries	Annual Rate %	Amount recorded for this year		Remaining for this year		Amount recorded for last year		Remaining for last year	
		RMB	%	RMB	%	RMB	%	RMB	%
Jilin Chenming Paper Co., Ltd.	5.625-6.723	180,000,000.00	29.87	1,410,000,000.00	45.61	510,000,000.00	91.89	1,230,000,000.00	49.42
Shandong Chenming Panels Co., Ltd.	5.265-6.723	(28,000,000.00)	(4.65)	49,000,000.00	1.58	(64,000,000.00)	(6.13)	77,000,000.00	3.09
Wuhan Chenming Hanyang Paper Co., Ltd.	5.265-6.723	(70,000,000.00)	(11.61)	510,000,000.00	16.50	(120,000,000.00)	(21.62)	580,000,000.00	23.30
Wuhan Chenming Qianmeng Electric Power Co., Ltd.	5.625-6.723	—	—	55,000,000.00	1.78	—	—	55,000,000.00	2.21
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	5.751-6.723	(28,500,000.00)	4.73	91,500,000.00	2.96	107,000,000.00	19.28	120,000,000.00	4.82
Jiangxi Chenming Paper Co., Ltd.	6.39-7.830	—	—	300,000,000.00	9.70	(10,000,000.00)	(1.80)	300,000,000.00	12.05
Heze Chenming Panels Co., Ltd.	5.508-6.723	—	—	56,000,000.00	1.81	31,000,000.00	5.59	56,000,000.00	2.25
Hailaer Chenming Paper Co., Ltd.	5.751-6.723	(7,800,000.00)	(1.29)	21,200,000.00	0.69	29,000,000.00	5.23	29,000,000.00	1.17
Qihe Chenming Panels Co., Ltd.	6.723	(1,000,000.00)	(0.17)	21,000,000.00	0.68	22,000,000.00	3.96	22,000,000.00	0.88
Shandong Grand View Hotel Co., Ltd.	—	110,000,000.00	18.25	110,000,000.00	3.56	—	—	—	—
Fuyou Chenming Paper Co., Ltd.	6.723	30,000,000.00	4.98	30,000,000.00	0.97	—	—	—	—
Shouguang Chenming Art Paper Co., Ltd.	6.723	290,000,000.00	48.12	290,000,000.00	9.38	—	—	—	—
Zhanjiang Chenming Paper Pulp Co., Ltd.	6.723	61,000,000.00	10.12	61,000,000.00	1.97	—	—	—	—
Zhanjiang Chenming Arboriculture Co., Ltd.	6.723	25,000,000.00	4.15	25,000,000.00	0.81	—	—	—	—
Yangjiang Chenming Arboriculture Co., Ltd.	6.723	42,000,000.00	6.96	42,000,000.00	1.36	—	—	—	—
Juancheng Chenming Panels Co., Ltd.	6.723	—	—	20,000,000.00	0.64	20,000,000.00	3.6	20,000,000.00	0.81
<b>Total</b>		<b>602,700,000.00</b>	<b>100.00</b>	<b>3,091,700,000.00</b>	<b>100.00</b>	<b>555,000,000.00</b>	<b>100.00</b>	<b>2,489,000,000.00</b>	<b>100.00</b>

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IX. RELATED PARTY RELATIONS AND TRANSACTIONS (Continued)

#### (c) Remaining credit and debt

Item	30 June 2008 RMB	30 June 2007 RMB
Other receivables- Shouguang Liben Paper Making Co., Ltd. - Arjo Wiggins Chenming Specialty Paper Co., Ltd.	— 5,649,537.53	756,708.65 1,034,599.14
<b>Total</b>	<b>5,649,537.53</b>	<b>1,791,307.79</b>
Other payables - Qingzhou Chenming Denaturation Amylum Co., Ltd.	76,409.70	536,409.70
<b>Total</b>	<b>76,409.70</b>	<b>536,409.70</b>

#### (d) Senior executive's remuneration

	Accumulated for this year RMB	Accumulated for last year RMB
Senior executive's remuneration	4,824,000	2,925,000

The senior executives include the Company's directors, supervisors, general managers, vice general managers, secretary of the board of directors and financial officers.

#### (e) Guarantee provided for subsidiaries

As at 30 June 2008, guarantee provided for subsidiaries by the Company to secure lending is as follows

Name of Subsidiaries	Amount under guarantee RMB
Jiangxi Chenming Paper Co., Ltd.	365,000,000.00
Jilin Chenming Paper Co., Ltd.	320,577,300.00
Wuhan Chenming Hanyang Paper Co., Ltd.	89,056,256.00
Heze Chenming Panels Co., Ltd.	20,000,000.00
Zhanjiang Chenming Paper Pulp Co., Ltd.	106,859,100.00
Juancheng Chenming Panels Co., Ltd.	20,000,000.00
<b>Total</b>	<b>921,492,656.00</b>

Note: Since the change in fair value for the above guarantee was insignificant, it was not confirmed for this period.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### IX. RELATED PARTY RELATIONS AND TRANSACTIONS (Continued)

#### (f) Acquisitions:

The fifth meeting of the fifth session of the Board held on 19 January 2008 approved the resolution to further increase the shareholdings in Shandong Chenming Power Supply Holdings Co., Ltd. by agreeing to purchase the state-owned shares (2,378,000 shares, accounting for 2.39% of the registered capital ) and collective shares(33.175 million shares, accounting for 33.32% of the registered capital ) of Shandong Chenming Power Supply Holdings Co., Ltd, a subsidiary of the State-owned Assets Supervision and Administration Commission of Shouguang City and the Government of Shouguang City. This acquisition constituted as a connected transaction under the requirement of the Rule 10.1.3(5) of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. This transaction was RMB 86.3755 million and the Company recorded a gain of RMB28.2 million from acquisition of minority interest.

### X. COMMITMENT

#### (1) Capital committed

	At the end of the year RMB	At the beginning of the year RMB
Contracted but not yet recognized in the financial statement		
- Commitments in relation to acquisition and construction of long-term assets	388,318,137.26	362,388,255.96

#### (2) Operating lease commitment

Until the balance sheet date, the Group entered into irrevocable operating lease contracts with non-group companies as follows:

	At the end of the year RMB	At the beginning of the year RMB
Minimum lease payments under non- irrevocable operating leases		
The first year after balance sheet date	100,343,814.17	15,744,593.37
The second year to fifth year after balance sheet date	32,029,298.74	26,274,043.94
The sixth year after balance sheet date and thereafter	75,220,484.35	38,077,285.14
Total	207,593,597.26	80,095,922.45



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### XI. POST BALANCE SHEET EVENT

#### Issuance short-term debentures

The solutions relating to the issuance of short-term debentures by the Company were considered and passed in the 2007 second extraordinary general meeting of the Company on 12 September 2007. As registered with and approved by the National Association of Financial Market Institutional Investors, the maximum balance of the outstanding short-term debentures was RMB1.9 billion. The maximum balance is effective until the end of November 2008 and the Company may issue short-term debentures in tranches within the said limit.

The Company will issue the second tranche of short-term debentures in 2008 amounting to RMB1.2 billion on 29 August 2008. The short-term debentures are due within 365 days with a par value of RMB100 each. The lead underwriter of this issuance of short-term debentures is China Merchants Bank Co., Ltd. and the subscribers are the institutional investors of the national inter-bank bond market. The issuing interest rate will be finally determined based on the result of book building and centralized placing.

### XII. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company were approved by the Board of Directors of the Company on 28 August 2008.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### SUPPLEMENTARY INFORMATION PROVIDED BY THE MANAGEMENT FOR THE FIRST HALF OF 2008

#### 1. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH RELEVANT ACCOUNTING STANDARDS IN THE PRC

This adjustment table for the differences between the financial statements prepared domestically and overseas was prepared by Shandong Chenming Paper Holdings Limited in accordance with the relevant requirements of the “Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) - General Requirements for Financial Reports” (as amended in 2007) issued by the China Securities Regulatory Commission.

The financial statements of the Group for 2008 are prepared according to PRC GAAP which set out net profit and net assets of RMB 1,079,653,729.62 and RMB 13,895,881,956.97 respectively. These figures are different from those prepared according to International Financial Reporting Standards as follows:

	31 June 2008 Net assets RMB	Jan-Jun of 2008 Net profit RMB
Per IFRS	13,512,443,223.71	1,096,479,242.15
Special fund for treasury bond received and special accounts payable	361,356,029.41	(16,083,783.53)
Other	22,082,703.85	(741,729.00)
Per PRC GAAP	13,895,881,965.97	1,079,653,729.62

The reason of such differences is as follows:

According to the principles of PRC GAAP, the Group will receive special fund for treasury bond received and special accounts payable related relevant fixed assets construction which are included in capital reserve. According to IFRS, the Group will receive special fund for treasury bond received and special accounts payable which are included in deferred income and amortized by installation according to the useful life of fixed assets.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### 2. FULLY DILUTED AND WEIGHTED AVERAGE RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

This rate of return on net assets and earnings per share table were prepared by Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”) in accordance with the relevant requirements of the “Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 09)—Calculations and disclosures for the rate of return on net assets and earnings per share” (as amended in 2007) issued by the China Securities Regulatory Commission.

Profit during the reporting period	Calculated in accordance with the net profit attributable to holders of the Company’s ordinary shares	Calculated in accordance with the net profit attributable to holders of the Company’s ordinary shares, net of non-recurring profit and loss
Rate of return on net assets		
Fully diluted	7.81%	6.78%
Weighted average	10.80%	8.76%
Earnings per share		
Fully diluted	0.55	0.48
Weighted average	N/A	N/A

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### 3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS

The following analysis on changes of items in the financial statements was prepared by Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”) in accordance with the relevant requirements of the “Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) -General Requirements for Financial Reports” (as amended in 2007) issued by the China Securities Regulatory Commission.

Items in financial statements	At the end of the year RMB	At the beginning of the year RMB	Range of change %	Reason for the difference
Bank balances and cash	3,714,383,576.78	740,621,843.91	401.52	(1)
Financial assets held for trading	7,187,697.00	5,955,480.00	20.69	(2)
Bill receivable	1,060,198,464.41	1,676,684,054.95	(36.77)	(3)
Accounts receivable	1,448,599,988.48	1,660,020,696.84	(12.74)	(4)
Advance to suppliers	876,809,957.73	574,014,801.43	52.75	(5)
Stock	2,600,562,908.51	1,744,492,612.36	49.07	(6)
Long-term equity investments	83,914,596.38	96,289,936.43	(12.85)	(7)
Construction materials	59,191,829.15	44,433,213.61	33.22	(8)
Consumable and biological assets	153,170,000.00	92,159,871.29	66.20	(9)
Short-term borrowing	2,099,397,384.04	3,594,000,057.28	(41.59)	(10)
Bills payable	147,082,514.36	130,056,316.74	13.09	(11)
Accounts payable	2,127,943,709.74	1,656,706,980.62	28.44	(12)
Other accounts payable	444,172,768.68	305,050,016.38	45.61	(13)
Dividends payable	273,051,425.73	36,075.17	756,795.74	(14)
Current liability due in one year	1,162,787,480.82	667,746,417.91	74.14	(15)
Short-term financing securities payable	1,218,523,194.44	506,212,916.67	140.71	(16)
Deferred income	41,131,083.32	830,000.00	4855.55	(17)
Deferred income tax debt	9,846,910.15	6,103,850.08	61.32	(18)
Equity interests	2,062,045,941.00	1,706,345,941.00	20.85	(19)
Capital reserve	6,100,544,240.89	3,737,991,906.21	63.20	(20)

Items in income statements	2007 RMB	2006 RMB	Range of change %	Reason for the difference
Operating income	8,552,402,269.40	6,797,896,720.16	25.81	(21)
Operating expenses	6,647,216,143.91	5,510,418,331.42	20.63	(22)
Selling expenses	402,926,002.43	304,204,074.67	32.45	(23)
Administrative expenses	265,718,708.42	208,290,535.85	27.57	(24)
Financial expenses	78,635,192.38	201,121,690.39	(60.90)	(25)
Loss from impaired assets	(30,714,668.67)	59,276,005.63	(151.82)	(26)
Gain from change in fair value	16,204,457.27	—	100	(27)
Gain on investments	(12,289,463.09)	(190,912.12)	(6,337.24)	(28)
Non-operating income	168,804,618.70	120,924,970.26	39.59	(29)
Non-operating expenses	7,929,167.09	5,322,844.56	48.96	(30)
Business tax and added tax	6,755,555.55	11,895,855.09	(43.21)	(31)

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### 3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS (Continued)

- (1) The bank balances and cash increased 401.52% for the period, mainly because the Company issued H-shares of the Company in Hong Kong on 18 June 2008. The fund which was raised and has not been used for its intended usage was deposited in designated bank accounts, increasing bank balances and cash.
- (2) Financial assets held for trading for the period increased 20.69%. Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, entered into the future pooling foreign exchange contracts with Chang Bei branch of China Construction Bank and Chang Bei branch of Bank of China respectively on 18 October 2007. According to the exchange rate to settle for the future contract on 30 June 2008 with the same settlement right, the fair value of such financial assets was RMB 7,187,697.00 as at 30 June 2008.
- (3) Bills receivable for the period decreased 36.77%, mainly because (1) discounted outstanding bills for the period was RMB 347 million, down RMB 77 million from RMB 424 million at the beginning of the period; (2) during the reporting period, we fully utilized the situation where the market improved, diligently reducing the amount receivable for bills and increased the proportion of amount financed by bills to purchase which contributed the significant decrease in bills receivable.
- (4) Accounts receivable for this period has been reduced by 12.74%, mainly because the market environment was better in the first half of this year and we put greater efforts in the recovery of accounts receivable, leading to a decrease in accounts receivable.
- (5) Advance to suppliers for the year increased 52.75%, mainly because of: (1) the expansion of productivity scale of the Company for the year, raising the procurement amount for prepaid raw materials; (2) provision of inventories of certain raw materials, prices of which increased during the purchase, leading to an increase in prepayment for raw materials.
- (6) Stock increased 49.07% for the period, mainly due to an increase in raw material price and change in the production and selling scale of the Company and an increase in inventories of raw material and inventories of finished products of the Company.
- (7) Long-term equity investment has been reduced by 12.85% for this year, mainly because Arjo Wiggins Chenming Specialty Paper Co., Ltd, an affiliated company of the Company, set up new companies, recording higher set up costs and experiencing shorter period of investment, imbalance of operations, higher production costs which contributed to a loss. The Company adopted equity method to audit, lowering the return on long-term term equity investment.
- (8) Construction of goods and materials increase 33.22% for the period, mainly because of an increase in materials for art paper project construction phase project by a subsidiary of the Company.
- (9) Consumable and biological assets increase 66.20% for the period, mainly due to an increase in newly planted forest assets and the relevant change in the fair value in thereto during the reporting period.

## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### 3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS (Continued)

- (10) Short-term borrowing was reduced by 41.59%, mainly due to the repayment of some of borrowing and the treatment of discounted outstanding notes as reduction of borrowing for principal operations over the beginning of this period.
- (11) Bills payable increased by 13.09% for the period, mainly due to an increase in payments for goods under acceptance by Jiangxi Chenming and Wuhan Chenjian, subsidiaries of the Company.
- (12) Accounts payable increase by 28.44%, mainly due to the construction of the art paper project and an increase in purchasing raw materials.
- (13) Other accounts payable increased by 45.61% for this period, mainly because that: (1) Wuhan Chenming, a subsidiary of the Company, distributed dividends during this period and certain dividends for minority interest were not yet paid, leading to an increase of RMB 66,420,000 in other accounts payable; (2) certain issuing expenses for the Company's H-share have not been paid yet, leading to an increase in other accounts payable.
- (14) Dividend payable increased by 756,795.74% for this period, mainly due to the approval of profit distribution scheme for 2007 on 29 June 2008. The ex-rights date was 8 July 2008. The relevant cash dividend's payment was made in this period.
- (15) Non-current liabilities due in one year increased by 74.14%, mainly due to the conversion of certain long-term borrowing to non-current liabilities due in one year.
- (16) Short-term financing securities payable increased by 140.71%, mainly due to the issuance of short-term financing securities amounting to RMB 700 million by the Company on 10 June 2008.
- (17) Deferred income increased by 4,855.55% for the period, mainly because Jilin Chenming, a subsidiary of the Company, newly added the government special fund for environmental protection projects.
- (18) Deferred income tax debt for the period increased by 61.32% over that of the beginning of this year, mainly due to an increase in deferred income tax debt as a result of a change in fair value of forest assets of the Company.
- (19) Capital for this period increased by 20.85%, mainly because the Company issued H-shares for this period, raising its capital.
- (20) Reserve funds increased by 63.20% for the period, mainly because the Company issued H-shares, crediting some of its premium to reserve funds.
- (21) Operating income increased by 25.81% for the period, mainly because of the market environment and accomplishment of duly meeting its production targets for initial projects, product selling scale and selling prices increasing significantly over the corresponding period of last year that contributed to a growth in operating income.



## VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with China Accounting Standards

### 3. ANALYSIS ON CHANGES OF ITEMS IN THE FINANCIAL STATEMENTS (Continued)

- (22) Operating cost increased by 20.63% for the period, mainly because of an increase in the Company's sales and raw material price, leading to an increase in operating cost.
- (23) Selling expenses increased by 32.45% for the period, mainly because of duly meeting its production targets for initial projects, an increase in sales volume and freight charges, leading to an increase in selling expenses.
- (24) Administrative expenses increased by 27.57% for the period, mainly because of an increase in salary and extra items.
- (25) Financial expenses decreased by 60.90% for this period, mainly because of an increase in exchange income from appreciation in RMB, reducing financial expenses.
- (26) Values of assets were reduced by 151.82%, mainly because of greater efforts in recovery of loans by the Company, a decrease in accounts receivable and other receivables.
- (27) Gain from change in fair value was RMB 16.2million for this period, mainly because (1) a change in fair value of forest assets of Zhanjiang Chenming Arboriculture and 陽江林業 amounting to RMB14.97 million; (2) Jiangxi Chenming entered into the future pooling foreign exchange contracts with Chang Bei branch of China Construction Bank and Chang Bei branch of Bank of China respectively on 18 October 2007. The change in fair value of financial assets for the period was RMB1,230,000.
- (28) Return on the investment for this period decreased by RMB12,098,600, mainly because affiliated companies of the Company recorded losses and adopted the equity method to audit.
- (29) Non-operating income increased by 39.59% for the period, mainly because of government grants and negative goodwill as a result of acquisition of minority interests.
- (30) Non-operating expenses for the period increased by 48.96%, mainly because of an increase in donation expenditure for the period.
- (31) Tax and levies on operations decreased by 43.21%, because Chibi Chenming Paper Co., Ltd, a subsidiary of the Company, was changed to a foreign enterprise on 29 June 2007 and it is no longer subject to tax and levies on operations, such as city construction tax.



## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**Deloitte.**

**德勤**

TO THE BOARD OF DIRECTORS OF  
SHANDONG CHENMING PAPER HOLDINGS LIMITED  
(established in the People's Republic of China with limited liability)

#### INTRODUCTION

We have reviewed the interim financial information set out on pages 168 to 187, which comprises the condensed consolidated balance sheet of Shandong Chenming Paper Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (“ISRE”) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Federation of Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

#### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Without modifying our review conclusion, we draw to your attention that the condensed consolidated income statement for the six-month period ended 30 June 2007 disclosed in the interim financial information has not been reviewed in accordance with ISRE 2410.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
28 August 2008

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2008

	Notes	Six months ended 30 June	
		2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
Revenue	4	8,520,442	6,752,219
Cost of sales		(6,607,738)	(5,442,051)
Gross profit		1,912,704	1,310,168
Other income	6	337,903	186,669
Share of results of associates		(12,375)	(2,700)
Distribution expenses		(402,926)	(304,436)
Administrative expenses		(244,017)	(324,702)
Gain on change in fair value of derivative financial instruments		1,232	—
Gain on change in fair value less estimated point-of-sale cost of biological assets		14,972	18,856
Finance costs		(244,012)	(285,987)
Profit before tax	7	1,363,481	597,868
Income tax expense	8	(267,002)	(129,376)
Profit for the period		1,096,479	468,492
Attributable to:			
Equity holders of the Company		960,060	366,743
Minority interests		136,419	101,749
		1,096,479	468,492
Dividends	9	273,015	204,760
Earnings per share			
– Basic	10	RMB0.55	RMB0.23
– Diluted		N/A	N/A

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### CONDENSED CONSOLIDATED BALANCE SHEET

at 30 June 2008

	Notes	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	14,386,166	14,147,218
Prepaid lease payments – non-current portion	11	850,209	791,740
Investment properties		29,034	29,903
Interests in associates		57,515	69,890
Available-for-sale investments		26,400	26,400
Goodwill		20,284	20,284
Biological assets	12	153,170	92,160
Deferred tax assets		98,169	103,362
		<b>15,620,947</b>	<b>15,280,957</b>
<b>Current assets</b>			
Inventories		2,600,563	1,744,493
Trade and other receivables	13	3,570,314	4,106,882
Prepaid lease payments – current portion	11	33,498	34,817
Derivative financial instruments	14	7,187	5,955
Restricted bank deposits		101,174	126,795
Bank balances and cash		3,613,210	613,826
		<b>9,925,946</b>	<b>6,632,768</b>
<b>Current liabilities</b>			
Trade and other payables	15	3,069,926	2,485,607
Borrowings - amount due within one year	16	3,262,185	4,261,746
Short-term debentures	17	1,218,523	506,213
Provision		17,987	17,987
Income tax payable		145,395	95,829
Dividend payable		273,051	36
Deferred income - current portion		23,782	32,682
		<b>8,010,849</b>	<b>7,400,100</b>
<b>Net current assets (liabilities)</b>		<b>1,915,097</b>	<b>(767,332)</b>
<b>Total assets less current liabilities</b>		<b>17,536,044</b>	<b>14,513,625</b>
<b>Non-current liabilities</b>			
Borrowings – amount due after one year	16	3,708,482	4,056,195
Deferred income – non-current portion		305,272	271,030
Deferred tax liabilities		9,847	6,104
		<b>4,023,601</b>	<b>4,333,329</b>
<b>Net assets</b>		<b>13,512,443</b>	<b>10,180,296</b>
<b>Capital and reserves</b>			
Share capital	18	2,062,046	1,706,346
Reserves		9,714,871	6,664,805
Equity attributable to equity holders of the Company		<b>11,776,917</b>	<b>8,371,151</b>
Minority interests		<b>1,735,526</b>	<b>1,809,145</b>
<b>Total equity</b>		<b>13,512,443</b>	<b>10,180,296</b>

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2008

	Attributable to equity holders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2008 (audited)	1,706,346	3,392,242	723,626	117	304	2,548,516	8,371,151	1,809,145	10,180,296
Exchange differences arising on translation of foreign operation	—	—	—	—	468	—	468	—	468
Profit for the period	—	—	—	—	—	960,060	960,060	136,419	1,096,479
Total recognised income for the period	—	—	—	—	468	960,060	960,528	136,149	1,096,947
Issue of shares by way of placing and public offering (Note 18)	355,700	2,362,553	—	—	—	—	2,718,253	—	2,718,253
Dividends recognised as distribution	—	—	—	—	—	(273,015)	(273,015)	—	(273,015)
Transfer of reserves (note)	—	11,891	—	—	—	(11,891)	—	—	—
Distribution made by subsidiaries to minority shareholders	—	—	—	—	—	—	—	(95,443)	(95,443)
Decrease in minority interests as a result of increase in interest in subsidiaries	—	—	—	—	—	—	—	(114,595)	(114,595)
At 30 June 2008 (unaudited)	2,062,046	5,766,686	723,626	117	772	3,223,670	11,776,917	1,735,526	13,512,443

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

for the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Share capital	Convertible loan notes	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2007 (audited)	1,365,670	1,446,227	424,802	642,575	117	(2)	1,872,996	5,752,385	1,703,564	7,455,949
Profit and total recognised income and expense for the period	—	—	—	—	—	—	366,743	366,743	101,749	468,492
Shares issued upon conversion of convertible loan notes	340,676	1,913,207	(424,676)	—	—	—	—	1,829,207	—	1,829,207
Redemption of convertible loan notes	—	126	(126)	—	—	—	—	—	—	—
Dividends recognised as distribution	—	—	—	—	—	—	(204,760)	(204,760)	—	(204,760)
Transfer of reserves (note)	—	18,275	—	—	—	—	(18,275)	—	—	—
Contributions from minority shareholders	—	—	—	—	—	—	—	—	(90,553)	(90,553)
Decrease in minority interests as a result of increase in interest in subsidiaries	—	—	—	—	—	—	—	—	(50,991)	(50,991)
At 30 June 2007 (unaudited)	1,706,346	3,377,835	—	642,575	117	(2)	2,016,704	7,743,575	1,663,769	9,407,344

Note: The Group obtained government grants in relation to the construction of property, plant and equipment of the Group from the local municipal governments. The grants were recorded as deferred income in the balance sheet and credited to the income statement on a straight-line basis over the expected useful lives of the related assets. In accordance with the terms of the grants, the relevant amounts were transferred from retained earnings to capital reserve during the period as it cannot be distributed before winding up.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2008

	Six months ended 30 June	
	2008 RMB'000 (unaudited)	2007 RMB'000 (unaudited)
<b>Net cash from operating activities</b>	<b>1,710,556</b>	<b>90,986</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment and lease payment on land use rights	(677,119)	(708,354)
Proceeds on disposal of property, plant and equipment	335	533
Acquisition of additional interests in subsidiaries from minority shareholders of subsidiaries	(10)	(950)
Decrease (increase) in restricted bank deposits	25,621	(94,578)
Government grants received	40,301	—
Investment income received from available-for-sale investments	86	—
<b>Net cash used in investing activities</b>	<b>(610,786)</b>	<b>(803,349)</b>
<b>Financing activities</b>		
Net proceeds on issuance of shares	2,661,332	—
Net proceeds on issuance of short-term debentures	697,200	—
New borrowings raised	3,110,155	2,006,535
Borrowings repaid	(4,301,820)	(974,924)
Redemption of convertible loan notes	—	(578)
Interest paid	(240,574)	(226,398)
Dividends paid	—	(155,223)
Dividends paid to minority shareholders of subsidiaries	(18,588)	(90,553)
<b>Net cash from financing activities</b>	<b>1,907,705</b>	<b>558,859</b>
Increase (decrease) in cash and cash equivalents	3,007,475	(153,504)
Cash and cash equivalents at beginning of the period	613,826	784,320
Effect of exchange rate changes on cash and cash equivalents	(8,091)	(1,939)
<b>Cash and cash equivalents at end of the period, representing bank balances and cash</b>	<b>3,613,210</b>	<b>628,877</b>

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2008

#### 1. GENERAL

Shandong Chenming Paper Holdings Limited (the “Company”) is a joint stock company incorporated in the People’s Republic of China (the “PRC”) in May 1993. The Company’s B shares and A shares have been listed on the Shenzhen Stock Exchange since 1997 and 2000 respectively, and its H shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since June 2008. Its registered office is located at No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC.

The ultimate holding company of the Company is State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產管理局) and the parent company of the Company is Shandong Chenming Holdings Co., Ltd. which is also established in the PRC.

The Company and its subsidiaries (the “Group”) are principally engaged in manufacture and sales of paper and paper products, construction materials, chemical products, production of electricity and steam.

#### 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standards (the “IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

#### 3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared on the historical cost basis, except for certain financial instruments and biological assets, which are measured at fair values.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new IFRSs”) which are effective for the financial year beginning 1 January 2008:

IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new IFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective on 1 January 2008:

IFRSs (Amendments)	Improvements to IFRSs <sup>1</sup>
IAS 1 (Revised)	Preparation of Financial Statements <sup>2</sup>
IAS 23 (Revised)	Borrowing Costs <sup>2</sup>
IAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
IAS 39 (Amendment)	Eligible Hedged Items <sup>3</sup>
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
IFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>2</sup>
IFRS 3 (Revised)	Business Combinations <sup>3</sup>
IFRS 8	Operating Segments <sup>2</sup>
IFRIC 13	Customer Loyalty Programmes <sup>5</sup>
IFRIC 15	Agreements for the Construction of Real Estate <sup>2</sup>
IFRIC 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual period beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2009

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and financial positions of the Group.



## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 4. REVENUE

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Sale of paper products	8,007,817	6,194,003
Sale of construction materials	315,811	425,433
Sale of chemical products	50,535	39,406
Sale of electricity and steam	125,938	92,617
Others	20,341	760
	<b>8,520,442</b>	<b>6,752,219</b>

### 5. SEGMENT INFORMATION

#### Business segments

For management purpose, the Group is currently organised into following operating divisions: paper products, construction materials, chemical products, electricity and steam and others. The manufacture and sales of paper products accounted for over 90% of the segment revenue and results of the Group during the six months ended 30 June 2008 and 2007. Accordingly, no individual business segment analysis is presented and the consolidated segment information is presented as follows:

#### RESULT

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Segment result	1,456,245	820,209
Unallocated corporate expenses	(16,974)	(17,011)
Unallocated corporate income	164,393	64,501
Share of result of associates	(12,375)	(2,700)
Gain on change in fair value of derivative financial instruments	1,232	—
Gain on change in fair value less estimated point-of-sale cost of biological assets	14,972	18,856
Finance costs	(244,012)	(285,987)
Profit before tax	1,363,481	597,868
Income tax expenses	(267,002)	(129,376)
Profit for the period	<b>1,096,479</b>	<b>468,492</b>

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 5. SEGMENT INFORMATION (Continued)

#### Geographical segments

The Group's operations are located in the People's Republic of China ("PRC") only and sales are made to customers in the PRC and overseas.

The following table provides an analysis of the Group's revenue by geographical market that are based on location of customers.

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
PRC	7,579,847	5,745,684
Hong Kong	166,607	92,842
South Africa	151,719	137,100
Japan	64,895	138,110
United States	21,879	108,890
Others	535,495	529,593
	<b>8,520,442</b>	<b>6,752,219</b>

### 6. OTHER INCOME

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Government grants:		
Expansion grants (note a)	103,756	50,061
Value-added tax refund (note b)	25,236	39,268
	<b>128,992</b>	<b>89,329</b>
Interest income	8,855	4,889
Net exchange gain	165,697	62,031
Net gain (loss) from sales of raw materials	(4,219)	1,659
Insurance compensation	7,834	3,331
Discount on acquisition of additional interests in subsidiaries (note c)	28,209	24,041
Others	2,535	1,389
	<b>337,903</b>	<b>186,669</b>

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 6. OTHER INCOME (Continued)

Notes:

- (a) The Group received government grants from the local municipal governments in relation to the encouragement of the development and advancement of the business of the Group. According to the relevant government grant documents, the grants are the general and unconditional subsidies for the business operations of the Group.
- (b) Pursuant to various circulars issued by the State Administration of Taxation and local government authorities, the Group is entitled to receive various types of refund on value-added tax as it has used certain designated materials in its production.
- (c) Pursuant to the transfer agreement dated 24 December 2007 entered into between the ultimate holding company of the Company, State-owned Assets Supervision and Administration Commission of Shouguang City and the People's Government of Shouguang City, as vendors and the Company as purchaser, the Company agreed to acquire 35.71% equity interest of a then 51% owned subsidiary, Shandong Chenming Power Supply Holdings Co., Ltd., at a consideration of RMB86,376,000. The transaction was completed in January 2008. A discount on acquisition of equity interest amounted to approximately RMB28,204,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 4 April 2008 entered into between Zhang Bangji, the independent third party, as vendor and Jilin Chenming Paper Co., Ltd., a wholly-owned subsidiary of the Company ("Jilin Chenming"), as purchaser, Jilin Chenming agreed to acquire 1% equity interest of a then 99% owned subsidiary, Jilin Chenming Waste Collection Co., Ltd., a subsidiary of the Company at a cash consideration of RMB10,000. A discount on acquisition of equity interest amounted to approximately RMB5,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 8 October 2006 entered into between Jiangxi Paper Industry Co., Ltd, an independent third party, as vendor and the Company as purchaser, the Company agreed to acquire 3.846% equity interest of a then 47.154% owned subsidiary, Jiangxi Chenming Paper Co., Ltd ("Jiangxi Chenming"), over which, the Group already has control before the acquisition, at a consideration of RMB26,000,000. The transaction completed on 5 March 2007 upon getting the approval from the government authorities of Jiangxi Province. A discount on acquisition of interest amounted to approximately RMB22,839,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 1 May 2007 entered into among Wu Xingqiang, an independent third parties and Hou Huancai, a director of the Company, as vendors and the Company as purchaser, the Company agreed to acquire 0.053% equity interest of a 99.947% then owned subsidiary, Shandong Chenming Paper Group Qihe Paperboard Co., Ltd from Wu Xiangqiang and Hou Huancai at a total consideration of RMB200,000. A discount on acquisition of interest amounted to approximately RMB257,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 9 May 2007 entered into between Liu Chunshan, an independent third party, as vendor and Shangdong Chenming Panels Co., Ltd. ("Shangdong Chenming Panels"), a subsidiary of the Company, as purchaser, Shangdong Chenming Panels agreed to acquire 10% equity interest of a then 90% owned subsidiary, Shouguang Chenming Floor Board Co., Ltd at a consideration of RMB50,000. A discount on acquisition of interest amounted to approximately RMB498,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 10 May 2007 entered into between ten independent third parties, as vendor and Shandong Chenming Power Supply Holdings Co., Ltd, a subsidiary of the Company, as purchaser, Shandong Chenming Power Supply Holdings Co., Ltd agreed to acquire 10% equity interest in a then 90% owned subsidiary, Shouguang Chenming Cements Co., Ltd at a consideration of RMB700,000. A discount on acquisition of interest amounted to approximately RMB447,000 was recognised, after reassessment, immediately in profit or loss.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Gross rental income from investment properties	(1,242)	(1,242)
Less: Direct operating expenses from investment properties that generated rental income during the period	223	223
Net rental income from investment properties	(1,019)	(1,019)
Investment income from available-for-sale investments	(86)	—
(Reversal of) allowance for bad and doubtful debts	(30,715)	91,288
Allowance for inventories	—	882
Release of lease payment charge	18,905	18,400
Depreciation of property, plant and equipment	541,062	469,548
Depreciation of investment properties	869	843
Impairment of interest in associates	—	540
Impairment of available-for-sale investments	—	910
Loss on disposal/write off of property, plant and equipment	4,942	1,677

### 8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Income tax charge comprises:		
Charge for the period	257,351	174,907
Underprovision in prior years	715	—
Current income tax	258,066	174,907
Deferred tax charge (credit)	8,936	(45,531)
Charge for the period	267,002	129,376

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are calculated at rates applicable to the relevant companies for the six months ended 30 June 2008 and 2007.

No provision for Hong Kong Profits Tax has been made as the Group does not have any assessable profit or incur tax losses for the six months ended 30 June 2008 and 2007.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 8. INCOME TAX EXPENSE (Continued)

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25%. The statutory Enterprise Income Tax rate of 25% is applied to the group entities for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%) except for certain group entities which are entitled to various concessionary tax rates.

### 9. DIVIDENDS

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Dividend declared for:		
– 2006 (RMB0.12 per share)	—	204,760
– 2007 (RMB0.16 per share)	273,015	—
	273,015	204,760

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

### 10. EARNINGS PER SHARE

During the period, the calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

#### Earnings

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the Company)	960,060	366,743
Effect of dilutive potential shares:		
Interest on convertible loan notes (net of tax)	—	35,451
Earnings for the purpose of diluted earnings per share	960,060	402,194

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 10. EARNINGS PER SHARE (Continued)

#### Number of shares

	Six months ended 30 June	
	2008 '000	2007 '000
Weighted average number of shares for the purposes of basic earnings per share	1,731,753	1,611,779
Effect of dilutive potential shares:		
Convertible loan notes	N/A	94,668
Weighted average number of shares for the purpose of diluted earnings per share	N/A	1,706,447

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in profit per share.

### 11. MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group acquired property, plant and equipment amounting to approximately RMB786,812,000 (2007: RMB734,843,000) and made prepaid lease payments in relation to land use rights amounting to approximately RMB82,187,000 (2007: RMB20,189,000).

At 30 June 2008, the Group has pledged certain plant and machinery and buildings and land use rights having a carrying amount of approximately RMB1,174,658,000 and RMB75,455,000 (31 December 2007: RMB1,205,081,000 and RMB76,256,000) respectively to secure the loan facilities granted to the Group by certain banks and a minority shareholder of a subsidiary of the Company.

### 12. BIOLOGICAL ASSETS

Biological assets represent immature trees in the plantation forest purchased to be grown for lumber for own use. The Group incurred plantation expenditure of approximately RMB46,038,000 for the six months period ended 30 June 2008.

The biological assets are stated at their fair values less estimated point-of-sale costs. The fair value has been arrived at based on the estimation made by the Directors. The estimation is determined using the discounted value of the expected delivered market price for estimated timber volumes less cost of delivery and estimated maintenance costs up to when the timber becomes usable or saleable. The discount rate used is the applicable pre-tax weighted average cost of capital of the Group. Accordingly, gain on change in fair value less estimated point-of-sale cost of biological assets amounted to RMB14,972,000 has been recognised and credited to the consolidated income statement for the six months period ended 30 June 2008.

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### 13. TRADE AND OTHER RECEIVABLES

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade receivables aged:		
0 - 90 days	1,253,046	1,295,048
91 - 180 days	142,849	265,222
181 - 365 days	40,016	54,812
1 - 2 years	12,689	40,301
2 - 3 years	—	4,638
Total trade receivables	1,448,600	1,660,021
Bills receivable	1,060,199	1,676,684
Other receivables	184,705	196,162
Deposits and prepayment	46,648	2,190
Advance to suppliers	830,162	571,825
	<b>3,570,314</b>	<b>4,106,882</b>

The Group allows an average credit period of 90 days to its trade customers with trading history and an average credit period of 180 days to minority shareholders of its subsidiaries, otherwise sales on cash terms are required. Bills receivable are repayable on the pre-determined date.

### 14. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2008, the Group has entered into certain forward exchange contracts with financial institutions and the total notional amounts and details of these contracts committed by the Group are as follows:

Notional amount	Maturity date	Exchange rates RMB/USD	RMB'000
Sell USD4,000,000	20-25 August 2008	7.1062	28,425
Sell USD4,000,000	22-25 September 2008	7.0760	28,304
Sell USD4,000,000	20-24 October 2008	7.0496	28,198
Sell USD2,000,000	15 July 2008	7.1393	14,279
Sell USD2,000,000	15 August 2008	7.1031	14,206
Sell USD3,000,000	22 January 2009	6.7687	20,306
Sell USD3,000,000	28 November 2008	6.7727	20,318
			<b>154,036</b>

The total fair value of the Group's currency derivatives at 30 June 2008 are estimated to be approximately RMB7,187,000, which are based on fair value provided by counter parties which are financial institutions. As the currency derivatives are not designated as cash flow hedges, the change in fair values amounting to RMB1,232,000 has been credited to the income statement for the six months ended 30 June 2008.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 15. TRADE AND OTHER PAYABLES

An analysis of trade and other payables is as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade payables aged:		
0 - 90 days	1,645,152	1,078,946
91 - 180 days	266,851	235,542
181 - 365 days	112,623	218,859
1 - 2 years	61,172	88,004
2 - 3 years	22,484	19,819
Over 3 years	19,662	15,537
Trade payables	2,127,944	1,656,707
Bills payable	147,083	130,056
Other payables	527,649	463,081
Accrued expenses	90,117	65,476
Advance from customers	177,133	170,287
	<b>3,069,926</b>	<b>2,485,607</b>

Trade and bills payable principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period obtained for trade purchases is 90 days.

### 16. BORROWINGS

During the period, the Group obtained new bank and other loans in the amount of RMB3,110,155,000 and made repayments in the amount of RMB4,301,820,000. The loans bear interest at the range from 5.06% to 7.62 % per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group.

### 17. SHORT-TERM DEBENTURES

Pursuant to a circular [2007] No. 427 issued by the People's Bank of China in 2007, the Company issued a debenture to third party debenture holders with face value of RMB700,000,000 on 6 June 2008. The debenture is unsecured, bears interest at 5.2% per annum and will be repayable one year after the issue date.



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### 18. SHARE CAPITAL

	Number of shares '000	Type of shares				Total RMB'000
		Restricted A Shares '000	A Shares '000	B Shares '000	H Shares '000	
At 1 January 2007	1,365,670	354,809	453,364	557,497	—	1,365,670
Shares issued upon conversion of convertible loan notes	340,676	—	340,676	—	—	340,676
Transfer of restricted A Shares held by PRC legal persons to A shares	—	(9,517)	9,517	—	—	—
Transfer of A shares held by directors, supervisors and senior management to restricted A Shares	—	17	(17)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A shares	—	(5,808)	5,808	—	—	—
At 31 December 2007	1,706,346	339,501	809,348	557,497	—	1,706,346
Issue of H shares ( <i>note a</i> )	355,700	—	—	—	355,700	355,700
Transfer of A shares to H shares ( <i>note b</i> )	—	(35,570)	—	—	35,570	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A shares ( <i>note c</i> )	—	(120)	120	—	—	—
<b>At 30 June 2008</b>	<b>2,062,046</b>	<b>303,811</b>	<b>809,468</b>	<b>557,497</b>	<b>391,270</b>	<b>2,062,046</b>

Notes:

- (a) On 18 June 2008, 355,700,000 H shares of the Company of RMB1.00 each were issued at HK\$9.00 per share for cash by way of an international offering and a public offering on the Stock Exchange.
- (b) In accordance with relevant approval document regarding the listing of shares of the company outside the PRC, Shouguang Chenming Holdings Co., Ltd., the parent company of the Company is required to transfer 35,570,000 A shares to 中華人民共和國全國社會保障基金理事會 The National Social Security Fund Council of the PRC ("NSSF Council") upon the listing of H shares of the Company on the Stock Exchange, and all the shares held by NSSF Council were converted into H Shares on a one-for-one basis.
- (c) Lock-up period for certain restricted A Shares held by certain directors and key management of the Company was expired during the period, 120,000 restricted A Shares were reclassified from Restricted A Shares to A Shares.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 19. CAPITAL COMMITMENTS

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Contracted but not provided for acquisition of property, plant and equipment	388,318	362,388

### 20. NON-CASH TRANSACTION

During the six-months period ended 30 June 2008, the Group distributed dividends of RMB95,443,000 to the minority shareholders of the subsidiaries. The Group paid part of the dividends to these shareholders by RMB18,588,000 in cash and RMB10,427,000 in bills. The remaining unpaid dividends amounting to RMB66,428,000 is included in other payables at the balance sheet date.

### 21. RELATED PARTY TRANSACTIONS

- (a) Besides the acquisition of additional equity interest of Shandong Chenming Power Supply Holdings Co., Ltd. as disclosed in Note 6 (c), the Group has entered into the following significant transactions with its related parties during the period:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
<b>Associates:</b>		
Electricity charges received	15,461	5,610
Utility charges received	6,483	—
Miscellaneous service charges received	854	219
<b>Minority shareholders of subsidiaries:</b>		
Sales of finished products	163,866	159,941
Technology consultancy fee paid	812	812
Interest paid	8,614	11,237
Minimum operating lease payment in respect of property, plant and equipment	3,583	3,583

Other than the above transactions, the Group also settled or received on behalf of certain related parties during the periods and the unsettled balance is included in the balance with the respective related parties as at balance sheet date.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 21. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties (included in respective item on the balance sheet)

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Associates:		
– Other receivables	5,650	14,824
Trade payables	76	176
Minority shareholders of subsidiaries:		
– Trade receivables	64,490	—
– Long-term borrowings	237,782	272,705

All the amounts due from (to) associates and minority shareholders of subsidiaries are unsecured, interest-free and expected to be recovered repaid within one year from the respective balance sheet date, except for the borrowings from a minority shareholder of a subsidiary, which are repayable after one year from the respective balance sheet date.

## VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

### 21. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Material transactions and balances with other stated-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "State-owned Enterprises"). During the period, the Group had material transactions with some of these State-owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products, the Group does not differentiate whether the counter-party is a State-owned Enterprise or not. While the directors of the Company consider the State-owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its significant transactions with State-owned Enterprises during the periods as follows:

#### (i) Material transactions

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Sales	2,150,307	1,455,085
Purchases	179,343	469,956
Construction works expenses paid	115,786	16,670

#### (ii) Material balances

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
	Bank balances and deposits	3,485,409
Trade and other receivables	778,315	994,266
Trade and other payables	265,171	279,712
Bank borrowings	6,377,953	7,985,080

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### 21. RELATED PARTY TRANSACTIONS (Continued)

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

The remuneration of directors and other members of senior management of the Company during the period was as follows:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Short-term employee benefits		
– Directors	2,803	1,494
– Other senior management	1,787	1,242
Subtotal	4,590	2,736
Post-employment benefits		
– Directors	72	77
– Other senior management	162	112
Subtotal	234	189
Total	4,824	2,925

### 22. POST BALANCE SHEET EVENT

Pursuant to a circular [2007] No. 427 issued by the People's Bank of China and resolution of shareholders in general meeting in 2007, the Company is authorised to issue debentures amounting to RMB1,900,000,000 to the investors on or before 30 November 2008. The Company issued a one-year debenture with face value of RMB700,000,000 on 6 June 2008. On 25 August 2008, the Company announced that the Company will issue another debenture to the institutional investors with face value of RMB1,200,000,000 on 29 August 2008.



## IX. Documents Available for Inspection

- 1, It contains the financial statements which signed and sealed by legal representatives, chief financial officer and head of the finance section;
- 2, it contains the Half year report with the signature of legal representative;
- 3, the originals of all of the documents and announcements of the Company which have been disclosed in prescribed newspapers during the reported period;
- 4, the half year report which have been disclosed in the Stock Exchange of Hong Kong Limited;
- 5, others relevant information.