



山東晨鳴紙業集團股份有限公司

SHANDONG CHENMING PAPER HOLDINGS LIMITED*

(於中華人民共和國註冊成立之股份有限公司)

股份代號: 1812



09 中期報告

Important:

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

Chen Hongguo, the chairman of the Company, Wang Chunfang, the financial controller of the Company and Guo Xingping, the head of the financial department, declare that they guarantee the truthfulness and completeness of the financial statements for the six months ended 30 June 2009.

This interim report was considered and approved by the fifteenth 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 2009 of the Company and its subsidiaries (collectively referred to as the “Group”) prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and International Financial Reporting Standards have not been audited.

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I. Company Information

- Legal Chinese name of the Company: 山東晨鳴紙業集團股份有限公司
Legal English name of the Company: SHANDONG CHENMING PAPER HOLDINGS LIMITED
Abbreviation of the English name: SCPH
- Legal Representative of the Company: Chen Hongguo
- Secretary to the Board of the Company: Hao Yun
Company Secretary (Hong Kong): Poon Shiu Cheong
Securities Affairs Representatives: Fan Yingjie, Sun Wenke
Correspondence Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Telephone: (86)-536-2158011, (86)-536-2156488
Facsimile: (86)-536-2158640
Email address: chenmmingpaper@163.com
- Registered Address and Office Address of the Company: No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Postal Code: 262700
International Website of the Company: <http://www.chenmingpaper.com>
- Designated Local Newspapers for Information Disclosure: *China Securities Journal and Hong Kong Commercial Daily*
Designated Website for Publication of Interim Report: <http://www.cninfo.com.cn>
Places for Inspection of the Company's Interim Report: <http://www.hkex.com.hk>
Capital operation department of the Company
- Stock Information:

A shares	
Shenzhen Stock Exchange	
Stock Abbreviation:	晨鳴紙業
Stock Code:	000488
B shares	
Shenzhen Stock Exchange	
Stock Abbreviation:	晨鳴B
Stock Code:	200488
H shares	
The Stock Exchange of Hong Kong Limited	
Stock Abbreviation:	Chenming Paper
Stock Code:	1812
- Other Relevant Information:

Date of Change in Registration of the Company: 27 September 2008

Registered Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province

Legal Person Business License Registration Number: 370000400001170

Taxation Registration Number: 370783613588986

II. Summary of Financial and Operating Results

I. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Unit: RMB'000

Items	End of the current reporting period	End of period of last year	Increase / decrease as at end of reporting period compared with the end of period of last year (%)
	The current reporting period (January to June)	The corresponding period of last year	Increase/decrease for the reporting period compared with corresponding period of last year (%)
Total assets	28,421,647	26,299,496	8.07%
Equity attributable to equity holders of the Company	12,313,454	12,259,079	0.44%
Net assets per share (RMB)	5.9715	5.9451	0.44%
Operating profit	175,177	1,185,780	-85.23%
Total profit	238,240	1,346,656	-82.31%
Net profit attributable to equity holders of the Company	157,487	947,427	-83.38%
Net profits after extraordinary gains or losses attributable to the equity holders of the Company	112,231	823,335	-86.37%
Basic earnings per share (RMB)	0.076	0.55	-86.18%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Return on net assets	1.28%	7.81%	decreased by 6.53 percentage points
Net cash flows from operating activities	-526,102	1,710,556	-130.76%
Net cash flows per share from operating activities (RMB)	-0.26	0.83	-131.33%

II. Summary of Financial and Operating Results

I. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (continued)

NOTE: EXTRAORDINARY GAINS OR LOSSES ITEMS

Unit: RMB'000

Extraordinary gains or losses items	Amount
Net gains or losses from disposal of non-current assets	5,792
Government grants received	35,377
Net gains or losses attributable to debt restructuring	248
Gains or losses arising from acquisition of subsidiaries	3,026
Gains or losses arising from financial instruments held for trading	6,993
Non-operating net gains or losses other than the above	11,022
Effect of extraordinary gains or losses on minority shareholders	-6,313
Effect of extraordinary gains or losses on income tax	-10,889
Total	45,256

II. Summary of Financial and Operating Results

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

Unit: RMB'000

Items	End of the current reporting period	End of period of last year	Increase / decrease as at end of reporting period compared with the end of period of last year (%)
	The current reporting period (January to June)	The corresponding period of last year	Increase/decrease for the reporting period compared with corresponding period of last year (%)
Total assets	28,332,089	26,207,330	8.11%
Equity attributable to equity holders of the Company	11,980,066	11,912,192	0.57%
Net assets per share (RMB)	5.81	5.78	0.52%
Total profit before tax	255,971	1,363,481	-81.23%
Profit attributable to owners of the Company	170,987	960,060	-82.19%
Basic earnings per share (RMB)	0.08	0.55	-85.45%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Return on net assets	1.43%	8.15%	decreased by 6.72 percentage points
Net cash flows from operating activities	-526,102	1,710,556	-130.76%
Net cash flows per share from operating activities (RMB)	-0.26	0.83	-131.33%

II. Summary of Financial and Operating Results

III. RECONCILIATIONS OF ACCOUNTS PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

Unit: RMB'000

Items	Accounting Standards For Business Enterprises	International Financial Accounting Standards
Net profit	186,115	203,846
Net assets	14,091,287	13,744,212

Reason for difference In the years prior to 2006, the Group accounted for special fund for treasury bond received in connection with construction of fixed assets and special accounts payable into capital reserves under the Accounting Standards for Business Enterprises. However, the Group accounted for such special fund for treasury bond received and special accounts payable into deferred gains under International Financial Reporting Standard, and such deferred gains were amortized in installments over the useful lives of the fixed assets.

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	Release of restricted Shares	Sub-total	Number of shares	Percentage
I. Restricted shares	303,987,126	14.74%	335,192	-186,820	148,372	304,135,498	14.75%
1. State-owned legal person shares	293,003,657	14.21%	—	—	—	293,003,657	14.21%
2. Shares held by Senior Management	10,983,469	0.53%	335,192	-186,820	148,372	11,131,841	0.54%
II. Non-restricted shares	1,758,058,815	85.26%	-335,192	186,820	-148,372	1,757,910,443	85.25%
1. Renminbi ordinary shares	809,291,330	39.25%	-335,192	186,820	-148,372	809,142,958	39.24%
2. Domestic listed foreign shares	557,497,485	27.04%	—	—	—	557,497,485	27.04%
3. Overseas listed foreign shares	391,270,000	18.97%	—	—	—	391,270,000	18.97%
III. Total number of shares	2,062,045,941	100.00%	—	—	—	2,062,045,941	100.00%

Note: During the reporting period, the restricted shares held by Senior Management changed by 148,372 shares from 10,983,469 shares to 11,131,841 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 released from lock-up based on 25% of the shares held at the beginning of each year. For the 1,726 shares held by Senior Management, the nature of the shareholdings would be changed from “restricted shares held by Senior Management” to “non-restricted RMB ordinary shares (A share)”.

III. Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL AT THE END OF THE REPORTING PERIOD (continued)

- (2) During the reporting period, the half year lock-up period for the resigned Senior Management of the Company had expired. The nature of shareholding of the 185,094 shares held by Senior Management was changed from “restricted shares held by Senior Management” to “non-restricted RMB ordinary shares (A share)”. The half year lock-up period for shares held by two resigned Directors had not yet expired, the shares held by them remained restricted, as a result, “restricted shares held by Senior Management” increased by 195,917 shares compared with the beginning of the year; for the 139,275 shares held by the newly appointed Directors of the Company, the nature of the shareholding had changed from “non-restricted RMB ordinary shares (A share)” to “restricted shares held by Senior Management” .

II. SHAREHOLDERS' PROFILE AS 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 151,287, of which 117,663 were holders of A shares, 32,852 were holders of B shares and 772 were holders of H shares.

Shareholdings of the top ten shareholders

Name of shareholders	Type of shareholder	Percentage of shareholding	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledged or locked-up
HKSCC Nominees Limited	Overseas non-state-owned legal person (foreign shareholder)	18.90%	389,807,000	0	unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	0
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	Overseas legal person	1.15%	23,727,609	0	unknown
China Construction Bank – 鵬華價值優勢股票型證券投資基金	Domestic non-state-owned legal person	1.07%	22,031,583	0	unknown
Industrial and Commercial Bank of China – 諾安股票證券投資基金	Domestic non-state-owned legal person	1.06%	21,765,106	0	unknown
China Construction Bank – 工銀瑞信精選平衡混合型證券投資基金	Domestic non-state-owned legal person	0.98%	20,294,918	0	unknown

III. Changes in Share Capital and Shareholders

III. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD (continued)

1. The top ten shareholders and the top ten shareholders of non-restricted shares (continued)

Agricultural Bank of China — 富蘭克林國海彈性市值 股票型證券投資基金	Domestic non-state-owned legal person	0.98%	20,151,844	0	unknown
China Construction Bank — 華寶興業行業精選股票型 證券投資基金	Domestic non-state-owned legal person	0.89%	18,452,709	0	unknown
PLATINUM ASIA FUND	Overseas legal person	0.79%	16,234,459	0	unknown
China Pacific Insurance Company Limited - Bonus - Individual Bonus	Domestic legal person	0.77%	15,828,994	0	unknown

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	389,807,000	H Shares
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	23,727,609	B Shares
China Construction Bank — 鵬華價值優勢股票型證券投資基金	22,031,583	A Shares
Industrial and Commercial Bank of China — 諾安股票證券投資基金	21,765,106	A Shares
China Construction Bank — 工銀瑞信精選平衡 混合型證券投資基金	20,294,918	A Shares
Agricultural Bank of China — 富蘭克林國海彈性市值 股票型證券投資基金	20,151,844	A Shares
China Construction Bank — 華寶興業行業精選股票型證券投資基金	18,452,709	A Shares
PLATINUM ASIA FUND	16,234,459	B Shares
China Pacific Insurance Company Limited - Bonus - Individual Bonus	15,828,994	A Shares
KEYWISE GREATER CHINA MASTER FUND	15,666,099	B Shares

III. Changes in Share Capital and Shareholders

III. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD (continued)

1. The top ten shareholders and the top ten shareholders of non-restricted shares (continued)

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》). KEYWISE GREATER CHINA MASTER FUND and KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND are both under KEYWISE Capital. 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》).

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.

III. Changes in Share Capital and Shareholders

III. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD (continued)

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

As at 30 June 2009, the following shareholders (other than Directors, Supervisors or chief executives of the Company) 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 shares held	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
Shouguang Chenming Holdings Company Limited	293,003,657 A Shares (L)	14.21	26.32
JPMorgan Chase & Co.	62,288,000 H Shares (L)	3.02	15.92
	57,918,000 H Shares (P)	2.81	14.80
Schroder Investment Management (Hong Kong) Limited	39,226,000 H Shares (L)	1.90	10.02
NSSF Council	35,570,000 H Shares (L)	1.73	9.09
Cheah Capital Management Limited	35,559,000 H Shares (L)	1.72	9.08
Cheah Cheng Hye	35,559,000 H Shares (L)	1.72	9.08
Cheah Company Limited	35,559,000 H Shares (L)	1.72	9.08
Hang Seng Bank Trustee International Limited	35,559,000 H Shares (L)	1.72	9.08
To Hau Yin	35,559,000 H Shares (L)	1.72	9.08
Value Partners Group Limited	35,559,000 H Shares (L)	1.72	9.08
Value Partners Limited	35,559,000 H Shares (L)	1.72	9.08
Invesco Limited	30,682,000 H Shares (L)	1.49	7.84
Keywise Capital Management (HK) Limited	23,634,000 H Shares (L)	1.15	6.04

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

Save as disclosed above, as at 30 June 2009, 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

During the reporting period, the shareholdings of the Directors, Supervisors and Senior Management of the Company remain unchanged.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 8 April 2009, upon the approval of the 12th meeting of the fifth session of the Board, Mr. Xia Guangchun resigned from the position of deputy general manager of the Company, Mr. Liu Junwu resigned from the position of financial controller of the Company for work-related reasons and Mr. Wang Chunfang was appointed as the Company's financial controller for a term until the end of the current session of the Board.

On 8 April 2009, Mr. Wu Bingyu and Mr. Xing Fangtong, both Directors of the Company, resigned from their positions as Directors of the Company.

On 8 April 2009, Mr. Liu Wenzheng, a Supervisor of the Company, resigned from his position as Supervisor of the Company. At the 2nd meeting of the seventh session of staff representatives of the Company, Ms. Yang Hongqin was nominated to be the Supervisor elected by staff representatives of the Company and Mr. Zhao Shujun would cease to be a Supervisor of the Company as representative of the staff.

For specific details, please refer to the relevant announcements dated 9 April 2009 published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (www.cninfo.com.cn) and the relevant announcements dated 8 April 2009 published on the website of the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") (www.hkex.com.hk).

2. On 26 May 2009, upon the approval of the 2008 Annual General Meeting of the Company, Mr. Geng Guanglin and Mr. Tan Daocheng were elected Executive Directors of the Company for a term until the end of the current session of the Board; Mr. Guo Guangyao and Mr. Wang Xiaoqun were elected external Supervisors of the Company for a term until the end of the current session of the Supervisory Committee.

For specific details, please refer to the relevant announcements dated 27 May 2009 published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (www.cninfo.com.cn) and the relevant announcements dated 26 May 2009 published on the website of Hong Kong Stock Exchange (www.hkex.com.hk).

IV. Directors, Supervisors and Senior Management

III. EQUITY INTERESTS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FILED IN COMPLIANCE WITH SECURITIES AND FUTURES ORDINANCE (THE “SFO”)

As at 30 June 2009, 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, are set out as follows:

The Company

Name	Position	Number of shares (A shares) held at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Chairman	6,763,875
Yin Tongyuan	Executive Director and General Manager	3,231,520
Li Feng	Executive Director	471,818
Geng Guanglin	Executive Director	437,433
Tan Daocheng	Executive Director	185,700
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		
Gao Junjie	Chairman of Supervisory Committee	39,606
Guo Guangyao	Supervisor	—
Wang Xiaoqun	Supervisor	—
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—

IV. Directors, Supervisors and Senior Management

III. EQUITY INTERESTS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FILED IN COMPLIANCE WITH SECURITIES AND FUTURES ORDINANCE (THE “SFO”) (continued)

Associated corporations

Name	Position	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	231,000,000	—	231,000,000
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, collectively hold 43% equity interests in Shouguang Henglian Enterprise Investment Co. Ltd., (hereinafter referred to as “Shouguang Henglian”), as a result, Shouguang Henglian is deemed to be controlled by Chen Hongguo. As such, the 231,000,000 shares in Chenming Holdings (approximately 13.71% of the total share capital of Chenming Holdings) held by Shouguang Henglian is also deemed to be held by Chen Hongguo.

Save as disclosed above, as at 30 June 2009, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be filed in the register of the Company required to be maintained pursuant to section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (hereinafter referred to as the “Hong Kong Listing Rules”).

As at 30 June 2009, none of each of the Directors, Supervisors or chief executives or their respective spouses or children under the age of 18 held or exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

V. Directors' Report

FINANCIAL RESULTS

Please refer to sections VII and VIII of this report for the results of the Company for the six month ended 30 June 2009 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

I. Discussion and analysis under Accounting Standards for Business Enterprises:

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

1. Operations of the Company during the reporting period

Affected by the global financial crisis in last year, the papermaking industry experienced an unprecedented challenge in the first half of 2009, especially in the first quarter, when demand for paper products shrank and a significant drop in price of paper products both led to decrease in profitability of the principal businesses of the Company during the reporting period, on the basis of period-on-period comparison. However, as the macro-economic environment of China gradually turned for the better, the papermaking industry regained momentum in the second quarter with a rebound in the price of most paper products, while sales volume also turned higher. In line with the prediction by the Board of the Company in the 2008 Annual Report, the papermaking industry began to stabilise after experiencing the trough in the second half year of 2008; and since the price of upstream raw materials will remain at low levels for a certain period, the price for paper products will be able to provide a reasonable break-even point in terms of profitability. While the industry was undergoing gradual improvement from the bottom of the trough, the leadership of our Board guided the Company through the orderly commencement of various tasks in accordance with the development plan formulated at the beginning of the year, during which the problems related to production and operation had been overcome and we had ultimately realised continued improvement in a number of operation indicators.

During the reporting period, the Company realised production of 1,451,600 tonnes of machine-made paper with sales of 1,519,300 tonnes, representing decreases of 8.43% and 0.16%, respectively, compared with the corresponding period of last year, while realised revenue from operations decreased by RMB1,877 million, or 21.95% compared with the corresponding period of last year, and operating profit decreased by RMB1,011 million, or 85.23% compared with the corresponding period of last year. Net profit attributable to the equity holders of the Company decreased by RMB790 million, or 83.38% compared with the corresponding period of last year.

V. Directors' Report

FINANCIAL RESULTS (continued)

I. Discussion and analysis under Accounting Standards for Business Enterprises: (continued)

1. Operations of the Company during the reporting period (continued)

Unit: RMB'000

Item	January to June 2009	January to June 2008	Increase compared with the corresponding period of last year (%)
Revenue from operations	6,675,367	8,552,402	-21.95
Operating profit	175,177	1,185,780	-85.23
Net profit attributable to equity holders of the Company	157,487	947,427	-83.38

The Company is engaged in the light industry of papermaking. Our principal operations are the production and sales of machine-made paper, paperboard, papermaking raw materials, papermaking machinery, electricity and steam. Among them, sales revenue from machine-made paper provided revenue from principal operations amounting to RMB6,373 million, accounting for 95.48% of the total revenue from principal operations of the Company during the reporting period.

V. Directors' Report

FINANCIAL RESULTS (continued)

I. Discussion and analysis under Accounting Standards for Business Enterprises: (continued)

2. Revenue from operations by industry and product

Unit: RMB'000

By industry or by product	Revenue from operations by industry (reversal of provision for impairment of inventories included in costs)					
	Revenue from operations	Cost of sale (reversal of provision for impairment of inventories included)	Gross profit margins (reversal of provision for impairment of inventories included)	Increase/decrease in revenue from operations compared with the corresponding period of last year (%)	Increase/decrease in cost of sale compared with the corresponding period of last year (%)	Increase/decrease in gross profit margins compared with the corresponding period of last year (percentage points)
Sales of machine-made paper	6,373,366	5,414,320	15.05	-20.48	-12.78	-7.50
Sales of electricity and steam	108,740	74,243	31.72	-13.66	-32.62	19.21
Sales of construction materials	143,530	117,342	18.25	-54.55	-57.11	4.87
Sales of chemical products	3,709	1,858	49.91	-92.66	-90.91	-9.64
Others	46,022	21,492	53.30	1.05	-39.53	31.33
Total	6,675,367	5,629,255	15.67	-21.95	-15.31	-6.61

Principal activities by product (reversal of provision for impairment of inventories included in costs)						
Light weight coated paper	791,562	680,507	14.03	-14.20	-8.08	-5.72
Duplex press paper	960,721	801,725	16.55	-20.41	-12.51	-7.54
Writing paper	170,100	146,575	13.83	-15.26	-5.82	-8.64
Copperplate paper	1,302,564	1,097,450	15.75	-14.37	0.81	-12.69
News press paper	882,059	746,062	15.42	-20.62	-16.51	-4.16
Paperboard	259,616	228,517	11.98	-46.01	-46.86	1.40
White paper board	912,095	802,642	12.00	-26.57	-11.53	-14.97

V. Directors' Report

FINANCIAL RESULTS (continued)

I. Discussion and analysis under Accounting Standards for Business Enterprises: (continued)

2. Revenue from operations by industry and product (continued)

By industry or by product	Revenue from operations by industry (reversal of provision for impairment of inventories excluded in costs)					
	Revenue from operations	Cost of sales (reversal of provision for impairment of inventories excluded)	Gross profit margins (reversal of provision for impairment of inventories excluded) (%)	Increase/decrease in revenue from operations 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 margins compared with the corresponding period of last year (percentage points)
Sales of machine-made paper	6,373,366	5,517,212	13.43	-20.48	-11.12	-9.12
Sales of electricity and steam	108,740	74,243	31.72	-13.66	-32.62	19.21
Sales of construction materials	143,530	117,342	18.25	-54.55	-57.11	4.87
Sales of chemical products	3,709	1,858	49.91	-92.66	-90.91	-9.64
Others	46,022	21,492	53.30	1.05	-39.53	31.33
Total	6,675,367	5,732,147	14.13	-21.95	-13.77	-8.15

Principal activities by product (reversal of provision for impairment of inventories excluded in costs)						
Light weight coated paper	791,562	687,231	13.18	-14.20	-7.17	-6.57
Duplex press paper	960,721	815,810	15.08	-20.41	-10.97	-9.01
Writing paper	170,100	147,241	13.44	-15.26	-5.39	-9.03
Copperplate paper	1,302,564	1,112,709	14.58	-14.37	2.21	-13.86
News press paper	882,059	755,901	14.30	-20.62	-15.40	-5.28
Paperboard	259,616	244,178	5.95	-46.01	-43.22	-4.63
White paper board	912,095	824,453	9.61	-26.57	-9.12	-17.36

V. Directors' Report

FINANCIAL RESULTS (continued)

I. Discussion and analysis under Accounting Standards for Business Enterprises: (continued)

3. Breakdown of revenue from operations by geographical segment

Unit: RMB'000

Geographical segment	Revenue from operations	Increase/ decrease in revenue from operations compared with the corresponding period of last year (%)
PRC	5,950,962	-21.82
United States	53,841	146.09
Hong Kong	71,282	-57.22
Japan	183,108	182.16
South Africa	38,699	-74.49
Other overseas areas	377,475	-29.51
Total	6,675,367	-21.95

V. Directors' Report

FINANCIAL RESULTS (continued)

I. Discussion and analysis under Accounting Standards for Business Enterprises: (continued)

4. Problems emerged in operations and measures to resolve them

Under the repercussions of the global financial crisis, during the reporting period, the paper products produced by the Company were adversely affected by the decrease in price and severe demand shrinkage. Thus, the management of the Company seized the initiative to set out new requirements and measures in respect of the sales, including:

- (1) Placing sales efforts as the single most important work of the Company, employing leading management figures of the Company to reinforce communications and exchange of ideas with major customers;
- (2) Strengthening the improvement, examination and supervision of the fundamental management of the sales system, including risk management, delivery management and contract management, etc.; meanwhile, monitoring on foreign investment, joint investment, private investment and individuals' investment were strengthened, requiring pledge or guarantee from such types of customers;
- (3) Establishing the monthly business outlook and implementing the corresponding sales and marketing strategies timely in response to market changes;
- (4) Enhancing the collection and survey and studies of the market information; based on the timely collection of market information, actively adjusting product structure by promoting and developing new products;
- (5) Reinforcing personnel training and building of sales teams, establishing a comprehensive appraisal system for sales personnel to adequately bring out the proactive work attitude of business personnel.

The Company weathered a difficult time through implementing a series of proven measures. The inventories of finished products dropped sharply when compared with the end of last year. The Company currently operates in a relatively better environment with a period-on-period hike in its product prices and gross margin.

Meanwhile, the international and domestic price of paper making raw materials was in its historical low level, particularly the price of wood pulp in the international market. The Company took full advantage of its purchasing edge by making strategic purchase of wood pulp reserve during the reporting period to effectively lower its product cost in the future.

V. Directors' Report

II. Investments during the reporting period

1. Use of proceeds during the reporting period

The Company issued 355.70 million H shares on 18 June 2008 with the issue price of HK\$ 9. The total proceeds from the issue were translated into approximately RMB 2,831 million. The net proceeds less the expenses of RMB 103 million were RMB 2,728 million. As of the end of the reporting period, the proceeds of RMB 970 million were utilised as working capital 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:

Unit: RMB in ten thousands

Project undertaken	Proposed investment	Project changes	Actual investment	Benefits realised	Whether progressing as scheduled	Whether progressing with estimated benefits	Use of total proceeds	
							Use of total proceeds during the reporting period	Accumulated use of total proceeds
Total proceeds			272,825				22,648	97,213
Zhanjiang 700,000-tonne per annum pulp project	248,271	No	72,703	–	–	Net yet in production		
Supplement to working capital	24,554	No	24,510	–	–	–		
Total	272,825	–	97,213	–	–	–		
Explanation on failure to progress as scheduled and realise 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 deposited at special deposit bank accounts.	

Note: The equipment purchase contract of Zhanjiang Pulp Project was entered into with Andritz on 6 July 2009, and a memorandum was entered into with Metso in relation to the termination of the equipment purchase contract of Zhanjiang Pulp Project on 20 August 2008, pursuant to which both parties bore no liabilities to the other party. Details of such matter were issued in the relevant announcements published on China Securities Journal and Hong Kong Commercial Daily on 7 July 2009 and on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 6 July 2009.

As of the date hereof, the prepayments for the equipment purchase of Zhanjiang Pulp Project had been paid, the vendor would commence delivery of products after January 2010 in various batches.

V. Directors' Report

II. Investments during the reporting period (continued)

2. Description of other material investments

- (1) Pursuant to the 2008 Annual General Meeting of the Company held on 26 May 2009, a resolution on the construction of high-end culture paper project by Zhanjiang Chenming was passed. The aggregate investment for this project will be RMB1.668 billion, which will be funded by internal resources of the Company and bank loans. On 6 July 2009, the Company entered into a project equipment purchase contract with aggregate consideration of approximately RMB1.327 billion. Details of such matter were issued in the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF on 29 April 2009, 27 May 2009 and 7 July 2009, and on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 28 April 2009, 26 May 2009 and 6 July 2009.
- (2) Pursuant to the 2009 first extraordinary general meeting of the Company held on 27 July 2009, a resolution on the construction of a high-end low weight coated paper project and construction of the project of Chenming International Logistics Centre and the ancillary railway special line in Shouguang City was passed. The projects will be funded by internal resources of the Company and bank loans. On 6 August 2009, the Company entered into an equipment purchase contract for high-end low weight coated paper project with aggregate consideration of approximately RMB2.0 billion. Details of such matter were issued in the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF on 9 June 2009, 28 July 2009 and 7 August 2009, and on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 8 June 2009, 27 July 2009 and 6 August 2009.

V. Directors' Report

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

Unit: RMB'000

Items	As at 30 June 2009	As at 31 December 2008	Change (%)	Reason for change
Bank balances and cash	3,992,960	2,853,418	39.94	(1)
Financial assets held for trading	12,200	0	100.00	(2)
Bills receivable	2,221,866	974,010	128.12	(3)
Prepayment	657,794	462,526	42.22	(4)
Construction in progress	536,676	431,379	24.41	(5)
Construction materials	27,683	42,080	(34.21)	(5)
Consumable biological assets	422,695	301,213	40.33	(6)
Short-term borrowings	4,898,959	1,516,945	222.95	(7)
Financial liabilities held for trading	5,200	199	2,514.38	(8)
Advance receipts	192,987	101,694	89.77	(9)
Tax payables	111,825	49,966	123.80	(10)
Dividends payable	103,138	36	285,686.53	(11)
Non-current liabilities				
due within one year	382,381	1,038,125	(63.17)	(12)
Other current liabilities	1,252,520	1,941,874	(35.50)	(13)
Deferred income	103,077	56,828	81.38	(14)

Explanation on the main reasons leading to the changes:

- (1) Bank balances and cash of the Group as at 30 June 2009 increased by 39.94% over 31 December 2008, mainly because discounted bills of the Group for the six months ended 30 June 2009 led to an increase in bank balances and cash.
- (2) Financial assets held for trading increased by RMB12,200,000.00 during the period, due to the effects of future pooling foreign exchange contracts of Chenming (HK) Limited.
- (3) Bills receivable increased by 128.12% during the period, mainly because the Group recorded significantly improved sales compared with the fourth quarter of 2008, increase in income and increase in unmatured discounted bills.
- (4) Prepayment increased by 42.22% during the period, primarily due to the increase in amount of prepayments on raw materials during the period as operating environment improved.
- (5) Construction in progress increased by 24.41% during the period. The reduction of 34.21% in construction materials was mainly due to (1) reclassification of the modification of equipment by the Company and Fuyu Chenming Paper Co., Ltd. to construction in progress; and (2) the effect of project inputs.
- (6) Consumable biological assets increased by 40.33% during the period, mainly due to purchase, growing and fair value change of forestry by subsidiaries of the Company, i.e. Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd. and Huanggang Chenming Arboriculture Co., Ltd.

V. Directors' Report

III. 1. Analysis of the assets and liabilities of the Company (continued)

- (7) Short-term borrowings increased by 222.95% during the period, due to (1) increase in unmatured discounted bills; and (2) the Company increased short-term borrowings to repay short-term debentures.
- (8) Financial liabilities held for trading increased by 2,514.38% during the period, primarily due to the effects of future pooling foreign exchange contracts of the Company.
- (9) Advance receipts increased by 89.77% during the period, mainly because the Company received more advanced payments for goods.
- (10) Tax payables increased by 123.8% during the period, mainly due to the increase in income tax and value added tax payable during the period as a result of an improved economic environment.
- (11) Dividends payable increased by RMB103,102,297.05 during the period, primarily due to the dividends for the previous year declared by the Company in June 2009.
- (12) Non-current liabilities due within one year reduced by 63.17% during the period, mainly because the Group repaid part of the borrowings due within one year upon maturity.
- (13) Other current liabilities decreased by 35.5% during the period, principally because the Company repaid short-term debentures of RMB700 million during the period.
- (14) Deferred income increased by 81.38% during the period, mainly because Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, received RMB35 million from Zhanjiang City as grants for the water supply work and highway network work of its Zhanjiang pulp project.

V. Directors' Report

III. 1. Analysis of the assets and liabilities of the Company (continued)

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

Unit: RMB'000

Items	For the six months ended 30 June 2009	For the six months ended 30 June 2008	Change %	Reason for change
Operating revenue	6,675,367	8,552,402	(21.95)	(1)
Operating expenses	5,629,255	6,647,216	(15.31)	(2)
Selling expenses	339,929	402,926	(15.63)	(3)
Administrative expenses	335,899	265,719	26.41	(4)
Finance expenses	176,847	78,635	124.90	(5)
Losses from impairment of assets	10,603	(30,715)	134.52	(6)
Gains on change in fair value	8,986	16,204	(44.55)	(7)
Investment loss	(9,532)	(12,289)	22.44	(8)
Non-operating income	68,385	168,805	(59.49)	(9)
Non-operating expenses	5,323	7,929	(32.87)	(10)
Income tax expenses	52,125	267,002	(80.48)	(11)

Explanation on the main reasons leading to the changes:

- (1) Operating revenue decreased by 21.95% during the period, mainly because sales price in the first half year of 2009 was lower than the corresponding period of last year as affected by the financial crisis.
- (2) Operating expenses decreased by 15.31% during the period, primarily due to lower raw material prices in the first half year of 2009 compared with that of the same period of last year.
- (3) Selling expenses decreased by 15.63% during the period, mainly due to lower transportation costs.
- (4) Administrative expenses increased by 26.41% during the period, mainly due to loss from production interruption arising from suspension of certain panel and pulp production lines because of the impact of the financial crisis.
- (5) Finance expenses increased by 124.9% during the period, mainly because exchange gains reduced in the first half year of 2009 as compared with the corresponding period of last year, as a result of the effect of changes in exchange rates.
- (6) Losses from impairment of assets increased by 134.52% during the period, mainly because the Group had more accounts receivable at the end of June 2009 compared with the beginning of the year, leading to higher provision for bad debts.
- (7) Gains on change in fair value reduced by 44.55% during the period, mainly due to small change in fair value in timber assets compared with the corresponding period of last year.

V. Directors' Report

III. 1. Analysis of the assets and liabilities of the Company (continued)

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

- (8) Investment loss decreased by 22.44% during the period, primarily due to reduced losses of associated corporations during the period as compared with the corresponding period of last year.
- (9) Non-operating income decreased by 59.49% during the period, primarily attributable to (1) lower amount received in government grants compared with the corresponding period of last year; and (2) negative goodwill arising from acquisition of minority interests in the corresponding period of last year.
- (10) Non-operating expenses reduced by 32.87% during the period as compared with the corresponding period of last year, mainly due to lower donation expenses for the period compared with the corresponding period of last year.
- (11) Income tax expenses decreased by 80.48% over the corresponding period of last year, mainly due to lower realized profit for the period compared with the corresponding period of last year.

V. Directors' Report

III. 1. Analysis of the assets and liabilities of the Company (continued)

3. Cash flows from operating activities of the Company during the reporting period

Unit: RMB'000

Items	For the current period	For the corresponding period of last year	Change (%)
Net cash flow generated from operating activities	-526,102	1,710,555	-130.76
Net cash flow generated from investment activities	-352,023	-610,785	42.37
Net cash flow generated from financing activities	679,032	1,907,705	-64.41

Explanation on the main reasons leading to the changes:

- (1) Net cash flow generated from operating activities decreased over the same period of last year, mainly due to (1) lower sales price during the reporting period led to reduced revenue, as affected by the financial crisis; and (2) financial grants received during the period was lower than that of the corresponding period of last year.
- (2) Net cash flow generated from investment activities recorded increase over the same period of last year, mainly due to increase in expenses incurred in the corresponding period of last year due to investment in the 120,000-tonne art paper project and the acquisition of Heilongjiang Sida Paper Company Limited, etc.
- (3) Net cash flow generated from financing activities reduced as compared with the same period of last year, mainly due to (1) the issuance of H Shares in the first half of 2008, and cash flows reduced by RMB2,660 million compared with the corresponding period of last year; (2) decrease of RMB1,360 million in restricted bank deposits (deposits for letter of credit, promissory notes, etc.) compared with the corresponding period of last year; and (3) increase in bank borrowings (including short-term debentures) by RMB2,731 million compared with the corresponding period of last year (mainly because unmatured discounted bills increased by RMB2.4 billion compared with the corresponding period of last year).

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 industry or by product	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Revenue from principal operations	As a percentage of revenue from operations (%)	Revenue from principal operations	As a percentage of revenue from operations (%)
Paper products	6,366,257	95.84	8,007,817	93.98
Construction materials	143,530	2.16	315,811	3.71
Chemicals products	3,709	0.06	50,535	0.59
Electricity and steam	108,740	1.64	125,938	1.48
Others	20,655	0.30	20,341	0.24
Total	6,642,891	100	8,520,442	100

Unit: RMB'000

Geographical segment	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Revenue from operations	As a percentage of revenue from operations (%)	Revenue from operations	As a percentage of revenue from operations (%)
PRC	5,918,486	89.10	7,579,847	88.96
United States	53,841	0.81	21,879	0.26
Hong Kong	71,282	1.07	166,607	1.96
Japan	183,108	2.76	64,895	0.76
South Africa	38,699	0.58	151,719	1.78
Other overseas areas	377,475	5.68	535,495	6.28
Total	6,642,891	100	8,520,442	100

Revenue from operations amounted to RMB6,643 million during the reporting period, decreased by 22.03% compared with RMB 8,520 million during the corresponding period of last year.

Revenue from paper products operations amounted to RMB6,366 million, decreased by 20.5% over the corresponding period of last year, mainly due to lower sales price compared with the same period of last year as affected by the financial crisis.

V. Directors' Report

IV. The discussion and analysis under International Financial Reporting Standards: (continued)

Revenue from electricity and steam operations amounted to RMB109 million, decreased by 13.66% over the corresponding period of last year, mainly due to addition of art paper project in the second half of 2008 which expanded our size of operation and increased internal usage of electricity and steam, causing a decrease in revenue from external sales of electricity and steam.

Revenue from construction materials operations amounted to RMB144 million, decreased by 54.55% over the corresponding period of last year, mainly due to the sales plunge of the fiberboard for market conditions reasons in current period when compared with the corresponding period of last year.

Revenue from chemicals products operations amounted to RMB3.7 million, decreased by 92.66% over the corresponding period of last year, mainly due to the Company did not carry out production of chemical products for papermaking during the period as impacted by the financial crisis, resulting in lower revenue.

Cost of sales and gross profit

Cost of sales as a percentage of revenue from operations

Unit: RMB'000

By industry or by product	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Cost of sales	As a percentage of product segment revenue (%)	Cost of sales	As a percentage of product segment revenue (%)
Paper products	5,396,915	84.77%	6,190,828	77.31%
Construction materials	117,342	81.75%	273,559	86.62%
Chemicals products	1,858	50.09%	20,439	40.45%
Electricity and steam	74,243	68.28%	110,185	87.49%
Others	6,541	31.67%	12,727	62.57%
Total	5,596,899	84.25%	6,607,738	77.55%

V. Directors' Report

IV. The discussion and analysis under International Financial Reporting Standards: (continued)

Cost of sales and gross profit (continued)

Gross Profit and Gross Profit Margin

Unit: RMB'000

By industry or by product	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)
Paper products	969,342	15.23	1,816,989	22.69
Electricity and steam	34,497	31.72	15,753	12.51
Construction materials	26,188	18.25	42,252	13.38
Chemicals products	1,851	49.91	30,096	59.55
Others	14,114	68.33	7,614	37.43
Total	1,045,992	15.75	1,912,704	22.45

Cost of sales of the Group in the first half year of 2009 was RMB5,597 million, decreased by 15.30% as compared with the same period of last year. Gross profit dropped by 45.31% compared with the same period of last year to RMB1,046 million, principally because lower price of raw materials during the reporting period resulted in decreased cost of sales as compared with the corresponding period of last year. The Group recorded lower gross profit margin, mainly due to a substantial decrease in sales price during the reporting period, as compared with the same period of last year, as a result of the repercussions of the financial crisis.

Cost of sales of machine-made paper was RMB5,397 million, decreased by 12.82% over the same period of last year, mainly because the financial crisis led to lower price of raw materials as compared with the same period of last year, which resulted in reduced cost of sales.

Cost of sales of electricity and steam amounted to RMB74 million, decreased by 32.62% over the same period of last year, mainly because: the Company's addition of art paper project in the second half of 2008 expanded our size of operation and increased internal usage of electricity and steam, causing a decrease in revenue from external sales of electricity and steam.

Cost of sales of the construction materials amounted to RMB117 million, decreased by 57.11% over the same period of last year, mainly because the decrease in sales volume of products such as fiberboard during the period under the influence of market conditions and the corresponding drop in costs of sales.

Cost of sales of the chemical products was RMB1.9 million, decreased by 90.91% over the same period of last year, mainly because of lower sales volume, since the Company readjusted its product structure in view of the financial crisis and no chemical products were produced during the reporting period.

V. Directors' Report

IV. The discussion and analysis under International Financial Reporting Standards: (continued)

Other gains

Other gains amounted to RMB101 million in the first half year of 2009, decreased by 70.17% as compared with the same period of last year, mainly attributable to: (1) exchange gains for the period reduced by RMB165 million compared with the same period of last year, as affected by the fluctuation of exchange rate in Renminbi; and (2) government grants received during the period reduced by RMB86 million compared with the same period of last year.

Selling expenses

Selling expenses of the Group amounted to RMB340 million in the first half year of 2009, decreased by 15.63% as compared with the corresponding period of last year, mainly attributable to lower transportation costs as compared with the same period of last year, as oil prices had dropped.

Administrative expenses

Administrative expenses of the Group was RMB270 million in the first half year of 2009, recording an increase of 11.91% over the corresponding period of last year, mainly due to increase in provision for bad debts during the period.

Other expenses

Other expenses of the Group during the first half year of 2009 was RMB82 million, mainly due to loss from production interruption of certain production lines because of the impact of the financial crisis.

Gain on change in fair value of derivative financial instruments

Gain on change in fair value of derivative financial instruments of the Group was RMB6.99 million in the first half year of 2009, representing an increase of RMB5.76 million over the same period of last year, mainly because the Company and its subsidiary, Chenming (HK) Limited, entered into future pooling foreign exchange contracts denominated in USD with China Construction Bank Shouguang sub-branch and China Construction Bank Hong Kong branch for investment purpose during the reporting period. The gain on change in fair value of this financial asset amounted to RMB6.99 million.

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

Gain on change in fair value less estimated point-of-sale cost of biological assets of the Group was RMB1.99 million in the first half year of 2009, mainly because the fair value changes of forestry assets of the Group.

Finance costs

Finance costs of the Group was RMB 195 million in the first half year of 2009, decreased by 20.07% over the same period of last year, mainly because interest rate dropped as compared with the same period of last year as affected by the policy of the government.

V. Directors' Report

IV. The discussion and analysis under International Financial Reporting Standards: (continued)

Income tax expense

Income tax expense was RMB50 million in the first half year of 2009, decreased by 80.48% compared with the same period of last year, mainly because of the effect of various factors such as lower sales price led to substantially low profit as compared with the same period of last year, therefore income tax decreased accordingly.

Profit attributable to non-controlling equity interests

Profit attributable to non-controlling equity interests was RMB33 million in the first half year of 2009, decreased by 75.91% compared with the same period of last year. This was mainly because the realized net profit for the period was significantly low than that of the same period of last year under the impact of the financial crisis, which in turn resulted in lower profit attributable to non-controlling equity interests.

Net profit and profit margin

Net profit was RMB171 million in the first half year of 2009 (excluding profit attributable to non-controlling equity interests), representing a drop of 82.19% over the same period of last year; net profit margin was 2.57% (excluding profit attributable to non-controlling equity interests), representing a drop of 8.7% compared with 11.27% in the corresponding period of last year. This was due lower sales price as a result of the repercussion of the financial crisis.

Liquidity

In the first half year of 2009, the cash flows from operating activities, the cash flows from investment activities and the cash flows from financing activities of the Group were -RMB526 million, -RMB1,692 million and RMB2,019 million respectively, representing increases of -130.76%, -177.03% and 5.84% over the same period of last year. Among which:

- (1) The decrease in the cash flows from operating activities was mainly due to:
 - (i) sales prices dropped as compared with the same period of last year under the impact of the financial crisis, which led to reduced revenue; and
 - (ii) lower financial grants received during the period as compared with the corresponding period of last year.
- (2) The decrease in the cash flows from investment activities was mainly due to: substantial increase in restricted bank deposits (such as deposits for letter of credit and promissory notes) during the period.
- (3) The increase in the cash flows from financing activities was mainly due increase in borrowings (mainly unmatured discounted notes) during the period.

V. Directors' Report

IV. The discussion and analysis under International Financial Reporting Standards: (continued)

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

In the first half year of 2009, there was no significant seasonal effect on the capital requirements of the Company.

Principal sources of funding

In the first half year of 2009, the principal sources of funding of the Group mainly derived from the revenue from production operations and bank loans.

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

As at 30 June 2009, the Group's bank borrowings increased by RMB6,483 million, repayment of loans amounted to RMB3,547 million. Such borrowings bore interest rates ranging from 1.29% to 7.83%.

Gearing ratio of the Company

As at 30 June 2009, the gearing ratio of the Group was 38%, increased by 5.5% compared with the ratio of 32.5% in 2008, mainly due to the increase of borrowings (unmatured discounted notes) of the Company during the period.

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

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

As at 30 June 2009, 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. As at 30 June 2009, repayment in the amount of USD17,196,078.00 was paid for the above borrowing. As at 30 June 2009, the net book value of the collateral with regard to fixed assets was RMB1,113,812,474.50 and that with regard to the land use rights (intangible assets) was RMB73,852,307.78.

Contingent liabilities of the Company

As at 30 June 2009, there were no contingent liabilities of the Group.

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

Risk of fluctuations in foreign exchange rate and any relevant hedging

As at 30 June 2009, the exchange gains of the Company was RMB250,000, mainly due to: the exchange gain on foreign currency borrowings and accounts payable due to changes in exchange rate 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 2009, the Group had not used derivative financial instruments for hedging purposes. However, the Group will continue to monitor the exposure of proceeds from global offering to foreign exchange fluctuations.

V. Directors' Report

V. Warnings on forecast of significant changes in accumulated net profit compared with the corresponding period of last year for the period the beginning of the year to the end of the next reporting period, with explanations.

Under the repercussion of the global financial crisis, the Company recorded lower average product price in the first three quarters of 2009 as compared with the same period of last year, which led to lower gross profit margin of the paper products of the Company. It is expected that the Company's accumulated net profit will decrease by 60%-80% in January-September 2009 as compared with the corresponding period of last year.

VI. Focus of work for the second half of 2009

In relation to the second half of 2009, 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 focus on brand building, enhance independent innovation, energy saving, emission reduction, and carry out the construction of new projects, mainly in terms of the following aspects:

- (1) To emphasise on the sales work, strengthen corporate brand building to gain market share in the PRC and overseas markets;
- (2) To enhance independent innovation, promote application of new technologies and skills and actively develop new products;
- (3) To set energy saving and environmental protection as the targets in the corporate development strategies of the Company, enhance energy saving and emission reduction in order to strengthen its sustainable development capability;
- (4) To implement the preparation works for the commencement of operation of high-end low weight coated paper and international logistic centre, etc.;
- (5) To accelerate the progression of forestry-pulp-paper integration projects, with respect to which the construction of Zhanjiang Pulp Project will be commenced orderly as planned, while our forestry companies in regions including Guangdong and Hubei will begin forestation on a major scale in acquired forest lands;
- (6) To standardise corporate management and improve corporate governance structure so as to fully enhance the operating quality.

VI. Material Matters

I. PERSONNEL INFORMATION

1. Change of personnel

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

2. Personnel of the Company

As at 30 June 2009, the Group had 16,651 employees in aggregate, including 11,769 production staff, 650 sales staff, 792 technical staff, 361 financial staff, 1,066 administrative staff and 2,013 other staff. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company determines different rates of remuneration for different employees based on their performance, qualifications, duties and other factors in compliance with the relevant PRC laws and regulations.

II. 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)

Strictly in compliance with the requirements of the relevant laws and regulations of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》), Hong Kong Listing Rules and the related requirements as required by China Securities Regulatory Commission (“CSRC”), the Company continued to optimize its legal person governance structure, and established a modern enterprise policy to regulate the operations of the Company.

During the reporting period, as required by the relevant documents of the China Securities Regulatory Commission and the Hong Kong Stock Exchange, the Company made timely amendments to the Articles of Association, and, in accordance with the terms of the Articles of Association, amended the Procedural Rules of Shareholders Meetings (《股東會議事規則》), Procedural Rules of Board Meetings (《董事會議事規則》) and Procedural Rules of Supervisory Committee Meetings (《監事會議事規則》).

The state of governance of the Company is currently in compliance with the requirements under the relevant documents of CSRC.

2. Corporate governance

During the reporting period, the Group was in full compliance with the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange.

VI. Material Matters

II. CORPORATE GOVERNANCE STRUCTURE DURING THE REPORTING PERIOD (continued)

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 Listing Rules of the Hong Kong Stock Exchange regarding securities transactions by 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 2009 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

III. 2008 PROFIT DISTRIBUTION PLAN AND 2009 INTERIM PROFIT DISTRIBUTION PLAN

- (1) The 2008 profit distribution plan of the Company was considered and approved by the 2008 Annual General Meeting. Based on 2,062,045,941 shares in the total share capital of the Company, cash bonus of RMB 0.50 was to be paid to all shareholders for every 10 shares held (tax included, RMB 0.45 to be actually paid to A Share individual shareholders, investment funds and non-resident enterprises listed in the H share registrar after tax deduction, and in respect of B Share shareholders, no tax were to be deducted for the time being). Distribution of cash bonuses under such distribution amounted to RMB 103,102,297.05 (tax included).

For A Shares, the ex-rights date was 15 July 2009. For B Shares, the ex-rights date was 20 July 2008. Cash bonus of RMB 0.5 for every 10 shares (tax included) was to be paid on the basis of the share capital as at the above dates.

- (2) The 2009 interim profit distribution plan: no profit distribution was proposed to be implemented, also, no share capital increase by way of transfer from capital reserves will be carried out.

VI. Material Matters

IV. MATERIAL ACQUISITION AND DISPOSAL OF ASSETS, ABSORPTIONS AND MERGERS OF THE COMPANY DURING THE REPORTING PERIOD

The Company had no material acquisition and disposal of assets, absorptions and mergers during the reporting period.

V. MATERIAL LITIGATION AND ARBITRATION

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

VI. UNDERTAKINGS BY HOLDERS OF NON-TRADABLE SHARES DERIVED FROM THE REFORM OF CONVERSION

1. Undertakings made during the reform of conversion and performance of such undertakings

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

During the reporting period, Shouguang Chenming Holdings Co., Ltd. had strictly adhered to such undertakings.

2. During the reporting period, no shareholders holding 5% (including 5%) or above shares in the Company had made any additional undertakings on shares subject to trading moratorium.

VI. Material Matters

VII. CONNECTED TRANSACTIONS

Under the relevant requirements under the Listing Rules of Shenzhen Stock Exchange, the Group had no material connected transactions during the reporting period.

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the reporting period, the Company had no material contract matters.

IX. EXTERNAL GUARANTEES

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

As at 30 June 2009, the balance of guarantee provided by the Company for its controlling subsidiaries amounted to RMB 450,247,900, representing 3.66% of the net assets of the Company attributable to the shareholders of the parent company.

Unit: RMB in ten thousands

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)	
Total guarantee provided during the reporting period	0
Total balance of guarantee provided at the end of the reporting period (A)	0
Guarantees provided by the Company for subsidiaries	
Total guarantee provided for subsidiaries during the reporting period	-33,384.65
Total balance of guarantee provided for subsidiaries at the end of the reporting period (B)	45,024.79
Total amount of guarantee provided by the Company (including guarantees provided for subsidiaries)	
Total amount of guarantee provided (A+B)	45,024.79
Total amount of guarantee provided as a percentage of the net assets of the Company	3.66%
Of which:	
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)	—
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)	5,000.00
Total amount of guarantee provided in excess of 50% of net assets (E)	—
Sum of the above three amount of guarantee* (C+D+E)	5,000.00

VI. Material Matters

X. OTHER SIGNIFICANT MATTERS AND EXPLANATION AND ANALYSIS ON THEIR IMPACTS AND SOLUTIONS

1. During the reporting period, the Company did not invest in any securities, and the Company did not hold any equity interests in other listed companies, unlisted financial institutions or prospective listed companies.
2. During the reporting period, except for provision of entrusted loans to subsidiaries of the Company (for details, please refer to Note 7 in the financial statements and notes prepared in accordance with Accounting Standards for Business Enterprises), 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 significant custody, subcontracting or 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 of the Company concerning utilisation of funds by related parties and external guarantees.

After inspection, there existed no utilisation of funds of the Company by controlling shareholders and other related parties during the reporting period, except for connected transactions with subordinate controlling subsidiaries and participating companies (for details, please refer to Note 8 in the financial statements and notes prepared in accordance with Accounting Standards for Business Enterprises). 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 prices of the transactions are true and fair and do not impair the interests of the Company and other shareholders, especially the interest of medium and minority shareholders, and non-associated shareholders.

After inspection, the external guarantees of the Company during the current period in the first half year of 2009 and accumulated amount are both nil, except for the guarantees provided to subsidiaries during the reporting period (for details, please refer to Note 8 in the financial statements and notes prepared in accordance with Accounting Standards for Business Enterprises). 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 reporting period, the guarantees provided to subsidiaries by the Company conform to the requirements of the routine production and operation and reasonable utilisation of the funds of the Company, its decision making procedure is legitimate, and do not impair of the interests of the Company and other shareholders, especially the interest of medium and minority shareholders.

VI. Material Matters

XI. RECEPTION OF RESEARCH INVESTIGATIONS, COMMUNICATIONS AND INTERVIEWS DURING THE REPORTING PERIOD

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
2009.1.7	Shouguang, Shandong	On-site research investigation	China International Capital Corporation Limited, Orktree Capital Management	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.3	Shouguang, Shandong	On-site research investigation	Galaxy Securities, Boseru Funds	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.5	Shouguang, Shandong	On-site research investigation	Galaxy Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.8	Shouguang, Shandong	On-site research investigation	Sinolink Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.11	Shouguang, Shandong	On-site research investigation	20 institutions, including Sinolink Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.12	Shouguang, Shandong	On-site research investigation	Guotai Junan	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.25	Shouguang, Shandong	On-site research investigation	Joint research investigation personnel from CITIC Securities, specialised in paper-making industry	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.2.27	Shouguang, Shandong	On-site research investigation	Everbright Securities, Donghai Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.3.10	Shouguang, Shandong	On-site research investigation	Gartmore Investment Management	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development

VI. Material Matters

XI. RECEPTION OF RESEARCH INVESTIGATIONS, COMMUNICATIONS AND INTERVIEWS DURING THE REPORTING PERIOD (continued)

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
2009.3.22	Shouguang, Shandong	On-site research investigation	Shareholders of Zibo Fund	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.3.25	Shouguang, Shandong	On-site research investigation	Haitong Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.4.15	Shouguang, Shandong	On-site research investigation	Guosen Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.4.18	Shouguang, Shandong	On-site research investigation	GF Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.4.29	Shouguang, Shandong	On-site research investigation	ChinaAMC	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.5.12	Shouguang, Shandong	On-site research investigation	China International Capital Corporation Limited	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.5.13	Shouguang, Shandong	On-site research investigation	Goldman Sachs Group, Beijing Gao Hua Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.6.10	Shouguang, Shandong	On-site research investigation	Industrial Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2009.6.11	Shouguang, Shandong	On-site research investigation	Orient Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2009

Date of announcement	Subject matter	Medium of publication and website address
2009-03-26	H Share announcement	http://www.cninfo.com.cn
2009-04-09	Independent opinions from independent directors regarding self-evaluation report on internal control of the Company	http://www.cninfo.com.cn
2009-04-09	2008 Annual Report summary	D025 of China Securities Journal, B7 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	Announcement on the resolutions of the 12th meeting of the fifth session of the Board of Directors	D025 of China Securities Journal, B9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	Notice of 2008 Annual General Meeting	D027 of China Securities Journal, B10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	Announcement on granting of credit facility to controlling subsidiaries	D027 of China Securities Journal, B10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	Announcement on resolutions of the 9th meeting of the fifth session of the Board of Supervisors	D027 of China Securities Journal, B10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	2008 Annual Report	http://www.cninfo.com.cn
2009-04-09	Special explanation on utilisation of funds by substantial shareholders and other related parties	http://www.cninfo.com.cn
2009-04-09	Notice of 2009 First Class Meeting for Holders of Domestic Listed Shares and notice of 2009 First Class Meeting for Holders of Overseas Listed Shares	D027 of China Securities Journal, B10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-09	2008 social responsibility report	http://www.cninfo.com.cn
2009-04-09	Self-evaluation report on internal control	http://www.cninfo.com.cn
2009-04-09	2008 audited report	http://www.cninfo.com.cn
2009-04-18	H Share announcement	http://www.cninfo.com.cn
2009-04-29	Announcement on resolutions of the 13th meeting of the fifth session of the Board of Directors	D031 of China Securities Journal, B9 of Hong Kong Commercial Daily http://www.cninfo.com.cn

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2009 (continued)

Date of announcement	Subject matter	Medium of publication and website address
2009-04-29	Notice on inclusion of new resolutions at the 2008 Annual General Meeting	D031 of China Securities Journal, B9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-29	First quarterly report 2009	D031 of China Securities Journal, B9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-04-29	Announcement on external investment	D031 of China Securities Journal, B9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-05-09	Indicative announcement on the convening of the 2008 Annual General Meeting and the 2009 First Class Meeting for Holders of Domestic Listed Shares (A Shares and B Shares)	C008 of China Securities Journal, A9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-05-27	Procedural rules of Board Meetings	http://www.cninfo.com.cn
2009-05-27	Procedural rules of General Meetings	http://www.cninfo.com.cn
2009-05-27	Procedural rules of Supervisory Committee Meetings	http://www.cninfo.com.cn
2009-05-27	Legal opinions as witnessed by lawyers in respect of 2009 First Class Meeting for Holders of Domestic Listed Shares and 2009 First Class Meeting for Holders of Overseas Listed Shares	http://www.cninfo.com.cn
2009-05-27	Legal opinions as witnessed by lawyers in respect of 2008 Annual General Meeting	http://www.cninfo.com.cn
2009-05-27	Articles of Association	http://www.cninfo.com.cn
2009-05-27	Announcement on resolutions of 2008 Annual General Meeting	D024 of China Securities Journal, A10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-05-27	Announcement on resolutions of 2009 First Class Meeting for Holders of Domestic Listed Shares and resolutions of 2009 First Class Meeting for Holders of Overseas Listed Shares	D024 of China Securities Journal, A10 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-05-27	First announcement of notice to creditors in relation to repurchase of H Shares	D024 of China Securities Journal, A10 of Hong Kong Commercial Daily http://www.cninfo.com.cn

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2009 (continued)

Date of announcement	Subject matter	Medium of publication and website address
2009-06-06	Unusual price and trading volume movement of H Shares	http://www.cninfo.com.cn
2009-06-09	Notice of 2009 First Extraordinary General Meeting	D005 of China Securities Journal, B3 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-06-09	Announcement on resolutions of the 14th meeting of the fifth session of the Board of Directors	D005 of China Securities Journal, B3 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-06-09	Announcement on external investment	D005 of China Securities Journal, B3 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-06-10	Second announcement of notice to creditors in relation to repurchase of H Shares	B07 of China Securities Journal, A5 of Hong Kong Commercial Daily http://www.cninfo.com.cn
2009-06-20	Third announcement of notice to creditors in relation to repurchase of H Shares	C004 of China Securities Journal, B8 of Hong Kong Commercial Daily http://www.cninfo.com.cn

Note: A total of 34 announcements were issued by the Company in the first half year of 2009.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Balance Sheet

As at 30 June 2009

ASSETS	Note VII	Consolidated		Company	
		30 June 2009 RMB	31 December 2008 RMB	30 June 2009 RMB	31 December 2008 RMB
CURRENT ASSETS					
Bank balances and cash	1	3,992,960,347.64	2,853,418,128.07	3,496,695,742.65	2,142,439,739.51
Financial assets held for trading	2	12,200,000.00	—	—	—
Bills receivable	3	2,221,866,092.84	974,009,788.24	1,464,935,031.34	465,681,067.32
Accounts receivable	4	1,991,014,261.79	1,752,409,349.17	2,462,162,273.54	1,937,280,312.86
Advance to suppliers	5	657,794,360.86	462,526,338.87	542,073,876.86	438,759,362.48
Dividends receivable		—	—	139,874,997.10	164,874,997.10
Other receivables	6	127,041,041.43	135,889,612.93	1,319,954,783.46	936,468,514.72
Inventories	7	2,980,266,373.67	3,397,792,930.38	1,285,339,988.47	1,682,657,074.51
Entrusted loans due within one year	8	—	—	896,100,000.00	982,000,000.00
Other current assets	9	127,832,652.63	151,993,045.95	55,810,289.41	52,747,204.98
Total current assets		12,110,975,130.86	9,728,039,193.61	11,662,946,982.83	8,802,908,273.48
NON-CURRENT ASSETS					
Entrusted loans	8	—	—	870,000,000.00	965,000,000.00
Long-term equity investments	10	89,142,049.02	92,673,769.14	4,098,327,856.90	4,081,859,577.02
Investment properties	11	27,295,596.13	28,164,724.15	27,295,596.13	28,164,724.15
Fixed assets	12	13,727,636,750.57	14,213,441,758.08	5,918,650,618.43	6,258,618,550.53
Construction in progress	13	536,675,503.19	431,379,272.50	108,800,143.28	59,788,891.26
Construction materials		27,683,267.72	42,079,864.21	1,817,374.00	1,981,408.48
Intangible assets	14	1,282,334,460.63	1,277,076,588.53	353,726,291.48	364,509,396.99
Goodwill	15	20,283,787.17	20,283,787.17	—	—
Long-term deferred expenditure	16	44,014,023.55	37,227,730.36	—	—
Deferred income tax assets	17	132,911,185.39	127,916,366.12	75,357,703.46	78,605,721.73
Consumable biological assets	18	422,695,311.24	301,212,691.14	—	—
Total non-current assets		16,310,671,934.61	16,571,456,551.40	11,453,975,583.68	11,838,528,270.16
TOTAL ASSETS		28,421,647,065.47	26,299,495,745.01	23,116,922,566.51	20,641,436,543.64

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

LIABILITIES AND OWNERS' EQUITY	Note VII	Consolidated		Company	
		30 June 2009 RMB	31 December 2008 RMB	30 June 2009 RMB	31 December 2008 RMB
CURRENT LIABILITIES					
Short-term loans	20	4,898,959,345.72	1,516,945,042.67	4,320,399,962.94	1,144,068,305.68
Financial liabilities held for trading	21	5,200,000.00	198,900.00	5,200,000.00	—
Notes payable	22	326,094,292.58	367,627,562.14	184,923,314.39	210,151,045.59
Accounts payable	23	2,130,086,449.65	2,642,308,185.90	1,639,681,551.17	1,716,031,795.17
Advances from customer	24	192,986,623.31	101,693,578.57	134,725,478.69	66,019,457.87
Employee benefits payable	25	219,919,501.51	190,209,067.13	118,333,048.15	98,888,359.60
Taxes payable	26	111,825,380.13	49,965,982.34	79,721,669.67	16,156,180.51
Dividends payable	27	103,138,386.36	36,089.31	103,138,386.36	36,089.31
Other payables	28	368,345,487.62	346,226,242.06	241,031,732.94	283,099,241.86
Non-current liabilities due within one year	29	382,381,364.15	1,038,125,240.62	280,107,900.00	883,602,600.00
Short-term debentures payable	30	1,252,519,999.98	1,941,874,444.43	1,252,519,999.98	1,941,874,444.43
Total current liabilities		9,991,456,831.01	8,195,210,335.17	8,359,783,044.29	6,359,927,520.02
NON-CURRENT LIABILITIES					
Long-term loan	31	4,228,896,509.43	4,019,250,823.86	3,520,606,035.94	3,064,076,035.94
Deferred income	32	103,076,589.48	56,828,375.23	10,387,541.95	5,537,541.95
Deferred income tax liabilities	33	6,929,685.73	6,431,545.79	—	—
Total non-current liabilities		4,338,902,784.64	4,082,510,744.88	3,530,993,577.89	3,069,613,577.89
TOTAL LIABILITIES		14,330,359,615.65	12,277,721,080.05	11,890,776,622.18	9,429,541,097.91
OWNERS' EQUITY					
Share capital	34	2,062,045,941.00	2,062,045,941.00	2,062,045,941.00	2,062,045,941.00
Capital surplus	35	6,093,483,801.92	6,093,483,801.92	6,186,218,584.33	6,184,215,988.77
Surplus reserve	36	825,476,850.53	825,476,850.53	813,287,268.62	813,287,268.62
Undistributed profits	37	3,331,577,826.32	3,277,192,810.40	2,164,594,150.38	2,152,346,247.34
Exchange differences on translating foreign operations		869,287.57	879,498.14	—	—
Equity attributable to equity holders of the Company		12,313,453,707.34	12,259,078,901.99	11,226,145,944.33	11,211,895,445.73
Minority Interests	38	1,777,833,742.48	1,762,695,762.97	—	—
Total owners' equity		14,091,287,449.82	14,021,774,664.96	11,226,145,944.33	11,211,895,445.73
TOTAL LIABILITIES AND OWNERS' EQUITY		28,421,647,065.47	26,299,495,745.01	23,116,922,566.51	20,641,436,543.64

The notes form an integral part of the financial statements.

The financial statements as set out from page 45 to 174 have been signed by:

Head of Corporation

Chief Financial Officer

Head of the finance section

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

INCOME STATEMENT

For the six months ended 30 June 2009

	Note VII	Consolidated		Company	
		January - June 2009 RMB	January - June 2008 RMB	January - June 2009 RMB	January - June 2008 RMB
Operating revenue	39	6,675,366,559.73	8,552,402,269.40	6,181,612,312.77	7,253,178,510.24
Less: Cost of operations	40	5,629,255,046.18	6,647,216,143.91	5,578,614,295.07	6,161,287,463.14
Tax and levies on operations	41	7,109,033.53	6,755,555.55	154,785.75	135,343.88
Sales expenses		339,929,245.25	402,926,002.43	214,720,116.93	197,903,117.82
Administrative expenses		335,899,354.53	265,718,708.42	114,469,006.05	102,326,327.25
Finance expenses	42	176,847,315.84	78,635,192.38	155,142,424.33	30,691,691.51
Loss on impairment of assets	43	10,603,058.60	(30,714,668.67)	12,791,869.13	(21,862,543.25)
Add: Gain on change in fair value	44	8,985,659.76	16,204,457.27	(5,200,000.00)	—
Investment income	45	(9,531,720.12)	(12,289,463.09)	36,407,598.41	230,665,587.59
Including: Gain on Investments in associates and joint ventures		(9,531,720.12)	(12,375,340.05)	(9,531,720.12)	(12,375,340.05)
Operating profit		175,177,445.44	1,185,780,329.56	136,927,413.92	1,013,362,697.48
Add: Non-operating revenue	46	68,384,829.29	168,804,618.70	32,808,385.47	80,045,436.63
Less: Non-operating expenses	47	5,322,631.80	7,929,167.09	4,666,580.20	5,943,534.62
Including: Loss on disposal of non-current assets		4,653,149.89	1,394,490.60	4,449,274.39	739,683.34
Total profit		238,239,642.93	1,346,655,781.17	165,069,219.19	1,087,464,599.49
Less: Income tax expenses	48	52,124,816.31	267,002,051.55	49,719,019.10	218,351,458.24
Net profit		186,114,826.62	1,079,653,729.62	115,350,200.09	869,113,141.25
Net profit attributable to the equity holders of the Company		157,487,312.97	947,427,409.04	115,350,200.09	869,113,141.25
Minority interests		28,627,513.65	132,226,320.58	—	—
Earnings per share					
Basic	50	0.076	0.55	0.056	0.50
Diluted	50	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 Accounting Standards for Business Enterprises

Cash Flow Statement

For the six months ended 30 June 2009

	Note VII	Consolidated		Company	
		January - June 2009 RMB	January - June 2008 RMB	January - June 2009 RMB	January - June 2008 RMB
Cash Flows from Operating Activities					
Cash received from sales of goods, rendering of services		5,072,568,207.01	8,936,604,199.60	4,131,278,897.79	7,474,230,963.24
Refund of taxes and levies		7,596,994.38	25,236,318.81	—	—
Cash received relating to other operating activities	53	101,170,561.40	168,013,655.24	52,407,526.45	84,287,436.24
Subtotal of cash inflows from operating activities		5,181,335,762.79	9,129,854,173.65	4,183,686,424.24	7,558,518,399.48
Cash paid for goods and services					
Cash paid for goods and services		4,710,646,865.64	5,892,637,854.74	4,391,742,107.99	5,392,150,045.39
Cash paid to and on behalf of employees		253,887,714.94	306,891,001.32	94,149,841.11	104,585,529.37
Payments of taxes and levies		343,299,580.44	829,151,747.45	181,207,781.34	503,373,439.22
Cash paid relating to other operating activities	54	399,603,409.25	390,618,258.84	571,437,104.56	4,837,439.32
Subtotal of cash outflows from operating activities		5,707,437,570.27	7,419,298,862.35	5,238,536,835.00	6,004,946,453.30
Net cash flows from operating activities		(526,101,807.48)	1,710,555,311.30	(1,054,850,410.76)	1,553,571,946.18
Cash Flows from Investing Activities					
Cash received from investments		—	—	580,900,000.00	210,300,000.00
Cash received from gain on investments		—	85,876.96	50,939,318.53	122,215,844.01
Cash received from disposal of fixed assets, intangible assets and other long-term assets		19,421,000.00	335,259.76	19,099,922.08	1,006,638.42
Cash received relating to other investing activities	55	47,990,000.00	65,922,610.10	4,850,000.00	42,656,386.46
Subtotal of cash inflows from investing activities		67,411,000.00	66,343,746.82	655,789,240.61	376,178,868.89
Cash paid to acquire fixed assets, intangible assets and other long-term assets					
Cash paid to acquire fixed assets, intangible assets and other long-term assets		407,727,921.18	677,118,558.42	21,564,955.31	46,319,258.93
Cash paid on investments		6,000,000.00	10,000.00	406,000,000.00	813,000,000.00
Acquired net cash paid by subsidiaries and other business units		5,706,000.00	—	—	—
Subtotal of cash outflows from investing activities		419,433,921.18	677,128,558.42	427,564,955.31	859,319,258.93
Net cash flows from investing activities		(352,022,921.18)	(610,784,811.60)	228,224,285.30	(483,140,390.04)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

	Note VII	Consolidated		Company	
		January - June 2009 RMB	January - June 2008 RMB	January - June 2009 RMB	January - June 2008 RMB
Cash Flows from Financing Activities					
Cash received from investment		—	2,661,332,038.20	—	2,661,332,038.20
Cash received from borrowings		6,483,130,711.58	3,110,154,795.66	5,798,764,711.64	2,644,282,458.86
Cash received from issuance of short-term debentures		—	697,200,000.00	—	697,200,000.00
Cash received relating to other financing activities	56	—	—	—	—
Subtotal of cash inflows from financing activities		6,483,130,711.58	6,468,686,833.86	5,798,764,711.64	6,002,814,497.06
Cash repayments of amounts borrowed		3,546,592,000.00	4,301,820,243.76	2,757,800,070.71	3,978,801,801.18
Cash payments for interest expenses, and distribution of dividends or profits		217,493,000.00	259,162,049.91	160,011,987.42	194,312,585.36
Repayment of the cash accrued by short-term debentures		700,000,000.00	—	700,000,000.00	—
Cash payments relating to other financing activities	57	1,340,013,989.64	—	1,315,594,417.01	—
Subtotal of cash outflows from financing activities		5,804,098,989.64	4,560,982,293.67	4,933,406,475.14	4,173,114,386.54
Net cash flows from financing activities		679,031,721.94	1,907,704,540.19	865,358,236.50	1,829,700,110.52
Effect of foreign exchange rate changes on cash		(1,378,763.33)	(8,091,780.24)	(70,524.91)	(7,336,841.19)
Net increase in cash and cash equivalents	51	(200,471,770.05)	2,999,383,259.65	38,661,586.13	2,892,794,825.47
Add: Balance of cash and cash equivalents at the beginning of the year	51	2,687,579,159.85	613,826,456.62	2,080,005,634.40	235,957,551.29
Balance of cash and cash equivalents at the end of the year	51	2,487,107,389.80	3,613,209,716.27	2,118,667,220.53	3,128,752,376.76

The notes form an integral part of the financial statements.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Consolidated statement of change in owners' equity

Prepared by: Shandong Chenming Paper Holdings Limited First half year of 2009

Unit: RMB

Items	Current period					Last year								
	Equity attributable to equity holders of the Company					Equity attributable to equity holders of the Company								
	Capital reserve	Surplus reserve	Undistributed profit	Others	Total owners' equity	Capital reserve	Surplus reserve	Undistributed profit	Others	Total owners' equity				
I. Balance at prior year end	2,062,045,941.00	6,039,483,801.92	825,478,890.53	3,271,927,810.40	879,488.14	1,762,865,762.97	14,021,774,064.86	1,706,345,941.00	3,737,891,886.21	723,749,920.58	2,576,650,490.38	303,894.08	1,835,324,653.11	10,580,559,664.96
II. Balance at the beginning of the current year	2,062,045,941.00	6,039,483,801.92	825,478,890.53	3,271,927,810.40	879,488.14	1,762,865,762.97	14,021,774,064.86	1,706,345,941.00	3,737,891,886.21	723,749,920.58	2,576,650,490.38	303,894.08	1,835,324,653.11	10,580,559,664.96
III. Changes in the current year	-	-	-	54,385,015.92	-10,210.57	15,137,979.51	88,512,784.86	355,700,000.00	2,355,491,886.71	101,783,929.95	700,542,461.02	575,603.46	-72,828,800.14	3,447,150,000.00
(I) Net profit	-	-	-	157,487,912.97	-10,210.57	15,137,979.51	172,852,892.48	-	-	-	1,052,291,741.53	-	184,249,712.74	1,259,541,454.27
(II) Profit and loss directly dealt with in owners' equity	-	-	-	-	-10,210.57	-	-10,210.57	-	-	-	-	-	575,603.46	575,603.46
1. Net change in the fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Effect on equity movements of other owners in the invested entities under the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Effect of income tax on items accounted for in owners' equity	-	-	-	-	-10,210.57	-10,210.57	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-10,210.57	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	-	-	157,487,912.97	-10,210.57	15,137,979.51	172,852,892.48	-	-	-	1,052,291,741.53	-	184,249,712.74	1,259,541,454.27
(III) Owners' contributions and decrease in capital	-	-	-	-	-	-	-	355,700,000.00	2,355,491,886.71	-	-	-	-	2,711,191,886.71
1. Owners' contributions in capital	-	-	-	-	-	-	-	355,700,000.00	-	-	-	-	-	355,700,000.00
2. Share-based payments accounted for in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	2,355,491,886.71	-	-	-	-	2,355,491,886.71
(IV) Profit distribution	-	-	-	-103,102,287.05	-	-103,102,287.05	-103,102,287.05	-	-	101,783,929.95	-87,149,280.51	-	-142,483,663.78	-415,689,014.54
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-	-	101,783,929.95	-	-	-	-
2. Transfer to general risk reserve	-	-	-	-	-	-	-	-	-	101,783,929.95	-	-	-	-
3. Distribution to owners (or shareholders)	-	-	-	-103,102,287.05	-	-103,102,287.05	-103,102,287.05	-	-	-273,015,360.36	-	-	-142,483,663.78	-415,689,014.54
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Transfer within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to equity (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to equity (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Transfer from surplus reserve to made up for loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at current period end	2,062,045,941.00	6,039,483,801.92	825,478,890.53	3,331,577,826.32	869,287.57	1,777,833,742.48	14,091,287,749.92	2,062,045,941.00	6,039,483,801.92	825,478,890.53	3,271,927,810.40	879,488.14	1,762,865,762.97	14,021,774,664.96

The notes form an integral part of the financial statements.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Statement of change in owners' equity of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

First half year of 2009

Unit: RMB

Items	Current period			Last year				
	Equity attributable to equity holders of the Company			Equity attributable to equity holders of the Company				
	Paid-up capital (or share capital)	Capital reserve	Surplus reserve	Paid-up capital (or share capital)	Capital reserve	Surplus reserve	Undistributed profit	Total owners' equity
I. Balance at prior year end	2,062,045,941.00	6,184,215,988.77	813,287,268.62	1,706,345,941.00	3,827,378,359.74	711,553,338.67	1,509,756,228.39	7,755,033,867.80
II. Balance at the beginning of the current year	2,062,045,941.00	6,184,215,988.77	813,287,268.62	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	-	2,002,595.56	-	355,700,000.00	2,356,837,629.03	101,733,929.95	642,590,018.95	3,456,861,577.93
(I) Net profit	-	-	-	115,350,200.09	-	-	1,017,339,299.46	1,017,339,299.46
(II) Profit and loss directly dealt with in owners' equity	-	2,002,595.56	-	2,002,595.56	1,345,733.32	-	-	1,345,733.32
1. Net change in the fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-
2. Effect on equity movements of other owners in the invested entities under the equity method	-	-	-	-	-	-	-	-
3. Effect of income tax on items accounted for in owners' equity	-	-	-	-	-	-	-	-
4. Others	-	2,002,595.56	-	2,002,595.56	1,345,733.32	-	-	1,345,733.32
Sub-total of (I) and (II)	-	2,002,595.56	-	117,352,795.65	1,345,733.32	-	1,017,339,299.46	1,018,685,032.78
(III) Owners' contributions and decrease in capital	-	-	-	355,700,000.00	2,355,491,895.71	-	-	2,711,191,895.71
1. Owners' contributions in capital	-	-	-	355,700,000.00	-	-	-	355,700,000.00
2. Share-based payments accounted for in owners' equity	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	2,355,491,895.71	-	-	2,355,491,895.71
(IV) Profit distribution	-	-	-	-	-	101,733,929.95	-374,749,280.51	-273,015,350.56
1. Transfer to surplus reserves	-	-	-	-	-	101,733,929.95	-101,733,929.95	-
2. Distribution to owners (or shareholders)	-	-	-	-	-	-	-273,015,350.56	-273,015,350.56
3. Others	-	-	-	-	-	-	-	-
(V) Transfer within owners' equity	-	-	-	-	-	-	-	-
IV. Balance at current period end	2,062,045,941.00	6,186,218,584.33	813,287,268.62	2,062,045,941.00	6,184,215,988.77	813,287,268.62	2,152,346,247.34	11,211,895,445.73

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Notes to the financial statements

For the six months ended 30 June 2009

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.

In 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. B-shares from this issuance were listed on the Shenzhen Stock Exchange since 26 May 1997.

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. A-shares from this issuance were listed on the Shenzhen Stock Exchange on 20 November 2000.

In June 2008, with the approval issued by the Stock Exchange of Hong Kong Limited (hereinafter referred as the “Stock Exchange”), the Company issued 355,700,000 H shares. Meanwhile, the relevant state shareholders of the Company performed the reduction of state-owned shares, by way of transferring to the Social Security Fund Council (the “NSSF Council”) such number of shares held by it, representing 35,570,000 shares, which were to be converted into overseas listed foreign shares (H shares). 391,270,000 H-shares were issued and listed on the Hong Kong Stock Exchange on 18 June 2008.

As at 31 December 2008, the Company has a total of 2,062,045,941 shares (refer to note VII.34).

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.

II. Statement of Compliance with the Accounting Standards for Business Enterprises (“ASBEs”)

The financial statements have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 30 June 2009, and the operating results and cash flows of the Company and the Group for the six months ended 30 June 2009.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates

The following principal accounting policies and accounting estimates are determined based on the 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 Company and its domestic subsidiaries operate is Renminbi (“RMB”). The Company and its domestic subsidiaries regard RMB as their reporting currency. Overseas subsidiaries of the Company recognize U.S. dollar as their reporting currency according to the primary economic environment in which they subsidiaries operate. The Group prepares its financial statement based on RMB.

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.

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.

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.

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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Method of determination of the fair value for financial instruments

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

Recognition and measurement of the financial assets

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

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

Loans and accounts receivable

Trust loans and accounts receivable adopt the actual interest rate method to carry out the ongoing measure based on amortized costs. On derecognition, profit or loss arising from impairment or amortization is carried as at profit or loss.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Impairment of financial assets

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

Objective evidence of impairment on financial asset includes those observable matters listed as follows: (1) issuers or debtors encounter severe financial difficulties; (2) debtors violate terms of contract, such as a breach of rules or delay during settlement of interests or principal; (3) the Group gives way to those under financial difficulty accounting on economic or legal reasons; (4) debtors may go into liquidation or conduct other financial reorganization; (5) transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties; (6) any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information, including that the repayment capability of the debtor of the group of financial assets gradually deteriorates, economy difficulties of the country or region where the debtor is staying appear a situation where this group of financial assets cannot be paid; (7) significant and adverse changes have taken place in the technological, market, economic or legal environments in which the debtor operates, making investors of equity instruments difficult to recover the investment cost; (8) substantial or non-temporary reduction of the fair value of investment on equity instruments; (9) other objective evidence showing signs of impairment on financial assets.

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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Impairment of financial assets (continued)

Impairment of loans and accounts receivable

The carrying amount of financial assets measured as costs or amortized costs are 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 from financial assets, if there is objective evidence showing recovery in value of the amount of such financial assets 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 financial assets 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.

Inventory

Inventories of the Group mainly include raw materials, products and finished products. 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 Accounting Standards for Business Enterprises

III. 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 Accounting Standards for Business Enterprises

III. 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.

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 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.

In addition, long-term equity investment with control on the investee is accounted for using equity method and record in the Company's financial statement.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Long-term equity investments (continued)

The term “control” means that the Group has the power to decide an enterprise’s financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties.

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.

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. The unrealized gain or loss from internal transactions entered into between the Group and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. However, the unrealized gain or loss from internal transactions entered into between the Group and its investee is not set up if belonging to impairment loss from assets transferred according to regulations such as “Accounting Standards for Business Enterprises No. 8 “Assets impairment”. 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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Long-term equity investments (continued)

Long-term equity investment accounted for using the equity method (continued)

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.

Acquisition of minority interests

As for minority interests of subsidiaries acquired before 7 August 2008, since acquisition of minority interests increased cost of long-term equity investment which was compared to fair value of identifiable net assets recognized on the acquisition date of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares, the difference of which recognized as goodwill in the consolidated balance sheet. Since acquisition of minority interests increased cost of long term equity investment which was compared to fair value of identifiable net assets recognized which are measured based on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares, the difference of which recognized as a portion of goodwill, capital premium of adjusted capital surplus, the remaining sum of the capital premium insufficient to set off impairment, adjusted retained earnings.

As for minority interests of subsidiaries acquired on and after 7 August 2008 and upon the preparation of the consolidated financial statements, since acquisition of minority interests increased cost of long-term equity investment which was compared to fair value of identifiable net assets recognized which are measured based on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares, the difference of which recognized as adjusted capital surplus, capital surplus insufficient to set off impairment and adjusted retained earnings.

The Group had not acquired minority interests in any subsidiaries since 7 August 2008.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. 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 residue 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 Accounting Standards for Business Enterprises

III. 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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Intangible assets (continued)

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

Category	Useful life
Land use rights	50 years
Software	5-10 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.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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.

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”.

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 Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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).

Offset of Financial Assets and Financial Liabilities

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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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.

Revenue from sales of electricity

Revenue from sales of electricity are recognized when electricity are generated and transmitted to the power grid operated by the local electric power company.

Revenue from sales of steam

Revenue from sales of steam are recorded based upon output delivered at rates specified under contract terms.

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 Accounting Standards for Business Enterprises

III. 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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Income Tax (continued)

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

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.

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.

Offset of income tax

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

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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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.

Business combinations and goodwill not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. For business combination not involving entities under common control, the acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees.

For business combination not involving entities under common control, the cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree plus any costs directly attributable to the business combination. When the business combination is achieved in stage, the cost of the combination is the aggregate cost of the individual transactions. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired from business combination not involving entities under common control are recognised at their fair values at the acquisition date if the recognition conditions are met.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and the measurement of the cost of combinations. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in the profit or loss for the current period.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Debt restructuring

The term “debt restructuring” refers to an event in which the settlement of a debt is arrived in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

Obligations to record debt restructuring as debtor

When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. When a debt is liquidated by a non-cash asset, the creditor shall include the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in the current profits and losses. When a debt is converted into capital, the creditor shall include the difference between the fair value of the shares to which it becomes entitled as investment to the debtor and the book balance of the debt to be restructured into the current profits and losses. Where other terms of a debt are modified, the creditor shall regard the post-modification fair value of the debt as the book value of the restructured debt, and shall include the difference between the book balance of the debt to be restructured and the book value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of several methods, the debtor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled to offset against the book balance of the debt to be restructured, then handle it in accordance with the aforesaid provisions of modification of other terms of a debt.

Obligations to record debt restructuring as creditor

When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. When a debt is liquidated by a non-cash asset, the creditor shall include the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in the current profits and losses. When a debt is converted into capital, the creditor shall include the difference between the fair value of the shares to which it becomes entitled as investment to the debtor and the book balance of the debt to be restructured into the current profits and losses. Where other terms of a debt are modified, the creditor shall regard the post-modification fair value of the debt as the book value of the restructured debt, and shall include the difference between the book balance of the debt to be restructured and the book value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of several methods, the debtor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled to offset against the book balance of the debt to be restructured, then handle it in accordance with the aforesaid provisions of modification of other terms of a debt.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

Obligations to record debt restructuring as creditor (continued)

If the creditor has made provision for the impairment of the debt to be restructured, it shall first offset the aforesaid difference against the impairment provision, and then include the shortfall in the current profits and losses.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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 control of subsidiaries was substantially transferred as the date of acquisition or disposal. For disposal of subsidiaries, operating results and cash flows of such subsidiaries from the period beginning to the date of disposal are included into the consolidated income statement and consolidated cash flow statement; for disposal of subsidiaries during the reporting period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired not controlled by the same parent, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired or disposed controlled by the same parent company, the operating results and cash flows from the opening of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements. The comparative consolidated financial statements amount is also adjusted respectively.

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.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

III. Significant Accounting Policies and Estimates (continued)

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 inappropriate 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 inappropriate profits brought forward are reported at the prior year's closing balance; the inappropriate 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.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IV. 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 III, 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.

Critical judgments in applying the Group's accounting policies

In the application of the Group's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements:

Timing of transfer of constructions in progress to fixed assets

In determining the timing when the construction in progress, especially for large-scale paper manufacturing plant and machinery, is transferred to fixed assets requires the Group to determine whether all the activities necessary to bring fixed assets to be ready for their intended use are completed and related direct expenditure are included in the cost of asset. Such determination requires the use of management's judgment and experience.

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 Accounting Standards for Business Enterprises

IV. 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.

Depreciation of fixed assets

Fixed assets are provided and depreciated on a straight-line basis over their estimated useful lives, after taking into account their residual value. The Group assesses annually the residual value and the useful life of the fixed assets. If revaluation takes place, the expectation differs from the original estimate. Such difference will impact the book value of fixed assets in the year in which such estimate has been changed.

Impairment of fixed assets

The Group assesses annually whether fixed assets have any indication of impairment in accordance with the accounting policy. The recoverable amounts of fixed assets have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of judgment and estimates of the management. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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. If such estimated interest rate is lower than the actual interest rate or the actual cash flow is lower than the initial estimated cash flow, it is required to recognize additional impairment. Such impairment will impact the goodwill impairment during the period when such judgment was made.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

V. Taxation

Taxes that the Group is subject to include value added tax, enterprise income tax, business tax, and 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:

Items	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 in the latter half of 2008.

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

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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

V. Taxation (continued)

Other Taxes

Enterprise Income Tax

Income tax rates applicable to the Company and its subsidiaries

Hailaer Chenming Paper Co., Ltd. (海拉爾晨鳴紙業有限責任公司), a subsidiary of the Company established in the Inner Mongolia Autonomous Region and covered by the preferential tax policy for industries encouraged by the State Government, enjoyed the preferential income tax rate of 15% from 2001 to 2010 pursuant to Guo Shui Fa (2002) Document No. 47 issued by the State Administration of Taxation.

Pursuant to the Guo Xi Ban Zong [2001] Document No. 10 “Written Reply concerning the Application of the Preferential Tax Policies on Development of the Western Region in Yanbian Korean Autonomous Prefecture” issued by the Office of the Leading Group for Western Region Development of the State Council (《國務院西部開發辦關於延邊朝鮮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漿紙有限公司享受稅收優惠政策承諾的函》), Yanbian Chenming Paper Co., Ltd. (延邊晨鳴紙業有限公司), a subsidiary of the Company, is covered by the preferential tax policies on development of the Western Region and thus enjoys preferential tax rate of 15% from 2001 to 2010.

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稅率問題的批復》), Shandong Chenming Xinli Power Co., Ltd. is subject to income tax rate of 15%. Pursuant to Guo Fa [2007] Document No. 39 “Circular on Transitional Preferential Enterprise Income Tax Policy” issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 20% in 2009.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

V. Taxation (continued)

Other Taxes (continued)

Enterprise Income Tax (continued)

Income tax rates applicable to the Company and its subsidiaries (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 (《中華人民共和國外商投資企業和外國企業所得稅法》) and its implementation rules, and as approved by State Taxation Administration of Economic and Technological Development Zone of Wuhan City, the income tax for 2007 was reduced in half. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to income tax rate of 10% in 2009.

Jiangxi Chenming Paper Co., Ltd. (江西晨鳴紙業有限責任有限公司), a subsidiary of the Company, was transformed into an EFI in 2004. It engaged in production with a period of operation of more than 10 years as a foreign-investment enterprise. 2009 was the third year since it started to make profits. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to tax rate of 12.5% this year.

Except for the above preferential enterprise income tax policies, the Company and its remaining subsidiaries are subject to enterprise income tax rate of 25% in the reporting period.

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.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

V. Taxation (continued)

Other Taxes (continued)

Enterprise Income Tax (continued)

Crediting Payment on Purchase of Domestically-Made Equipment as Investments (continued)

Pursuant to Guo Shui Fa [2008] Document No. 52 “Circular on Policy Question about Postponement to Implement to Set Off Enterprise Income Tax with Investment To Acquire Domestic Equipment by Enterprise” issued by State General Tax Bureau (《關於停止執行企業購買國產設備投資抵免企業所得稅政策問題的通知》), postponement to implement to the policy to set off enterprise income tax with investment to acquire domestic equipment by an enterprise has been carried out since 1 January 2008. Income tax credits in respect of investments in domestic-manufactured equipment as approved in prior years will continue to be credited within the extended period.

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., 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 3%, 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 Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries

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

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment by the Group at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	Aggregate voting rights held by the Group (%)
武漢晨鳴紙業股份有限公司 (Wuhan Chenming Hanyang Paper Holdings Co., Ltd.)	Sino-foreign joint venture	27189235-4	譚道成	Wuhan City	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	21,136	20,283	50.93	50.93
山東晨鳴紙業集團齊河板紙有限責任公司 (Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.)x	Limited liability company	72074277-4	邢方同	Qihe, Shandong	Manufacture, processing and sales of paperboard and packaging paper	37,620	37,620	100	100
山東晨鳴熱電股份有限公司 (Shandong Chenming Power Supply Holdings Co., Ltd.)	Limited liability company	70620711-8	孫洪吉	Shouguang, Shandong	Manufacture and supply of electricity and heat	9,955	15,781	86.71	86.71
延邊晨鳴紙業有限責任公司 (Yanbian Chenming Paper Co., Ltd.)	Limited liability company	72958840-0	桑景高	Yanji, Jilin	Mucilage glue fiber pulp, pulp and machine-made paper	8,163.3	4,009	76.73	76.73
江西晨鳴紙業有限責任公司 (Jiangxi Chenming Paper Co., Ltd.)	Sino-foreign joint venture	74426460-7	譚道成	Nanchang city	Production and sales of high-grade paper, paperboard (ex. newsprint) and homemade pulp	USD 172,000,000	69,755	51	51
壽光市晨鳴天園林業有限公司 (Shouguang Chenming Tianyuan Arboriculture Co., Ltd.)	Limited liability company	73925671-7	李德江	Shouguang, Shandong	Development, nurture of fast growth poplar, forest, vegetable and fruit	1,059	720	68	68
海拉爾晨鳴紙業有限責任公司 (Hailaer Chenming Paper Co., Ltd.)	Limited liability company	70130836-6	高子偉	Hailaer City	Sales and processing; sales of machine-made paper and pulp paper	1,600	1,200	75	75

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment		Aggregate voting rights held by the Group (%)
							by the Group at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	
赤壁晨鳴紙業有限公司 (Chibi Chenming Paper Co., Ltd.)	Limited liability Company	42203995-3	陳建明	Chibi, Hubei	Production, processing, sales and of pulp and paper products; land transport	17,742	3,548	51	51
武漢晨鳴乾熱電有限公司 (Wuhan Chenming Qianneng Electric Power Co., Ltd.)	Limited liability Company	72579372-2	張利平	Wuhan City	Generation and sales of electricity and heat	8,824	4,500	51	51
武漢晨鳴新力牆體材料有限公司 (Wuhan Chenjian New-style Wall Materials Co., Ltd.)	Limited liability Company	74475404-0	呂學峰	Wuhan City	Production, operation and sales of aerated fly ash concrete blocks	1,000	510	51	51
山東晨鳴新力熱電有限公司 (Shandong Chenming Xinli Power Co., Ltd.)	Sino-foreign joint venture	72073121-5	孫洪吉	Shouguang, Shandong	Generation and supply of electricity and heat	USD 11,800,000	7,239	51	51
壽光市晨鳴水泥有限公司 (Shouguang Chenming Cement Co., Ltd.)	Limited liability company	73720178-X	孫洪吉	Shouguang, Shandong	Utilization of ash in the production of cement and sales of cement	700	700	100	100
山東晨鳴板材有限公司 (Shandong Chenming Panels Co., Ltd.)	Limited liability Company	73816170-8	劉樹森	Shouguang, Shandong	Production, processing and sales of the decorative board of the layer of laminated board, wooden products, laminated board, fortified wooden floorboard and impregnated paper	3,000	3,000	100	100
壽光晨鳴地板有限公司 (Shouguang Chenming Floor Board Co., Ltd.)	Limited liability Company	76866212-5	劉樹森	Shouguang, Shandong	Production, processing and sales of fortified wooden floorboard and impregnated paper	50	50	100	100

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment by the Group at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	Aggregate voting rights held by the Group (%)
齊河晨鳴紙材有限公司 (Qihe Chenming Panels Co., Ltd.)	Limited liability Company	76001404-2	劉樹森	Qihe, Shandong	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	4,082	4,082	100	100
菏澤晨鳴紙材有限責任公司 (Heze Chenming Panels Co., Ltd.)	Limited liability Company	75827615-8	劉樹森	Heze, Shandong	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	3,000	3,000	67	67
陽江晨鳴林業發展有限公司 (Yangjiang Chenming Arboriculture Co., Ltd.)	Limited liability Company	78487434-6	尹同遠	Yangjiang, Guangdong	Plantation and development of forest, and technology consultation of forestry	100	100	100	100
湛江晨鳴林業發展有限公司 (Zhanjiang Chenming Arboriculture Co., Ltd.)	Limited liability company	78298807-5	王在國	Zhanjiang, Guangdong	Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	100	100	100	100
吉林晨鳴紙業有限責任公司 (Jilin Chenming Paper Co., Ltd.)	Limited liability Company	78298556-0	王在國	Jilin City, Jilin province	Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper	150,000	150,135	100	100
鄭城晨鳴紙材有限公司 (Zhancheng Chenming Panels Co., Ltd.)	Limited liability company	77872435-X	侯煥才	Juancheng, Shandong	Production and sales of particle board, decorative particle board and melamine impregnated paper	1,500	1,500	100	100
山東景大酒店有限公司 (Shandong Grand View Hotel Co., Ltd.)	Sino-foreign joint venture	97529857-8	劉樹森	Shouguang, Shandong	Restaurant and beverage services	USD13,910,000	8,050	70	70

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment by the Group at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	Aggregate voting rights held by the Group (%)
湛江晨鳴製紙有限公司 (Zhanjiang Chenming Paper Pulp Co., Ltd.)	Limited liability Company	77527884-1	馮新泉	Zhanjiang, Guangdong	Improvement of plant fostering, true planting and soil, research of forestry, manufacture, production, processing and sales of paper pulp	50,000	50,000	100	100
晨鳴(香港)有限公司 (Chenming (HK) Limited)	Limited liability Company	37349273 00011088	魏克雨	Hong Kong, China	Export and import trade of paper products and market research	USD100,000	78	100	100
壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.)	Limited liability Company	66015223-7	陳洪國	Shouguang, Shandong	Transportation of goods	1,000	1,000	100	100
壽光市再生廢紙回收有限公司 (Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.)	Limited liability company	77316557-9	陳洪國	Shouguang, Shandong	Purchase and sales of waste and obsolete materials	100	100	100	100
壽光晨鳴美術紙有限公司 (Shouguang Chenming Art Paper Co., Ltd.)	Sino-foreign joint venture	79867677-0	尹同遠	Shouguang, Shandong	Production of art paper, and sales of the product which produced by the Company	USD20,000,000	11,362	75	75
齊河晨鳴盛豐物資收購有限公司 (Qihe Chenming Waste Collection Co., Ltd.)	Limited liability Company	75825591-2	李峰	Qihe, Shandong	Purchase and sales of waste and obsolete materials	50	50	98	98
吉林省晨鳴盛豐物資回收有限公司 (Jilin Chenming Waste Collection Co., Ltd.)	Limited liability Company	77872731-5	張邦吉	Jilin	Purchase and sales of waste and obsolete materials	100	100	100	100
吉林省晨鳴盛豐製造有限公司 (Jilin Chenming Machinery Manufacturing Co., Ltd.)	Limited liability Company	66012410-5	張春林	Jilin	Processing of machinery, manufacture, installation and repair of the equipment of machinery	60	60	100	100

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment by the Group at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	Aggregate voting rights held by the Group (%)
南昌晨鳴林業發展有限公司 (Nanchang Chenming Arboriculture Co., Ltd.)	Limited liability Company	66204306-9	張國英	Nanchang, Jiangxi	Processing and sales of wooden finished products; semi-finished products and by-products of timber	1,000	1,000	100	100
黃崗晨鳴紙業有限公司 (Fuyu Chenming Paper Co., Ltd.)	Limited liability Company	66389298-6	劉春山	Fuyang County, Qiqihar City	Production and sales of machine-made paper and paperboard	20,800	20,800	100	100
無錫松嶺紙業有限公司 (Wuxi Song Ling Paper Co., Ltd.)	Limited liability Company	76243145-6	劉春山	Wuxi City	Sales, cutting and processing of paper 501	—	—	100	100
黃崗晨鳴林業發展有限公司 (Huanggang Chenming Arboriculture Co., Ltd.)	Limited liability Company	67036898-X	王在國	Huanggang city, Hubei	Plantation, processing and sales of forest	1,000	1,000	100	100
黃崗晨鳴紙業有限公司 (Huanggang Chenming Paper Co., Ltd.)	Limited liability Company	67976586-9	肖翔	Huanggang city, Hubei	Operation and acquisition of forest; establishment of paper projects	2,000	2,000	100	100
咸寧晨鳴林業發展有限公司 (Xianning Chenming Arboriculture development Co., Ltd.)	Limited liability Company	67975036-8	王在國	Xianning, Hubei	Plantation, processing and sales of forest	1,000	1,000	100	100
壽光虹包裝飾有限公司	Limited liability company	78077560-7	丁步勳	Shouguang, Shandong	Processing and sales of metal products, packaging products and furniture	155	170	100	100

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Name	Enterprise type	Organization code	Legal representative	Place of incorporation	Principal activities	Registered capital (in RMB ten thousand)	Actual investment		Aggregate voting rights held by the Group (%)
							at the end of the year (in RMB ten thousand)	Aggregate shareholding of the Group (%)	
壽光市新源煤炭有限公司 (Shouguang Xinyuan Coal Co., Ltd.)	Limited liability Company	86570424-2	鞠洪亮	Shouguang, Shandong	Retails of coals, petrol and diesels oil	200	120	100	100
壽光維達物流有限公司 (Shouguang Wei Yuan Logistics Company Limited)	Limited liability Company	78079463-X	郝利民	Shouguang, Shandong	Transportation of general goods and hazardous goods	393	400	100	100
壽光美倫紙業有限公司 (Shouguang Meilun Paper Co. Ltd.*)	Limited liability company	69064934-0	尹同遠	Shouguang, Shandong	Producing, processing and sales of paper products	2,000	2,000	100	100

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VI. The scope of the consolidated financial statements and controlling subsidiaries (continued)

Note 1: Newly acquired subsidiaries which were consolidated in this year:

壽光市新源煤炭有限公司(Shougang Xinyuan Coal Co., Ltd.)

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company, entered into a share transfer agreement with the shareholder of 壽光市新源煤炭有限公司(Shougang Xinyuan Coal Co., Ltd.), according to which, a 50% shareholding in 壽光市新源煤炭有限公司(Shougang Xinyuan Coal Co., Ltd.) was acquired from its original shareholder. 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited), a wholly-owned subsidiary of 壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), owns a 50% shareholding in 壽光市新源煤炭有限公司(Shougang Xinyuan Coal Co., Ltd.). 壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company, owns in aggregate a 100% shareholding in 壽光市新源煤炭有限公司(Shougang Xinyuan Coal Co., Ltd.).

壽光虹宜包裝裝飾有限公司

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company, entered into a share transfer agreement with the shareholder of 壽光虹宜包裝裝飾有限公司, according to which, a 100% shareholding in 壽光虹宜包裝裝飾有限公司 was acquired from its original shareholder.

壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited)

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company, entered into a share transfer agreement with the shareholder of 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited), according to which, a 100% shareholding in 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited) was acquired from its original shareholder.

壽光美倫紙業有限公司(Shouguang Meilun Paper Co. Ltd.*)

The Company contributed capital to set up 壽光美倫紙業有限公司(Shouguang Meilun Paper Co. Ltd.*) on 30 June 2009. It is wholly owned by Shandong Chenming Paper Holdings Limited with a registered capital of RMB20 million.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements

1. Bank balances and cash

The Group

	2009.6.30			2008.12.31		
	Foreign currency amount	Exchange Rate	RMB	Foreign currency amount	Exchange Rate	RMB
Cash						
RMB	—	—	1,965,293.12	—	—	1,341,632.42
USD	—	—	—	—	—	—
Cash in Bank						
RMB	—	—	2,373,479,082.72	—	—	2,530,753,538.10
HKD	1,127.39	0.8836	996.14	595,685.04	0.8819	525,334.64
USD	15,511,276.12	6.8319	105,971,513.34	22,155,641.87	6.8346	151,424,949.93
EURO	590,252.31	9.6408	5,690,504.48	365,845.82	9.6590	3,533,704.76
Other bank balances and cash						
RMB	—	—	1,505,780,066.90	—	—	162,711,256.24
USD	10,653.02	6.8319	72,780.36	457,629.12	6.8346	3,127,711.98
EURO	11.47	9.6408	110.58	—	—	—
Total			3,992,960,347.64			2,853,418,128.07

As at 30 June 2009, other bank balances and cash of the Group included bank acceptance deposit of RMB1,441,810,477.00, and letter of credit deposit of RMB64,042,480.84.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

1. Bank balances and cash (continued)

The Company

	2009.6.30			2008.12.31		
	Foreign currency amount	Exchange Rate	RMB	Foreign currency amount	Exchange Rate	RMB
Cash						
RMB	—	—	162,160.93	—	—	30,527.86
USD	—	—	—	—	—	—
Cash in Bank						
RMB	—	—	2,096,129,724.81	—	—	2,060,669,780.07
HKD	777.39	0.8815	685.29	595,685.04	0.8819	525,334.64
USD	2,959,217.25	6.8319	20,217,076.33	2,747,651.12	6.8346	18,779,096.34
EURO	223,796.01	9.6408	2,157,572.57	92.71	9.659	895.49
Other bank balances and cash						
RMB	—	—	1,378,028,522.72	—	—	62,434,105.11
Total			3,496,695,742.65			2,142,439,739.51

As at 30 June 2009, other bank balances and cash of the Company included bank acceptance deposit of RMB1,378,028,522.72.

2. Financial assets held for trading

The Group

	2009.6.30 RMB	2008.12.31 RMB
Financial assets held for trading	12,200,000.00	—

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

3. Bills receivable

The Group

	2009.6.30 RMB	2008.12.31 RMB
Bank acceptance	2,221,866,092.84	974,009,788.24

As at 30 June 2009, the bank acceptance of the Group (including bank acceptance discounted with recourse) amounted to RMB1,242,844,732.09 (31 December 2008: RMB401,110,381.77).

The Company

	2009.6.30 RMB	2008.12.31 RMB
Bank acceptance	1,464,935,031.34	465,681,067.32

As at 30 June 2009, the bank acceptance of the Company (including bank acceptance discounted with recourse) amounted to RMB832,095,438.87 (31 December 2008: RMB 217,370,008.75)

As at 30 June 2009, the Group and the Company had 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 Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

4. Accounts receivable

The Group

Aging analysis of accounts receivable is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Within 1 year	2,088,298,210.31	95.60	(129,641,441.07)	1,958,656,769.24	1,829,658,612.65	95.31	(118,450,388.95)	1,711,208,223.70
1 to 2 years	38,786,781.23	1.78	(11,218,104.12)	27,568,677.11	37,381,104.32	1.95	(10,075,170.73)	27,305,933.59
2 to 3 years	6,014,906.33	0.28	(1,226,090.89)	4,788,815.44	19,485,384.07	1.02	(5,590,192.19)	13,895,191.88
3 to 4 years	21,704,932.34	0.99	(21,704,932.34)	—	6,219,182.05	0.32	(6,219,182.05)	—
Over 4 years	29,426,166.24	1.35	(29,426,166.24)	—	26,893,037.29	1.40	(26,893,037.29)	—
Total	2,184,230,996.45	100.00	(193,216,734.66)	1,991,014,261.79	1,919,637,320.38	100.00	(167,227,971.21)	1,752,409,349.17

The breakdown of accounts receivable according to customer's classifications is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Single item with significant amount of money	1,891,093,204.50	86.58	(149,025,995.86)	1,742,067,208.64	1,624,743,533.96	84.64	(57,263,087.60)	1,567,480,446.36
Single item without significant amount of money but considered to be greater risks after arrived at by credit risk characteristics	34,482,698.74	1.58	(30,886,177.85)	3,596,520.89	35,390,449.48	1.84	(30,409,266.30)	4,981,183.18
Other items without significant amount of money	258,655,093.21	11.84	(13,304,560.95)	245,350,532.26	259,503,336.94	13.52	(79,555,617.31)	179,947,719.63
Total	2,184,230,996.45	100.00	(193,216,734.66)	1,991,014,261.79	1,919,637,320.38	100.00	(167,227,971.21)	1,752,409,349.17

For the movements of bad debts provision for accounts receivable, see Note VII.19.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

4. Accounts receivable (continued)

The Group (continued)

Top five accounts receivable are as follows:

Top five balances of accounts receivable RMB	Percentage of the total balance of accounts receivable %
220,668,536.02	10.10

At the end of the reporting period, top five balances of accounts receivable of the Group were related to sales of paper products.

The Company

Aging analysis of accounts receivable is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Within 1 year	2,535,702,997.37	97.07	(132,625,382.81)	2,403,077,614.56	2,028,288,765.78	97.90	(113,715,919.27)	1,914,572,846.51
1 to 2 years	59,781,875.25	2.29	(2,430,706.75)	57,351,168.50	28,865,325.57	1.39	(9,455,622.85)	19,409,702.72
2 to 3 years	2,166,863.11	0.08	(433,372.63)	1,733,490.48	4,122,204.54	0.20	(824,440.91)	3,297,763.63
3 to 4 years	4,239,807.67	0.16	(4,239,807.67)	–	329,884.43	0.02	(329,884.43)	–
Over 4 years	10,421,030.61	0.40	(10,421,030.61)	–	10,275,982.13	0.49	(10,275,982.13)	–
Total	2,612,312,574.01	100.00	(150,150,300.47)	2,462,162,273.54	2,071,882,162.45	100.00	(134,601,849.59)	1,937,280,312.86

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

4. Accounts receivable (continued)

The Company (continued)

The breakdown of accounts receivable according to customer's classifications is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Single item with significant amount of money	2,384,833,361.32	91.29	(131,861,600.35)	2,252,971,760.97	1,851,137,454.18	89.34	(50,850,881.28)	1,800,286,572.90
Single item without significant amount of money but considered to be greater risks after arrived at by credit risk characteristics	8,887,696.99	0.34	(8,331,835.09)	555,861.90	8,260,094.93	0.40	(6,855,682.91)	1,404,412.02
Other items without significant amount of money	218,591,515.70	8.37	(9,956,865.03)	208,634,650.67	212,484,613.34	10.26	(76,895,285.40)	135,589,327.94
Total	2,612,312,574.01	100.00	(150,150,300.47)	2,462,162,273.54	2,071,882,162.45	100.00	(134,601,849.59)	1,937,280,312.86

Top five accounts receivable are as follows:

Top five balances of accounts receivable RMB	Percentage of the total balance of accounts receivable %
846,934,170.79	32.42

At the end of the reporting period, top five balances of accounts receivable of the Company were related to sales of paper products and sales of materials by the Company.

The Group and the Company had no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

5. Advance to suppliers

The Group

Aging Analysis of the advance to suppliers is as follows:

	2009.6.30		2008.12.31	
	Amounts RMB	Ratio (%)	Amounts RMB	Ratio (%)
Within 1 year	555,059,943.53	84.38	422,828,184.88	91.42
1 to 2 years	102,734,417.33	15.62	39,698,153.99	8.58
Total	657,794,360.86	100.00	462,526,338.87	100.00

The breakdown of advance to suppliers according to customer's classifications is as follows:

	2009.6.30		2008.12.31	
	Amounts RMB	Ratio (%)	Amounts RMB	Ratio (%)
Single item with significant amount of money	471,836,423.14	71.73	354,789,557.91	76.71
Other items without significant amount of money	185,957,937.72	28.27	107,736,780.96	23.29
Total	657,794,360.86	100.00	462,526,338.87	100.00

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

5. Advance to suppliers (continued)

The Company

Aging analysis of the advance to suppliers is as follows:

	2009.6.30		2008.12.31	
	Amounts RMB	Ratio (%)	Amounts RMB	Ratio (%)
Within 1 year	503,796,897.24	92.94	414,158,895.27	94.39
1 to 2 years	38,276,979.62	7.06	24,600,467.21	5.61
Total	542,073,876.86	100.00	438,759,362.48	100.00

The breakdown of advance to suppliers according to customer's classifications is as follows:

	2009.6.30		2008.12.31	
	Amounts RMB	Ratio (%)	Amounts RMB	Ratio (%)
Single item with significant amount of money	516,439,519.42	95.27	408,602,400.53	93.13
Other items without significant amount of money	25,634,357.44	4.73	30,156,961.95	6.87
Total	542,073,876.86	100.00	438,759,362.48	100.00

At the end of the reporting period, the Group and the Company had no outstanding amount within the advance to suppliers due from shareholders holding 5% or more (including 5%) in the shares.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

6. Other receivables

The Group

Aging analysis of other receivables is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Within 1 year	76,931,184.89	43.74	(3,053,434.06)	73,877,750.83	93,786,094.02	50.04	(3,872,487.84)	89,913,606.18
1 to 2 years	51,349,263.04	29.20	(4,747,200.71)	46,602,062.33	44,225,959.55	23.60	(3,729,817.78)	40,496,141.77
2 to 3 years	8,466,324.58	4.81	(1,905,096.31)	6,561,228.27	5,891,292.30	3.14	(411,427.32)	5,479,864.98
3 to 4 years	9,900,841.22	5.63	(9,900,841.22)	—	16,139,721.78	8.61	(16,139,721.78)	—
Over 4 years	29,222,151.29	16.62	(29,222,151.29)	—	27,392,512.33	14.61	(27,392,512.33)	—
Total	175,869,765.02	100.00	(48,828,723.59)	127,041,041.43	187,435,579.98	100.00	(51,545,967.05)	135,889,612.93

The breakdown of other receivables according to customer's classifications is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Single item with significant amount of money	64,547,424.78	36.70	(26,143,500.39)	38,403,924.39	103,576,084.49	55.26	(26,076,824.29)	77,499,260.20
Single item without significant amount of money but considered to be greater risks after arrived at by credit risk characteristics	19,895,703.63	11.31	(16,873,908.62)	3,021,795.01	32,720,842.25	17.46	(18,238,351.44)	14,482,490.81
Other items without significant amount of money	91,426,636.61	51.99	(5,811,314.58)	85,615,322.03	51,138,653.24	27.28	(7,230,791.32)	43,907,861.92
Total	175,869,765.02	100.00	(48,828,723.59)	127,041,041.43	187,435,579.98	100.00	(51,545,967.05)	135,889,612.93

For the movements of the bad debts provision for other receivables, see notes VII.19.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

6. Other receivables (continued)

The Group (continued)

Top five other receivables is as follows:

Top five balances of accounts receivable RMB	Percentage of the total balance of accounts receivable %
58,457,144.39	33.24

At the end of the reporting period, top five other receivables to the Group included RMB 28,506,394.41 of prepaid tax to customs, and advance receivables.

The Company

Aging analysis of other receivables is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Within 1 year	1,275,799,190.39	95.49	(2,601,588.84)	1,273,197,601.55	903,553,335.31	94.58	(3,538,709.30)	900,014,626.01
1 to 2 years	47,082,500.32	3.53	(3,716,407.10)	43,366,093.22	37,815,787.23	3.96	(3,577,895.16)	34,237,892.07
2 to 3 years	5,117,042.81	0.38	(1,725,954.12)	3,391,088.69	2,474,881.24	0.26	(258,884.60)	2,215,996.64
3 to 4 years	1,189,614.10	0.09	(1,189,614.10)	—	2,591,793.46	0.27	(2,591,793.46)	—
Over 4 years	6,817,664.17	0.51	(6,817,664.17)	—	8,933,317.48	0.93	(8,933,317.48)	—
Total	1,336,006,011.79	100.00	(16,051,228.33)	1,319,954,783.46	955,369,114.72	100.00	(18,900,600.00)	936,468,514.72

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

6. Other receivables (continued)

The Company (continued)

The breakdown of other receivables according to customer's classifications is as follows:

	2009.6.30				2008.12.31			
	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB	Amount RMB	Ratio (%)	Bad debts provision RMB	Book value RMB
Single item with significant amount of money	1,260,304,669.72	94.33	(3,569,950.39)	1,256,734,719.33	903,048,155.67	94.52	(6,401,477.54)	896,646,678.13
Single item without significant amount of money but considered to be greater risks after arrived at by credit risk characteristics	9,209,890.23	0.69	(7,323,368.87)	1,886,521.36	12,054,200.78	1.26	(5,680,014.20)	6,374,186.58
Other items without significant amount of money	66,491,451.84	4.98	(5,157,909.07)	61,333,542.77	40,266,758.27	4.22	(6,819,108.26)	33,447,650.01
Total	1,336,006,011.79	100.00	(16,051,228.33)	1,319,954,783.46	955,369,114.72	100.00	(18,900,600.00)	936,468,514.72

Top five other receivables is as follows:

Top five balances of accounts receivable RMB	Percentage of the total balance of accounts receivable %
1,163,947,621.28	87.12

At the end of the reporting period, all of the top five other receivables to the Company represented short-term loans due from subsidiaries of the Company.

At the end of the reporting period, the Group and the Company had no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

7. Inventories and provision of inventories

The Group

	2009.6.30			2008.12.31		
	Amounts RMB	Provision of impairment RMB	Book value RMB	Amounts RMB	Provision of impairment RMB	Book value RMB
Raw materials	1,702,257,637.78	—	1,702,257,637.78	1,617,795,107.45	(38,053,661.45)	1,579,741,446.00
Goods-in stock	1,224,361,773.88	(18,962,019.55)	1,205,399,754.33	1,837,434,737.58	(92,580,212.31)	1,744,854,525.27
Work-in-progress	72,608,981.56	—	72,608,981.56	77,369,465.81	(4,172,506.70)	73,196,959.11
Total	2,999,228,393.22	(18,962,019.55)	2,980,266,373.67	3,532,599,310.84	(134,806,380.46)	3,397,792,930.38

Provision of inventories is as follows:

	2008.12.31 RMB	Addition for the year RMB	Reversal for the year RMB	2009.6.30 RMB
During the year				
Raw materials	38,053,661.45	—	(38,053,661.45)	—
Goods-in stock	92,580,212.31	7,953,890.99	(81,572,083.75)	18,962,019.55
Work-in-progress	4,172,506.70	—	(4,172,506.70)	—
Total	134,806,380.46	7,953,890.99	(123,798,251.90)	18,962,019.55

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

7. Inventories and provision of inventories (continued)

The Company

	2009.6.30			2008.12.31		
	Amounts RMB	Provision of impairment RMB	Book value RMB	Amounts RMB	Provision of impairment RMB	Book value RMB
Raw materials	655,210,902.48	—	655,210,902.48	598,215,785.94	—	598,215,785.94
Goods-in stock	625,564,724.56	—	625,564,724.56	1,124,422,916.85	(46,500,597.16)	1,077,922,319.69
Work-in-progress	4,564,361.43	—	4,564,361.43	6,518,968.88	—	6,518,968.88
Total	1,285,339,988.47	—	1,285,339,988.47	1,729,157,671.67	(46,500,597.16)	1,682,657,074.51

Provision of inventories is as follows:

	2008.12.31 RMB	Addition for the year RMB	Reversal for the year RMB	2009.6.30 RMB
During the year	46,500,597.16	—	(46,500,597.16)	—

As at 30 June 2009, the Group and the Company had not pledged any inventories for any debts.

8. Entrust Loans

The Company

	2009.6.30 RMB	2008.12.31 RMB
Entrust loans made to subsidiaries		
Due within a year	896,100,000.00	982,000,000.00
Due in a year later	870,000,000.00	965,000,000.00
Net value of entrusted loans	1,766,100,000.00	1,947,000,000.00

The Company entrusted banks to provide funds for its subsidiaries. The terms of above entrusted loan ranges from 1 to 10 years, and the interest rate ranges from 4.779% to 6.723%.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

9. Other current assets

The Group

	2009.6.30 RMB	2008.12.31 RMB
Non-credit input tax amount in value added tax	102,553,529.86	124,905,083.61
Prepaid enterprise income tax	25,279,122.77	27,087,962.34
Total	127,832,652.63	151,993,045.95

The Company

	2009.6.30 RMB	2008.12.31 RMB
Non-credited input tax amount in value added tax	55,810,289.41	39,110,582.59
Prepaid enterprise income tax	—	13,636,622.39
Total	55,810,289.41	52,747,204.98

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

10. Long-term equity investments

The Group

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

Name of investee companies	Initial investment RMB	Opening balance RMB	Additions for the year RMB	Equity Adjustments for the year RMB	Cash bonus for the year RMB	Other deductions RMB	Closing balance RMB
Equity method							
阿爾諾維根斯晨鳴 特種紙有限公司 (Arjo Wiggins Chenming Specialty Paper Co., Ltd.)	80,100,000.00	48,478,865.50	—	(9,410,441.25)	—	—	39,068,424.25
壽光麗奔制紙有限公司 (Shougang Liben paper Making Co., Ltd.)	19,550,000.00	18,343,441.71	—	5,504.47	—	—	18,348,946.18
青州市晨鳴變性澱粉 有限責任公司(Qingzhou Chenming Denaturation Amylum Co., Ltd.)	540,000.00	900,000.00	—	—	—	—	900,000.00
江西江報傳媒彩印有限公司	6,000,000.00	—	6,000,000.00	(126,783.34)	—	—	5,873,216.66
	106,190,000.00	67,722,307.21	6,000,000.00	(9,531,720.12)	—	—	64,190,587.09
Cost method							
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
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
壽光灤河水務有限公司	20,000,000.00	20,000,000.00	—	—	—	—	20,000,000.00
	26,950,000.00	26,950,000.00	—	—	—	—	26,950,000.00
Total	133,140,000.00	94,672,307.21	6,000,000.00	(9,531,720.12)	—	—	91,140,587.09
Less: provision for impairment		(1,998,538.07)					(1,998,538.07)
Net amount of long-term equity investments		92,673,769.14					89,142,049.02

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

10. Long-term equity investments (continued)

The Group (continued)

(1) The movement of provision of impairment of long-term equity investments is as follows (continued):

Name of investee companies	Opening balance RMB	Additions for the period RMB	Retirements and disposals for the period RMB	Closing balance 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
濰坊創業投資有限公司	80,385.84	—	—	80,385.84
上海林嘉紙電子商務有限公司	468,152.23	—	—	468,152.23
Total	1,998,538.07	—	—	1,998,538.07

(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 rights of investee units %	Total assets of the investee units at the end of the year RMB	Total liabilities of the investee units at the end of the year RMB	Total operation income of the investee units for the year RMB	Net profit of the investee units for the year 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	267,368,330.00	30	30	414,134,320.84	283,537,909.99	23,641,302.10	(31,368,137.49)
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	79,851,484.57	11,386,534.41	41,223,797.51	20,850.25
江西江報傳媒彩印有限公司	Jiangxi	Sales	23,140,000.00	21.15	21.15	28,243,700.29	4,570,986.10	3,184,852.26	(977,998.84)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

10. Long-term equity investments (continued)

The Company

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

Name of investee companies	Initial investment RMB	Opening balance RMB	Investment addition for the year RMB	Investment deduction for the year RMB	Equity adjustment for the year RMB	Closing balance RMB
Investments made to subsidiaries						
武漢晨鳴漢陽紙業股份有限公司 (Wuhan Chenming Hanyang Paper Holdings Co., Ltd.)	202,824,716.34	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.)	376,200,000.00	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.)	157,810,117.43	157,810,117.43	—	—	—	157,810,117.43
赤壁晨鳴紙業有限責任公司 (Chibi Chenming Paper Co., Ltd.)	26,270,460.90	26,270,460.90	—	—	—	26,270,460.90
延邊晨鳴紙業有限責任公司 (Yanbian Chenming Paper Co., Ltd.)	40,083,733.01	40,083,733.01	—	—	—	40,083,733.01
海拉爾晨鳴紙業有限公司 (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.)	1,501,350,000.00	1,501,350,000.00	—	—	—	1,501,350,000.00
鄧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
山東御景大酒店有限公司 (Shandong Grand View Hotel Co., Ltd)	80,500,000.00	80,500,000.00	—	—	—	80,500,000.00
湛江晨鳴漿紙有限公司 (Zhanjiang Chenming Paper Pulp Co.,Ltd)	500,000,000.00	500,000,000.00	—	—	—	500,000,000.00
香港晨鳴有限公司 (Chenming (HK) Limited)	783,310.00	783,310.00	—	—	—	783,310.00
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
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

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

10. Long-term equity investments (continued)

The Company (continued)

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

Name of investee companies	Initial investment RMB	Opening balance RMB	Investment addition for the year RMB	Investment deduction for the year RMB	Equity adjustment for the year RMB	Closing balance RMB
Investments made to subsidiaries (continued)						
富裕晨鳴紙業有限責任公司 (Fuyu Chenming Paper Co., Ltd)	208,000,000.00	208,000,000.00	—	—	—	208,000,000.00
咸寧晨鳴林業發展有限責任公司 (Xianning Chenming Arboriculture development Co., Ltd.)	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
黃岡晨鳴漿紙有限公司 (Huanggang 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責任公司 (Huanggang Chenming Arboriculture Co., Ltd.)	10,000,000.00	10,000,000.00	—	—	—	10,000,000.00
壽光美倫紙業有限責任公司 (Shougang Meilun Paper Co., Ltd) (Note 1)	20,000,000.00	—	20,000,000.00	—	—	20,000,000.00
Sub-total	4,009,185,807.88	3,989,185,807.88	20,000,000.00	—	—	4,009,185,807.88
Investment made to associates						
壽光麗奔制紙有限公司 (Shouguang Liben Paper Making Co., Ltd)	19,550,000.00	18,343,441.71	—	—	5,504.47	18,348,946.18
阿爾諾維根斯晨鳴特種紙有限公司 (Arjo Wiggins Chenming Specialty Paper Co., Ltd.)	80,100,000.00	48,478,865.50	—	—	(9,410,441.25)	39,068,424.25
青州市晨鳴變性澱粉有限責任公司 (Qingzhou Chenming Denaturation Amylum Co., Ltd)	540,000.00	900,000.00	—	—	—	900,000.00
江西江報傳媒彩印有限公司(Note 2)	6,000,000.00	—	6,000,000.00	—	(126,783.34)	5,873,216.66
Sub-total	106,190,000.00	67,722,307.21	6,000,000.00	—	(9,531,720.12)	64,190,587.09

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

10. Long-term equity investments (continued)

The Company (continued)

(1) (continued)

Name of investee companies	Initial investment RMB	Opening balance RMB	Investment addition for the year RMB	Investment deduction for the year RMB	Equity adjustment for the year RMB	Closing balance RMB
Other investments						
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	26,950,000.00	26,950,000.00	-	-	-	26,950,000.00
Impairment of provision of long-term investment	-	(1,998,538.07)				(1,998,538.07)
Total	4,142,325,807.88	4,081,859,577.02				4,098,327,856.90

Note 1: As at 30 June 2009, the Company contributed capital into Shouguang Meilun Paper Co. Ltd., which had a registered capital of RMB20 million and was wholly owned by Shandong Chenming Paper Holdings Limited.

Note 2: In February, 2009, the Company and a shareholder of 江西江報傳媒彩印有限公司 entered into an equity transfer agreement, pursuant to which, the Company acquired 21.15% interest of 江西江報傳媒彩印有限公司 from its previous shareholder.

There was no restriction on the ability of the investee in which the long-term equity investments are held by the Group and the Company as at 30 June 2009 to transfer capital to the Group.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

11. Investment Properties

The Group and the Company

	Buildings RMB
Original value	
2008.12.31	38,291,395.70
Increased for the period	—
2009.6.30	38,291,395.70
Accumulated depreciation	
2008.12.31	10,126,671.55
Increased for the period	869,128.02
2009.6.30	10,995,799.57
Net amount	
2008.12.31	28,164,724.15
2009.6.30	27,295,596.13

Investment properties represent part of the offices of 北京數碼大廈 (for leasing out) as held by the Company.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

12. Fixed Assets

The Group

	Buildings RMB	Machinery & Equipment RMB	Vehicles RMB	Electric appliance and others RMB	Total RMB
Opening balance					
2008.12.31	3,302,679,556.63	15,533,422,474.92	136,284,697.18	515,778,009.69	19,488,164,738.42
Increase due to acquisition of subsidiaries	773,126.63	451,022.14	7,134,689.04	45,473.74	8,404,311.55
Decrease due to cancellation of subsidiaries	—	—	—	—	—
Additions	76,947,148.01	(39,708,124.67)	7,766,692.82	252,286.85	45,258,003.01
Transfers from construction in progress	11,937,806.63	140,750,207.32	—	2,513,730.46	155,201,744.41
Deductions	(14,783,942.47)	(111,627,432.90)	(6,005,944.30)	(1,847,208.72)	(134,264,528.39)
2009.6.30	3,377,553,695.43	15,523,288,146.81	145,180,134.74	516,742,292.02	19,562,764,269.00
Accumulated depreciation					
2008.12.31	561,806,858.61	4,431,351,341.13	55,347,764.77	224,421,016.98	5,272,926,981.49
Increase due to acquisition of subsidiaries	183,111.92	193,570.63	1,804,089.79	29,970.18	2,210,742.52
Additions	56,855,871.48	502,985,799.49	7,659,422.14	27,579,878.74	595,080,971.85
Deductions	(8,047,158.78)	(24,804,442.09)	(3,326,933.44)	(708,641.97)	(36,887,176.28)
2009.6.30	610,798,683.23	4,909,726,269.16	61,484,343.26	251,322,223.93	5,833,331,519.58
Impairment provision					
2008.12.31	—	1,795,998.85	—	—	1,795,998.85
Decrease due to cancellation of subsidiaries	—	—	—	—	—
Increased provision	—	—	—	—	—
Reversals	—	—	—	—	—
2009.6.30	—	1,795,998.85	—	—	1,795,998.85
Net value					
2008.12.31	2,740,872,698.02	11,100,275,134.94	80,936,932.41	291,356,992.71	14,213,441,758.08
2009.6.30	2,766,755,012.20	10,611,765,878.80	83,695,791.48	265,420,068.09	13,727,636,750.57

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

12. 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 by the above financial institutions respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. On 30 June 2009, USD 17,196,078.23 of the above borrowed amount has been already repaid. On 30 June 2009, the net book value of the collateral with regard to fixed assets was RMB 1,113,812,474.50 and that with regard to the land use rights and intangible assets was RMB 73,852,307.78.

Note 2: As at 30 June 2009, the Group had no fixed assets held under operation lease.

Note 3: As at 30 June 2009, the net book value of the buildings without house property right certificates in the fixed assets of the Group was RMB 237,188,599.63 (2008: RMB242,268,202.56). The related house property right certificates were being applied.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

12. Fixed Assets (continued)

The Company

	Buildings RMB	Machinery & Equipment RMB	Vehicles RMB	Electric appliance and others RMB	Total RMB
Opening balance					
2008.12.31	1,004,386,324.00	8,293,311,116.47	34,823,847.12	35,545,416.73	9,368,066,704.32
Additions	66,499,588.36	(63,974,986.10)	7,718,463.55	343,624.83	10,586,690.64
Transfer from construction in progress	—	—	—	—	—
Deductions	(14,783,942.47)	(41,617,687.76)	(4,671,343.54)	(327,021.77)	(61,399,995.54)
2009.6.30	1,056,101,969.89	8,187,718,442.61	37,870,967.13	35,562,019.79	9,317,253,399.42
Accumulated depreciation					
2008.12.31	225,290,430.50	2,846,446,936.27	15,697,810.81	22,012,976.21	3,109,448,153.79
Additions	20,620,949.07	295,071,989.37	1,505,036.52	1,955,178.28	319,153,153.24
Deductions	(8,047,158.78)	(19,042,541.83)	(2,615,578.01)	(293,247.42)	(29,998,526.04)
2009.6.30	237,864,220.79	3,122,476,383.81	14,587,269.32	23,674,907.07	3,398,602,780.99
Net value					
2008.12.31	779,095,893.50	5,446,864,180.20	19,126,036.31	13,532,440.52	6,258,618,550.53
2009.6.30	818,237,749.10	5,065,242,058.80	23,283,697.81	11,887,112.72	5,918,650,618.43

Note 1: As at 30 June 2009, the Group had no fixed assets held under operation lease.

Note 2: As at 30 June 2009, the net book value of the buildings without house property right certificates in the fixed assets of the Group was RMB 2,514,597.51 (2008: RMB4,705,794.76). The related house property right certificates were being applied.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

13. Construction in progress

The Group

Items	Opening balance RMB	Additions RMB	Transfers to fixed assets during the year RMB	At the end of the year RMB	Sources of funds	Budgeted costs RMB 100 million	Investment to budgeted costs %
Technological improvement to fixed asset (Jilin Chenming)	18,256,028.98	29,163,721.78	22,798,371.72	24,621,379.04	Borrowings and self-owned funds	N/A	N/A
Zhangjiang pulp project (Zhanjiang)	17,937,903.37	4,343,178.23		22,281,081.60	Borrowings and proceeds	58.22	0.31
Transform of stove diatation And evaporation stations (Wuhan)	13,010,968.26	619,210.99	13,630,179.25	—	self-owned funds	0.22	61.96
Transform of de-inking with dispersing hot and recovery bleaching (Wuhan)	17,885,491.14	729,243.49	—	18,614,734.63	self-owned funds	0.15	124.10
Transform project of Desulphurization for coal Powder stoves of power plants (Wuhan)	13,646,962.99	1,779,192.15	—	15,426,155.14	self-owned funds	0.15	102.84
Handling of middle level of Water by draining workshops (Qihe)	35,159,901.70	4,963,821.35	—	40,123,723.05	self-owned funds	0.39	104.69
Rubbish incineration stove project (electricity and steam)	91,699,548.68	(9,876,627.48)	81,642,430.57	180,490.63	Borrowings and self-owned funds	0.87	94.05
Thermoelectrical pipes of eastern cities (electricity and steam)	1,500,273.03	14,416,041.85	—	15,916,314.88	borrowings and self-owned funds	0.3	53.05
Pulp machine engineering (Jiangxi)	30,973,725.01	22,474,592.61	—	53,448,317.62	self-owned funds	1.20	44.54
Transform of technology of Qihe 4400 Paper engineering	32,808,843.00	6,774,498.45	—	39,583,341.45	self-owned funds	0.32	123.31
Others	158,499,626.34	185,111,101.68	37,130,762.87	306,479,965.15	self-owned funds	N/A	N/A
Net construction in progress	431,379,272.50	260,497,975.10	155,201,744.41	536,675,503.19			
Including: capitalized interest expenses	1,785,963.30	1,051,840.00	—	2,837,803.30			
Net construction in progress	431,379,272.50	260,497,975.10	155,201,744.41	536,675,503.19			

As at 30 June 2009, closing balance of construction in progress of the Group included RMB2,837,803.30 of interest capitalized. Borrowing expense from capitalization for the year included RMB3,265,665.00 (the prior year: RMB 24,043,281.70). The capitalizing rate to determine the general borrowing capitalized was 5.47%-6.89% (the prior year: 6.72%).

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

13. Construction in progress (continued)

The Company

Items	Opening balance RMB	Additions RMB	Transfers to fixed assets during the year RMB	At the end of the year RMB	Sources of funds	Budgeted costs RMB 100 million	Investment to budgeted costs %
Others	59,788,891.26	49,011,252.02	—	108,800,143.28	self-owned fund	N/A	N/A
Total	59,788,891.26	49,011,252.02	—	108,800,143.28			

As at 30 June 2009, closing balance of construction in progress of the Company did not include interest capitalized (interest capitalized for the prior year: nil).

14. Intangible assets

The Group

	Land use rights RMB	Software RMB	Total RMB
Cost			
2008.12.31	1,374,432,504.26	15,115,623.05	1,389,548,127.31
Increase due to acquisition of subsidiaries	6,172,413.47		6,172,413.47
Additions for the period	20,473,583.72	90,000.00	20,563,583.72
Deductions for the period	(7,894,701.65)	—	(7,894,701.65)
2009.6.30	1,393,183,799.80	15,205,623.05	1,408,389,422.85
Accumulated depreciation			
2008.12.31	106,868,006.95	5,603,531.83	112,471,538.78
Increase due to acquisition of subsidiaries	443,746.07		443,746.07
Additions for the period	13,644,888.65	817,243.68	14,462,132.33
Transferred to amortisation during the period	(1,322,454.96)		(1,322,454.96)
2009.6.30	119,634,186.71	6,420,775.51	126,054,962.22
Net value			
2008.12.31	1,267,564,497.31	9,512,091.22	1,277,076,588.53
2009.6.30	1,273,549,613.09	8,784,847.54	1,282,334,460.63

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

Note 2: As at 30 June 2009, the net book value of the buildings without house property right certificates in the intangible assets of the Group was RMB145,624,804.79 (2008: RMB147,502,707.53). The related house property right certificates were being applied.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

14. Intangible assets (continued)

The Company

	Land use rights RMB	Software RMB	Total RMB
Cost			
2008.12.31	386,987,754.06	14,787,993.05	401,775,747.11
Additions	—	90,000.00	90,000.00
Deductions	(7,628,770.79)	—	(7,628,770.79)
2009.6.30	379,358,983.27	14,877,993.05	394,236,976.32
Accumulated depreciation			
2008.12.31	31,720,852.58	5,545,497.54	37,266,350.12
Additions	2,501,935.04	742,399.68	3,244,334.72
2009.6.30	34,222,787.62	6,287,897.22	40,510,684.84
Net value			
2008.12.31	355,266,901.48	9,242,495.51	364,509,396.99
2009.6.30	345,136,195.65	8,590,095.83	353,726,291.48

Note 1: As at 30 June 2009, the net book value of the buildings without house property right certificates in the intangible assets of the Company was RMB 86,239,971.50 (2008: RMB87,510,874.22). The related house property right certificates were being applied.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

15. Goodwill

The Group

	Accumulated for this year RMB	Accumulated for last year RMB
Cost		
Opening balance	20,283,787.17	20,283,787.17
Closing balance	20,283,787.17	20,283,787.17
Accumulated impairment loss	—	—
Book value		
Opening balance	20,283,787.17	20,283,787.17
Closing balance	20,283,787.17	20,283,787.17

Goodwill of the Group arose from acquisition of minority interests in prior years by a subsidiary of the Company.

On balance sheet date, the management of the Group assesses the recoverable amount of cash-generating units which result in goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating units is determined based on the estimated cash flow in financial budget of five years in the future by the management, relying on the expected annual growth rate in GNP and the expected and steady annual growth rate in the industry by market players to calculate. The management of the Group expects no provision for impairment loss is necessary to be made for goodwill during the reporting period.

16. Long term expenses to be amortized

The Group

	2009.6.30 RMB	2008.12.31 RMB
Transforming expense on fixed assets held under operation lease	44,014,023.55	37,227,730.36
Equipment leasing expense	—	—
Total	44,014,023.55	37,227,730.36

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

17. Deferred income tax assets

The Group

Items	Deductible temporary difference and deductible loss		Deferred income tax assets	
	2009.6.30 RMB	2008.12.31 RMB	2009.6.30 RMB	2008.12.31 RMB
Impairment provision	234,981,210.78	355,721,066.79	56,213,035.29	73,033,025.79
Prepaid salaries of senior management	119,673,269.02	105,199,345.76	29,572,197.45	22,754,863.62
Deductible tax loss	64,199,248.37	44,187,567.66	16,049,812.09	11,046,891.91
Unpaid payables	44,728,300.20	46,165,858.44	11,182,075.05	10,870,385.92
Preliminary expenses	6,447,823.13	9,423,741.50	805,977.89	1,177,967.69
Unrealized profit arising from intra-group transactions	28,042,260.95	2,043,549.51	7,010,565.24	510,887.38
Deferred income	52,604,089.52	44,248,375.23	12,077,522.38	8,522,343.81
Total	550,676,201.97	606,989,504.89	132,911,185.39	127,916,366.12

The Company

Items	Deductible temporary difference and deductible loss		Deferred income tax assets	
	2009.6.30 RMB	2008.12.31 RMB	2009.6.30 RMB	2008.12.31 RMB
Impairment provision	166,201,528.84	202,143,794.82	41,550,382.21	50,835,948.71
Prepaid salaries of senior management	86,773,669.72	69,343,461.44	21,693,417.43	17,335,865.36
Unpaid payables	38,068,073.32	36,198,088.68	9,517,018.33	9,049,522.17
Deferred income	10,387,541.96	5,537,541.95	2,596,885.49	1,384,385.49
Total	301,430,813.84	313,222,886.89	75,357,703.46	78,605,721.73

18. Consumable biological assets

The Group

Items	Amount (000' mu)	Opening balance RMB	Purchase RMB	Breeding costs RMB	Change in fair value RMB	Disposal RMB	Fair value at the end of the year RMB
Trees	2,030	301,212,691.14	12,503,535.79	107,008,890.07	1,992,559.76	22,365.52	422,695,311.24

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

19. Provision for impairment of assets

The Group

	2008.12.31	Charged during the year	Reversals	Other write-offs	2009.6.30
	RMB	RMB	RMB	RMB	RMB
Provisions for bad debts	218,773,938.26	27,132,855.58	(3,577,380.94)	(283,954.65)	242,045,458.25
Of which: trade receivables	167,227,971.21	26,508,239.59	(389,321.49)	(130,154.65)	193,216,734.66
other receivables	51,545,967.05	624,615.99	(3,188,059.45)	(153,800.00)	48,828,723.59
Provisions for inventory impairment	134,806,380.46	7,953,890.99	(123,798,251.90)	—	18,962,019.55
Impairment provisions for long-term equity investments	1,998,538.07	—	—	—	1,998,538.07
Impairment provisions for held-to-maturity investments	142,210.00	—	—	—	142,210.00
Impairment provisions for fixed assets	1,795,998.85	—	—	—	1,795,998.85
Total	357,517,065.64	35,086,746.55	(127,375,632.84)	(283,954.63)	264,944,224.72

The Company

	2008.12.31	Charged during the year	Reversals	Other write-offs	2009.6.30
	RMB	RMB	RMB	RMB	RMB
Provisions for bad debts	153,502,449.59	15,641,240.80	(2,849,371.67)	(92,789.92)	166,201,528.80
Of which: trade receivables	134,601,849.59	15,641,240.80	—	(92,789.92)	150,150,300.47
Other receivables	18,900,600.00	—	(2,849,371.67)	—	16,051,228.33
Provisions for inventory impairment	46,500,597.16	—	(46,500,597.16)	—	—
Impairment provisions for long-term equity investments	1,998,538.07	—	—	—	1,998,538.07
Impairment provisions for held-to-maturity investments	142,210.00	—	—	—	142,210.00
Total	202,143,794.82	15,641,240.80	(49,349,968.83)	(92,789.92)	168,342,276.87

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

20. Short-term borrowings

The Group

	2009.6.30 RMB	2008.12.31 RMB
Credit loans	2,072,050,487.58	1,055,569,455.58
Charged borrowings (Note 1)	40,000,000.00	57,086,500.00
Secured bill borrowings	29,502,671.98	3,178,705.32
Discounted bills	2,757,406,186.16	401,110,381.77
Total	4,898,959,345.72	1,516,945,042.67

Note 1: For details of the guarantees provided by the Company to its subsidiaries for their long-term and short-term borrowings, please see Note VIII.(3)(e).

The Company

	2009.6.30 RMB	2008.12.31 RMB
Credit loans	1,973,743,070.00	926,698,296.93
Discounted bills	2,346,656,892.94	217,370,008.75
Total	4,320,399,962.94	1,144,068,305.68

As at 30 June 2009, none of the short-term borrowings of the Group and the Company were overdue.

21. Financial liabilities held for trading

The Group

	2009.6.30 RMB	2008.12.31 RMB
Financial liabilities held for trading – future pooling foreign exchange contracts	5,200,000.00	198,900.00

The Company

	At the end of the year RMB	At the beginning of the year RMB
Financial liabilities held for trading – future pooling foreign exchange contracts	5,200,000.00	—

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

22. Bills payable

The Group

	2009.6.30 RMB	2008.12.31 RMB
Bank acceptance	326,094,292.58	367,627,562.14

The Company

	2009.6.30 RMB	2008.12.31 RMB
Bank acceptance	184,923,314.39	210,151,045.59

As at 30 June 2009, the balance of the bills payable of the Group and the Company was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares.

23. Accounts payable

The Group

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	1,932,559,516.53	90.72	2,493,702,616.41	94.38
1-2 years	117,108,835.37	5.50	98,420,284.82	3.72
2-3 years	46,787,933.83	2.20	17,647,797.85	0.67
Over 3 years	33,630,163.92	1.58	32,537,486.82	1.23
Total	2,130,086,449.65	100.00	2,642,308,185.90	100.00

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

23. Accounts payable (continued)

The Company

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	1,581,234,022.87	96.44	1,675,493,370.59	97.64
1-2 years	30,767,830.30	1.88	17,223,583.36	1.00
2-3 years	11,307,608.40	0.69	7,450,362.04	0.43
Over 3 years	16,372,089.60	0.99	15,864,479.18	0.93
Total	1,639,681,551.17	100.00	1,716,031,795.17	100.00

At the end of the reporting period, the balance of the accounts payable of the Group and the Company was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares.

As at 30 June 2009, the accounts payable of the Group and the Company aged over three years were the remaining balance. There was no significant payable amounts aged over three years.

24. Advances from customers

The Group

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	184,010,239.45	95.35	97,372,384.90	95.75
Over 1 year	8,976,383.86	4.65	4,321,193.67	4.25
Total	192,986,623.31	100.00	101,693,578.57	100.00

The Company

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	132,991,251.28	98.71	65,671,850.62	99.47
Over 1 year	1,734,227.41	1.29	347,607.25	0.53
Total	134,725,478.69	100.00	66,019,457.87	100.00

At the end of the reporting period, the advances from customers of the Group and the Company were not received from any shareholders holding over 5% (5% inclusive) of the Company's shares.

At the end of the reporting period, the advances from customers of the Group and the Company aged over one year were insignificant. There were no significant advance receipts aged over one year.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

25. Employee benefits payable

The Group	2008.12.31	Accrued	Paid	2009.6.30
	RMB	during the year RMB	during the year RMB	RMB
Salaries, bonus, allowance and subsidies	116,988,177.41	200,007,791.80	(171,541,697.19)	145,454,272.02
Staff welfare	1,862,768.28	14,063,915.31	(14,514,034.07)	1,412,649.52
Social insurance premiums	19,723,816.99	49,082,010.30	(49,164,883.15)	19,640,944.14
Of which: 1. Medical insurance premium	12,380,155.40	7,920,981.68	(8,742,142.67)	11,558,994.41
2. Pension insurance premium	4,828,680.73	36,177,491.36	(35,667,777.70)	5,338,394.39
4. Unemployment insurance premium	241,174.38	3,539,382.65	(3,274,973.99)	505,583.04
5. Work-related injury insurance premium	16,064.03	972,582.10	(956,093.56)	32,552.57
6. Maternity insurance premium	2,257,742.45	471,572.51	(523,895.23)	2,205,419.73
Housing provident funds	11,304,105.17	16,324,713.97	(17,543,706.58)	10,085,112.56
Union operation costs and employee education costs	20,647,664.66	4,871,171.58	(1,786,341.93)	23,732,494.31
Others	19,682,534.62	39,651.40	(128,157.06)	19,594,028.96
Of which: housing subsidies for Chinese employees	18,722,869.49	—	—	18,722,869.49
Total	190,209,067.13	284,389,254.36	(254,678,819.98)	219,919,501.51

The Company	2008.12.31	Accrued	Paid	2009.6.30
	RMB	during the year RMB	during the year RMB	RMB
Salaries, bonuses, allowance and subsidies	70,985,190.59	88,283,329.98	(70,853,121.68)	88,415,398.89
Staff welfare	—	6,206,143.65	(6,206,143.65)	—
Social insurance premiums	—	18,246,098.59	(16,965,744.85)	1,280,353.74
Of which: 1. Medical insurance premium	—	1,279,066.51	(1,029,261.17)	249,805.34
2. Pension insurance premium	—	15,331,575.29	(14,395,310.68)	936,264.61
4. Employment insurance premium	—	1,635,421.29	(1,541,137.50)	94,283.79
5. Work-related injury insurance premium	—	17.75	(17.75)	—
6. Maternity insurance	—	17.75	(17.75)	—
Housing provident funds	1,338,130.84	6,100,727.94	(6,887,738.05)	551,120.73
Union operation costs and employee education costs	7,842,168.68	1,627,932.12	(106,795.50)	9,363,305.30
Others	18,722,869.49	—	—	18,722,869.49
Of which: housing subsidies for Chinese employees	18,722,869.49	—	—	18,722,869.49
Total	98,888,359.60	120,464,232.28	(101,019,543.73)	118,333,048.15

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

26. Taxes payables

The Group

	2009.6.30 RMB	2008.12.31 RMB
Value added tax	39,133,824.06	10,700,714.79
Business tax	7,891,475.52	8,328,952.19
Urban maintenance and construction tax	247,044.92	310,202.69
Corporate income tax	44,739,894.59	9,374,319.26
Individual income tax	1,334,078.18	663,205.18
Property tax	6,179,216.58	4,889,784.09
Stamp duty	3,277,146.09	4,259,535.24
Land use tax	7,005,920.39	10,025,255.88
Land appreciation tax	—	—
Educational surcharges and others	2,016,779.80	1,414,013.02
Total	111,825,380.13	49,965,982.34

The Company

	2009.6.30 RMB	2008.12.31 RMB
Value added tax	33,006,420.77	—
Business tax	7,567,193.78	7,376,897.19
Corporate income tax	32,834,378.44	—
Individual income tax	309,192.58	415,724.04
Property tax	1,773,182.42	1,797,106.29
Stamp duty	1,804,450.58	2,834,609.11
Land use tax	2,426,851.10	3,731,843.88
Total	79,721,669.67	16,156,180.51

27. Dividends payable

The Group and The Company

	2009.6.30 RMB	2008.12.31 RMB
Legal person shares	14,686,272.16	36,089.31
Public shares	88,452,114.20	—
Total	103,138,386.36	36,089.31

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

28. Other payables

The Group

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	105,470,396.72	28.63	205,978,354.37	59.49
1-2 years	107,729,559.46	29.25	23,880,416.86	6.90
2-3 years	107,254,810.24	29.12	80,003,356.68	23.11
Over 3 years	47,890,721.20	13.00	36,364,114.15	10.50
Total	368,345,487.62	100.00	346,226,242.06	100.00

The Company

	2009.6.30		2008.12.31	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	85,552,441.12	35.49	151,374,567.79	53.47
1-2 years	57,570,239.31	23.88	27,036,339.92	9.55
2-3 years	76,721,557.74	31.83	91,357,173.17	32.27
Over 3 years	21,187,494.77	8.80	13,331,160.98	4.71
Total	241,031,732.94	100.00	283,099,241.86	100.00

The other payables of the Group and the Company as at 30 June 2009 were not due to any shareholders who hold over 5% (5% inclusive) of the Company's shares.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

29. Non-current liabilities due within one year

The Group

Type	2009.6.30 RMB	2008.12.31 RMB
Long-term borrowings due within one year	382,381,364.15	1,038,125,240.62

The Company

Type	2009.6.30 RMB	2008.12.31 RMB
Long-term borrowings due within one year	280,107,900.00	883,602,600.00

30. Short-term debentures payable

The Group

Type	2009.6.30 RMB	2008.12.31 RMB
Short-term debentures	1,252,519,999.98	1,941,874,444.43

The Company

Type	2009.6.30 RMB	2008.12.31 RMB
Short-term debentures	1,252,519,999.98	1,941,874,444.43

The Company was approved, by a circular issued by the People's Bank of China (Yinfa [2007] No.427), to issue short-term debentures maturing in one year with aggregated par values of RMB1,200,000,000.00 on 29 August 2008. The debentures are unsecured, bearing interest rate of 5.20% per annum and repayable on maturity with one-off interest payment.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

31. Long-term borrowings

The Group						
Type	2009.6.30			2008.12.31		
	Amounts in original currency	Exchange rate on translation	RMB	Amounts in original currency	Exchange rate on translation	RMB
Credit loans - RMB	3,141,058,927.11	1.0000	3,141,058,927.11	3,120,692,035.94	1.0000	3,120,692,035.94
Credit loans - USD	101,000,000.00	6.8319	690,021,900.00	121,000,000.00	6.8346	826,986,600.00
Secured borrowings - USD	51,222,821.83	6.8319	349,949,196.47	55,992,973.77	6.8346	382,689,578.54
Charged borrowings - RMB (Note1)	423,415,950.00	1.0000	423,415,950.00	715,047,300.00	1.0000	715,047,300.00
Charged borrowings - USD (Note 1)	1,000,000.00	6.8319	6,831,900.00	1,750,000.00	6.8346	11,960,550.00
Total			4,611,277,873.58			5,057,376,064.48
Less: long-term borrowings due within one year			382,381,364.15			1,038,125,240.62
Including: Credit loans - RMB				330,000,000.00	1.0000	330,000,000.00
Credit loans - USD	41,000,000.00	6.8319	280,107,900.00	81,000,000.00	6.8346	553,602,600.00
Secured borrowings - USD	14,469,988.46	6.8319	98,857,514.15	12,359,953.86	6.8346	84,475,340.62
Charged borrowings - RMB	3,415,950.00	1.0000	3,415,950.00	70,047,300.00	1.0000	70,047,300.00
Long-term borrowings due after one year			4,228,896,509.43			4,019,250,823.86

The above borrowings have maturities between 2009 and 2023, including floating-rate and fixed-rate borrowings at interest rates ranging from 1.29% to 6.64% per annum.

Note 1: Guarantees were provided by the Company and subsidiaries to its subsidiaries, among which were guarantees provided by Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, for its subsidiary with a guarantee amount of RMB20,000,000.00. The remaining was guarantees provided by the Company for its subsidiaries. For specific amounts, please see Note VIII.(3)(e).

The Company

The Company						
Type	2009.6.30			2008.12.31		
	Amounts in original currency	Exchange rate on translation	RMB	Amounts in original currency	Exchange rate on translation	RMB
Credit loans - RMB	3,110,692,035.94	1.0000	3,110,692,035.94	3,120,692,035.94	1.0000	3,120,692,035.94
Credit loans - USD	101,000,000.00	6.8319	690,021,900.00	121,000,000.00	6.8346	826,986,600.00
Total			3,800,713,935.94			3,947,678,635.94
Less: long-term borrowings within one year			280,107,900.00			883,602,600.00
Including: Credit loans - RMB				330,000,000.00	1.0000	330,000,000.00
Credit loans - USD	41,000,000.00	6.8319	280,107,900.00	81,000,000.00	6.8346	553,602,600.00
Long-term borrowings due after one year			3,520,606,035.94			3,064,076,035.94

The above borrowings have maturities between 2009 and 2012, including floating-rate and fixed-rate borrowings at interest rates ranging from 1.29% to 6.64% per annum.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

32. Deferred income

The Group

Type	2008.12.31 RMB	Increase for the year RMB	Decrease for the year RMB	2009.6.30 RMB
Funds for three projects in connection with technology allocated by the local financial authority	80,000.00	—	—	80,000.00
Special subsidy funds for environmental protection (1)	13,416,500.00	11,340,000.00	577,678.57	24,178,821.43
Project fund for National technological support scheme (2)	1,731,203.33	1,650,000.00	—	3,381,203.33
Special subsidy fund for Songhuajiang environmental protection project	30,852,083.28	—	971,250.05	29,880,833.23
Modification of alkaline Recycling system	1,456,250.00	—	37,500.00	1,418,750.00
Atmospheric pollution prevention And treatment subsidy fund	1,000,000.00	—	—	1,000,000.00
Sewage treatment and water Conservation reconfiguration project	4,700,000.00	—	—	4,700,000.00
Financial grants for technological modification Project	2,000,000.00	—	155,357.13	1,844,642.87
Others (3)	1,592,338.62	35,000,000.00	—	36,592,338.62
Total	56,828,375.23	47,990,000.00	1,741,785.75	103,076,589.48

The Company

Type	2008.12.31 RMB	Increase for the year RMB	Decrease for the year RMB	2009.6.30 RMB
Special subsidy funds for Environment protection	2,714,000.00	3,200,000.00	—	5,914,000.00
Project fund for National Technological support scheme	1,731,203.33	1,650,000.00	—	3,381,203.33
Others	1,092,338.62	—	—	1,092,338.62
Total	5,537,541.95	4,850,000.00	—	10,387,541.95

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

32. Deferred income (continued)

The Company (continued)

- (1) Pursuant to the “Notice Regarding Budget Indicators for distribution of the government’s 2009 subsidy funds for increasing domestic demand to Qihe Chenming Paper Co., Ltd. for the transformation of its energy conservation system of paper machine”《關於下達2009年齊河晨鳴板紙有限責任公司紙機節能改造擴大內需國家補助預算指標的通知》 issued by Finance Bureau of Qihe Country, Qihe Chenming Paper Co., Ltd., a subsidiary of the Company, received special subsidy fund of RMB 2,000,000.00 in 2009. Pursuant to the “Notice Regarding Budget Indicators for Settlement of 2007 and Advance allocation of 2008 Energy Conservation and Technological Modification Financial Incentive Funds (First Batch) by the Finance Bureau of Provincial government”《省財政廳關於清算2007年和預撥2008年節能技術改造財政獎勵資金(第一批)的通知》 issued by the Finance Bureau of Wubei Province, Chibi Chenming Paper Co., Ltd, a subsidiary of the Company, received special subsidy fund of RMB 2,000,000.00 in 2009. Pursuant to “Cai Jian (2008) No. 777 Document” (財建(2008)777號文件) issued by the Finance Bureau, Jilin Chenming Paper Co., Ltd., a subsidiary of the Company, received special subsidy fund of RMB 4,140,000.00 for transformation of DIP workshop and energy conservation system of No. 10 paper machines. Pursuant to the “Notice Regarding Distribution of environmental subsidy fund by county-level authorities”《關於撥付省級生態補償資金的通知》 issued by the Finance Bureau of Shouguang City, the Company received environmental subsidy fund granted by county-level authorities of RMB 3,000,000.00. Pursuant to the “Notice Regarding the Distribution of 2008 Energy Conservation Incentive Funds”《關於下達2008年度節能獎勵資金的通知》 issued by the Finance Bureau of Shouguang City, the Company received energy conservation incentive funds of RMB 200,000.00 in 2009.
- (2) The Company received the 2009 National technological support scheme project fund of RMB 1,650,000.00. The accounts payable of such project were used mainly for the pulping project that uses mixed wide leaves for bleaching in a chemithermomechanical pulping process and used for the studies of critical technologies.
- (3) Pursuant to the “Memorandum Regarding the establishment of ancillary engineering of Zhanjiang Pulp Project”《關於湛江木漿項目配套工程建設備忘錄》 entered into by the people’s government of Zhanjiang City and Zhanjiang Chenming Paper Pulp Co., Ltd., Zhanjing Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, received special subsidy fund of RMB 35,000,000.00 in 2009 for establishment of pulp project and construction of related infrastructure as well as discount interest funds.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

33. Deferred income tax liabilities

The Group

Temporary differences	Taxable temporary differences		Deferred income tax liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
	RMB	RMB	RMB	RMB
Changes in fair value of consumable biological assets	27,718,743.28	25,726,183.52	6,929,685.73	6,431,545.79

34. Share capital

The registered and paid-in share capital of the Company of RMB1 each amounted to RMB2,062,045,941.00 in total. The types and structure of shares are as follows:

a. Changes of shareholdings of the Company during the first half of 2009:

	Opening balance (share)	New issue (Note 1)	Increase/decrease during the period (share)				Others	Sub-total	Closing balance (share)
			Lock-up of shareholdings of directors	Expiry of lock-up	Share reform				
Restricted shares outstanding									
State-owned legal person shares	293,003,657	-	-	-	-	-	-	-	293,003,657
Other domestic shares	10,983,469	-	335,192	(186,820)	-	-	-	-	11,131,841
Including: Domestic legal-person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	10,983,469	-	335,192	(186,820)	-	-	-	-	11,131,841
Total number of restricted shares outstanding	303,987,126	-	-	-	-	-	-	-	304,135,498
Listed tradable shares									
RMB ordinary shares	809,291,330	-	(335,192)	186,820	-	-	-	-	809,142,958
Domestic listed foreign shares (B share)	557,497,485	-	-	-	-	-	-	-	557,497,485
Overseas listed foreign shares (H share)	391,270,000	-	-	-	-	-	-	-	391,270,000
Total listed tradable shares	1,758,058,815	-	-	-	-	-	-	-	1,757,910,443
Total shares	2,062,045,941	-	-	-	-	-	-	-	2,062,045,941

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

34. Share capital (continued)

b. Changes of shareholdings of the Company during 2008:

	Opening balance (share)	New issue (Note 1)	Increase/decrease during the period (share)				Sub-total	Closing balance (share)
			Lock-up of shareholdings of directors	Expiry of lock-up	Share reform	Others		
Restricted shares outstanding								
State-owned legal								
person shares	328,573,657	–	–	–	–	(35,570,000)	(35,570,000)	293,003,657
Other domestic shares	10,926,796	–	176,774	(120,101)	–	–	56,673	10,983,469
Including: Domestic								
legal-person								
shares	–	–	–	–	–	–	–	–
Domestic natural								
person shares	10,926,796	–	176,774	(120,101)	–	–	56,673	10,983,469
Total number of restricted shares outstanding	339,500,453	–	176,774	(120,101)	–	(35,570,000)	(35,513,327)	303,987,126
Listed tradable shares								
RMB ordinary shares	809,348,003	–	(176,774)	120,101	–	–	(56,673)	809,291,330
Domestic listed foreign shares (B share)	557,497,485	–	–	–	–	–	–	557,497,485
Overseas listed foreign shares (H share)	–	355,700,000	–	–	–	35,570,000	391,270,000	391,270,000
Total listed tradable shares	1,366,845,488	355,700,000	(176,774)	120,101	–	35,570,000	391,213,327	1,758,058,815
Total shares	1,706,345,941	355,700,000	–	–	–	–	355,700,000	2,062,045,941

Note 1: As approved by the Stock Exchange of Hong Kong Limited, the Company publicly issued 355,700,000 H shares in June 2008.

Note 2: The shares transferred to the NSSF Council in connection with the reduction of holdings in state-owned shares by the relevant holders of state-owned shares of the Company were converted into 35,570,000 overseas listed foreign shares (H shares).

Increase in share capital in connection with the issuance of new shares mentioned above was reviewed by China Rightson Certified Public Accountants. A capital review report named as Zhong Rui Yue Hua Yan Zi No. [2008] 2189 (中瑞岳華驗字[2008]第2189號) was published for the certification of the review.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

35. Capital reserves

The Group

The reporting period

	Opening balance RMB	Increase for the year RMB	Decrease for the year RMB	Closing balance RMB
Premium of share capital				
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from investors	4,110,278,083.64	—	—	4,110,278,083.64
Shares issued by way of capitalization of capital reserves	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserves				
Transfer from capital reserves under the original system	463,813,228.85	—	—	463,813,228.85
Provision for long-term equity investments	237,198,605.60	—	—	237,198,605.60
Others	1,000,000.00	—	—	1,000,000.00
Total	6,093,483,801.92	—	—	6,093,483,801.92

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

35. Capital reserves (continued)

The Group (continued)

2008

	Opening balance RMB	Increase for the year RMB	Decrease for the year RMB	Closing balance RMB
Premium of share capital				
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from investors	1,754,786,187.93	2,355,491,895.71	—	4,110,278,083.64
Shares issued by way of capitalization of capital reserves	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserves				
Transfer from capital reserves under the original system	463,813,228.85	—	—	463,813,228.85
Provision for long-term equity investments	237,198,605.60	—	—	237,198,605.60
Others	1,000,000.00	—	—	1,000,000.00
Total	3,737,991,906.21	2,355,491,895.71	—	6,093,483,801.92

Increase in premium of share capital during the year was due to the increase of capital reserves of the Company by RMB2,355,491,895.71 through addition of proceeds of H share issuance after deducting issuing fees and share capital.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

35. Capital reserves (continued)

The Company

The reporting period

	Opening balance RMB	Increase for the year RMB	Decrease for the year RMB	Closing balance RMB
Premium of share capital				
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from investors	4,110,278,083.64	—	—	4,110,278,083.64
Shares issued by way of capitalization of capital reserves	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserves				
Transfer from capital reserves under the original system	778,727,767.93	—	—	778,727,767.93
Others	14,016,253.37	2,002,595.56	—	16,018,848.93
Total	6,184,215,988.77	2,002,595.56	—	6,186,218,584.33

Other increase during the year in other capital reserves were attributable to loan extended to a subsidiary of the Group with terms over one year, the interests component of which was included in capital reserves.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

35. Capital reserves (continued)

The Company (continued)

2008

	Opening balance RMB	Increase for the year RMB	Decrease for the year RMB	Closing balance RMB
Premium of share capital				
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98	—	—	2,018,215,301.98
Capital contribution from investors	1,754,786,187.93	2,355,491,895.71	—	4,110,278,083.64
Shares issued by way of capitalization of capital reserves	(737,021,418.15)	—	—	(737,021,418.15)
Other capital reserves				
Transfer from capital reserves under the original system	778,727,767.93	—	—	778,727,767.93
Others	12,670,520.05	7,797,733.32	(6,452,000.00)	14,016,253.37
Total	3,827,378,359.74	2,363,289,629.03	(6,452,000.00)	6,184,215,988.77

Other reductions during the year in other capital reserves were attributable to the cancellation of subsidiary of the Company Xiangfan Chenming Copperplate Pater Co., Ltd during 2008; therefore, investments in such entity in prior years in the form of license rights which caused increase of RMB6,452,000.00 was transferred out of other capital reserves. Increase during the year was attributable to loan extended to a subsidiary of the Group with terms over one year, the interests component of which was included in capital reserves.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

36. Surplus reserve

The Group

The reporting period

	Statutory surplus reserve RMB
Balance at the beginning of the year	825,476,850.53
Accruals of the year	—
Balance at the end of the year	825,476,850.53

2008

	Statutory surplus reserve RMB
Balance at the beginning of the year	723,742,920.58
Accruals of the year	101,733,929.95
Balance at the end of the year	825,476,850.53

The Company

The reporting period

	Statutory surplus reserve RMB
Balance at the beginning of the year	813,287,268.62
Accruals of the year	—
Balance at the end of the year	813,287,268.62

2008

	Statutory surplus reserve RMB
Balance at the beginning of the year	711,553,338.67
Accruals of the year	101,733,929.95
Balance at the end of the year	813,287,268.62

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

37. Undistributed profits

The Group

	Report year RMB	Previous year RMB
Undistributed profits at the beginning of the year	3,277,192,810.40	2,576,650,349.38
Add: Net profit of the year	157,487,312.97	1,075,291,741.53
Less: Appropriation of statutory surplus reserves	—	(101,733,929.95)
Profits available for distribution to shareholders	3,434,680,123.37	3,550,208,160.96
Less: Dividends payable – cash dividends with respect to last year/prior years approved on the general shareholders' meeting	(103,102,297.05)	(273,015,350.56)
Undistributed profits at the end of the year	3,331,577,826.32	3,277,192,810.40
Including: Cash dividends/profits resolved to be distributed after the balance sheet date		103,102,297.05

The Company

	Report year RMB	Previous year RMB
Undistributed profits at the beginning of the year	2,152,346,247.34	1,509,756,228.39
Add: Net profit of the year	115,350,200.09	1,017,339,299.46
Less: Appropriation of statutory surplus reserves	—	(101,733,929.95)
Profits available for distribution to shareholders	2,267,696,447.43	2,425,361,597.90
Less: Dividends payable – cash dividends with respect to last year/prior years approved at the general shareholders' meeting(1)	(103,102,297.05)	(273,015,350.56)
Undistributed profits at the end of the year	2,164,594,150.38	2,152,346,247.34
Including: Cash dividends/profits resolved to be distributed after the balance sheet date		103,102,297.05

(1) Cash dividends for the year approved at the general shareholders' meeting

Based on 2,062,045,941 shares of RMB1 each in issued capital of the Company, cash dividends of RMB0.5 for every 10 shares was distributed to all shareholders in 2008.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

38. Minority Interests

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

	Closing balance RMB	Opening balance RMB
Jiangxi Chenming Paper Co., Ltd.	826,405,203.88	815,713,717.19
Wuhan Chenming Hanyang Paper Co. Ltd.	553,348,199.48	538,016,783.48
Chibi Chenming Paper Co., Ltd.	160,331,271.16	157,339,051.39
Shandong Chenming Power Supply Holdings. Co., Ltd.	97,182,284.35	107,131,506.95
Yanbian Chenming Paper Co. Ltd.	59,646,150.17	59,855,122.25
Shandong Grand View Hotel Co., Ltd.	15,907,495.30	21,533,161.02
Shouguang Chenming Art Paper Co., Ltd.	36,064,014.28	34,455,133.14
Others	28,949,123.86	28,651,287.55
Total	1,777,833,742.48	1,762,695,762.97

39. Operating Income

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Principal operations		
Including: Machine-made paper	6,373,366,334.34	8,014,572,108.45
Electricity and steam supply	108,739,961.97	125,937,828.75
Construction materials	143,529,702.92	315,811,262.25
Papermaking chemicals	3,708,505.15	50,535,484.98
Papermaking equipment	1,163,432.36	3,659,979.80
Hotel income	19,158,559.75	—
Others	333,390.15	16,681,062.50
Other operations		
Including: Sales of raw materials and semi-finished products	17,957,104.39	19,596,767.41
Installation engineering and machine repair workshop	2,430,514.29	849,188.82
Rental income	1,415,339.36	350,075.00
Others	3,563,715.05	4,408,511.44
Total	6,675,366,559.73	8,552,402,269.40

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

39. Operating Income

The Group

- (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 2009 RMB	Accrued from January to June of 2008 RMB
PRC	5,648,960,748.12	7,073,977,581.46
United States	53,840,582.65	21,878,867.28
Hong Kong	71,282,360.48	166,607,456.20
Japan	183,108,355.38	64,894,940.18
South Africa	38,699,042.28	151,718,534.73
Other overseas countries	377,475,245.43	535,494,728.60
Total	6,373,366,334.34	8,014,572,108.45

- (2) Sales revenue from the top 5 customers as a percentage of the total sales revenue:

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Total revenue from the top 5 customers	407,472,570.74	496,720,755.86
Percentage	6.10%	5.81%

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Principal operations		
Including: Machine-made paper	5,832,718,789.04	7,085,159,170.83
Electricity and steam supply	100,387,664.41	73,000,537.28
Other operations		
Including: Sales of raw materials and semi-finished products	244,680,143.43	94,219,312.96
Others	3,825,715.89	799,489.17
Total	6,181,612,312.77	7,253,178,510.24

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

40. Cost of operations

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Principal operations		
Including: Machine-made paper	5,414,319,673.82	6,207,491,180.45
Electricity and steam supply	74,242,679.66	110,185,475.69
Construction materials	117,342,306.89	273,559,132.71
Papermaking chemicals	1,858,345.37	20,439,106.15
Paper making equipment	792,722.17	2,204,774.61
Hotel costs	5,608,708.61	
Others	139,624.53	10,521,827.27
Other operations		
Including: Sales of raw materials and semi-finished products	12,129,143.57	18,422,151.89
Installation engineering and machine repair workshop	1,803,527.53	—
Rental expenses	26,619.79	614.86
Others	991,694.24	4,391,880.28
Total	5,629,255,046.18	6,647,216,143.91

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Principal operations		
Including: Machine-made paper	5,274,722,657.52	6,003,784,187.38
Electricity and steam supply	58,294,423.87	62,618,292.13
Other operations		
Including: Sales of raw materials and semi-finished products	243,793,686.15	94,877,062.87
Others	1,803,527.53	7,920.76
Total	5,578,614,295.07	6,161,287,463.14

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

41. Tax and levies on operations

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Business tax	3,431,326.28	964,729.69
Urban maintenances and construction tax	2,574,287.06	3,376,866.70
Educational surcharges	1,096,210.51	2,352,706.52
Flood prevention fund	5,023.22	—
Others	2,186.46	61,252.64
Total	7,109,033.53	6,755,555.55

The Company

	Accrued during this year RMB	Accrued during the previous year RMB
Business tax	154,785.75	135,343.88

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

42. Finance costs

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Interest expenses	195,044,146.37	244,012,030.75
Less: interest income	(27,044,701.31)	(8,855,309.87)
Foreign exchange differences	(257,433.26)	(165,696,861.61)
Handling fee charged by financial institutions	9,105,304.04	9,175,333.11
Total	176,847,315.84	78,635,192.38

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Interest expenses	165,730,659.72	199,805,699.71
Less: interest income	(14,977,732.47)	(7,953,456.88)
Foreign exchange differences	(76,256.11)	(165,293,292.06)
Handling fee charged by financial institutions	4,465,753.19	4,132,740.74
Total	155,142,424.33	30,691,691.51

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

43. Loss on impairment of assets

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Provision for bad debts	23,555,474.64	(30,714,668.67)
Provision of allowance for inventory	(12,952,416.04)	—
Provision for impairment on long-term investments	—	—
Provision for impairment on fixed assets	—	—
Total	10,603,058.60	(30,714,668.67)

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Provision for bad debts	12,791,869.13	(21,862,543.25)
Provision for allowance for inventory	—	—
Provision for impairment on long-term investments	—	—
Total	12,791,869.13	(21,862,543.25)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

44. Profit and loss on changes in fair values

The Group

	Accrued during this year RMB	Accrued from January to June of 2008 RMB
Biological assets at fair value	1,992,559.76	14,972,240.27
Financial derivatives at fair value	6,993,100.00	1,232,217.00
Total	8,985,659.76	16,204,457.27

The Company

	Accrued during this year RMB	Accrued from January to June of 2008 RMB
Biological assets at fair value	—	—
Financial derivatives at fair value	(5,200,000.00)	—
Total	(5,200,000.00)	—

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

45. Investment income

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Gains on long-term equity investments Including: profits distributed on invested entity validated using cost method	—	85,876.96
Losses recognized using equity method	(9,531,720.12)	(12,375,340.05)
Total	(9,531,720.12)	(12,289,463.09)

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Gains on long-term equity investments Including: profits distributed on invested entity validated using cost method	—	149,001,020.17
Investment loss from disposal of long-term equity investments	—	—
Losses recognized using equity method	(9,531,720.12)	(12,375,340.05)
Gain on entrusted loans	45,939,318.53	94,039,907.47
Total	36,407,598.41	230,665,587.59

There are no significant restrictions on remittance of investment gains back to the Company.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

46. Non-operating income

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net income on disposal of assets	10,445,396.64	1,577,355.30
Insurance claims	2,179,040.12	7,834,099.22
Income from default penalty and fine	260,528.52	181,840.00
Income from debt reconstructing	248,447.14	25,651.03
Unpaid debts	7,452,764.59	999,953.94
Profit or loss arising from investment costs for acquisition of minority interests by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	—	28,211,118.08
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition (Note VII.58)	3,026,165.27	—
Government grants (Note VII. 49)	42,973,571.38	128,992,446.44
Others	1,798,915.63	982,154.69
Total	68,384,829.29	168,804,618.70

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net income on disposal of assets	10,028,302.09	—
Income from default penalty and fine	—	—
Unpaid debts	452,764.40	1,564.34
Government grants (Note VII. 49)	21,250,516.00	80,030,000.00
Others	1,076,802.98	13,872.29
Total	32,808,385.47	80,045,436.63

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

47. Non-operating expenses

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net loss from disposal of assets	4,653,149.89	1,394,490.60
Donation expenses	50,000.00	5,628,666.60
Fine payments	458,420.53	2,210.00
Others	161,061.38	903,799.89
Total	5,322,631.80	7,929,167.09

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net loss from disposal of assets	4,449,274.39	739,683.34
Fine payments	217,300.00	4,586,626.60
Donation expenses	—	—
Others	5.81	617,224.68
Total	4,666,580.20	5,943,534.62

48. Income tax expenses

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Income tax expenses for current year	56,621,495.64	258,065,984.54
Deferred income tax expenses	(4,496,679.33)	8,936,067.01
Total	52,124,816.31	267,002,051.55

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

48. Income tax expenses (continued)

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Income tax expenses for current year	46,471,000.83	213,295,838.28
Deferred income tax expenses	3,248,018.27	5,055,619.96
Total	49,719,019.10	218,351,458.24

49. Government grants

The Group

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Reversal of value-added tax (note 1)	7,596,994.38	25,236,318.81
Financial support fund (note 2)	35,376,577.00	103,756,127.63
Total	42,973,571.38	128,992,446.44

Note 1: Reversal of value-added tax was the value-added tax levied on products of the subsidiaries of the Company primarily made of the three remains and shoddy wood subject to the value-added tax benefit of levy-first-refund-immediately mainly in accordance with Cai Shui [2006] No 102 promulgated by the State Administration of Taxation in August 2006.

Note 2: Financial support fund was the financial incentive fund and other support fund granted by the local governments to support the development of the Company and its subsidiaries.

The Company

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Reversal of value-added tax		
Financial support fund	21,250,516.00	80,030,000.00
Total	21,250,516.00	80,030,000.00

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

50. Earnings per share

Net profit for the period attributable to ordinary shareholders for the purpose of calculating earnings per share are as follows:

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net profit for the period attributable to ordinary shareholders	157,487,312.97	947,427,409.04

Net profit for the period attributable to ordinary shareholders for the purpose of calculating diluted earnings per share are as follows:

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net profit for the period attributable to ordinary shareholders	157,487,312.97	947,427,409.04
Interests on dilutive potential ordinary shares for the period recognized as expenses attributable to ordinary shareholders after deducting the effect of income tax	N/A	N/A
Effect of income tax attributable to ordinary shareholders	N/A	N/A
Total	N/A	N/A

For the purpose of calculating earnings per share, the denominator, being the weighted average of outstanding ordinary shares, is calculated as follows:

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Number of outstanding ordinary shares at the beginning of the year	2,062,045,941.00	1,706,345,941.00
Add: number of weighted ordinary shares issued during the period	—	23,452,747.25
Less: number of weighted ordinary shares repurchased during the period	—	—
Number of outstanding ordinary shares at the end of the year	2,062,045,941.00	1,729,798,688.25

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

50. Earnings per share (continued)

For the purpose of calculating diluted earnings per share, the number of outstanding weighted average ordinary shares is calculated as follows:

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Number of weighted average ordinary shares for the purpose of calculating basic earnings per share	2,062,045,941.00	1,729,798,688.25
Add: number of weighted average ordinary shares increased assuming dilutive potential ordinary shares were converted into issued ordinary shares	N/A	N/A
Including: number of weighted ordinary shares increased on conversion of convertible corporate bonds	N/A	N/A
Number of weighted average ordinary shares for the purpose of calculating diluted earnings per share	N/A	N/A

Earnings per share

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Calculated based on net profit attributable to shareholders of parent company:		
Basic earnings per share	0.076	0.55
Diluted earnings per share	N/A	N/A

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

51. Net profit after deducting extraordinary gains and losses

	Accrued from January to June of 2009 RMB	Accrued from January to June of 2008 RMB
Net profit	186,114,826.62	1,079,653,729.62
Add: items of extraordinary gains and losses		
Gains and losses generated from held for trading financial instrument	(6,993,100.00)	—
Reversal of impairment provision on receivables tested for impairment on individual basis	—	(12,470,039.30)
Net gains and losses from disposal of non-current assets	(5,792,246.75)	(182,864.70)
Government grants accounted for in profit and loss account of the current period	(35,376,577.00)	(106,938,176.97)
Net gains and losses from debt restructuring	(248,447.14)	591,573.65
Profit or loss arising from investment costs for acquisition of minority interests by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	—	(28,211,118.08)
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	(3,026,165.27)	—
Non-operating net gains and losses other than the above items	(11,021,766.95)	(20,285,053.31)
Add: effect of extraordinary gains and losses on income tax	10,888,548.11	38,506,287.00
Net profit after deducting extraordinary gains and losses	134,545,071.62	950,664,337.91
Including: net profit attributable to shareholders of parent company	112,230,568.55	823,334,761.83
Net profit attributable to minority interests	22,314,503.07	127,329,576.08

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

52. Cash and cash equivalents

The Group

	30 June 2009 RMB	31 December 2008 RMB
Cash	2,487,107,389.80	2,687,579,159.85
Of which: Treasury cash	1,965,293.12	1,341,632.42
Bank deposit withdrawn on demand	2,485,142,096.68	2,686,237,527.43
Balance of cash and cash equivalents	2,487,107,389.80	2,687,579,159.85

The Company

	30 June 2009 RMB	31 December 2008 RMB
Cash	2,118,667,220.53	2,080,005,634.40
Including: Treasury cash	162,160.92	30,527.86
Bank deposit withdrawn on demand	2,118,505,059.61	2,079,975,106.54
Balance of cash and cash equivalents	2,118,667,220.53	2,080,005,634.40

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

53. Supplementary information on the cash flow statement

The Group	Accrued during this year RMB	Accrued during the previous year RMB
Reconciliation of net profit as cash flows from operating activities		
Net profit	186,114,826.62	1,079,653,729.62
Add: provision for impairment of assets	10,603,058.60	(30,714,668.67)
Depreciation of fixed assets	595,080,971.85	547,556,783.11
Depreciation of real estate held for investment	869,128.02	—
Intangible assets amortized	10,477,484.50	11,010,676.63
Amortisation of long-term expenses to be amortized	7,491,557.58	13,985,652.29
Investment income	9,531,720.12	12,289,463.09
Net losses from disposal of fixed assets	(5,792,246.75)	1,394,490.60
Finance costs	194,786,713.11	247,610,785.34
Decrease in stock (minus: increase)	394,297,232.45	(904,282,716.55)
Decrease in consumable biological assets (minus: increase)	(99,166,606.14)	—
Losses from change in fair value (minus: gains)	(8,985,659.76)	(16,204,457.27)
Decrease in deferred income tax assets (minus: increase)	(4,994,819.27)	5,193,006.94
Increase in deferred income tax debt (minus: decrease)	498,139.94	3,743,060.07
Profit or loss arising from investment costs for acquisition of minority interests by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	—	(28,211,118.08)
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	(3,026,165.27)	—
Negative goodwill arising on acquisition of minority interests	—	—
Decrease in operating receivables (minus: increase)	(1,659,192,379.76)	285,044,458.54
Increase in operating payables (minus: decrease)	(154,694,763.32)	482,486,165.64
Net cash flows from operating activities	(526,101,807.48)	1,710,555,311.30
Major investments and financing activities not involving cash settlements		
Capital converted from debts	—	—
Net change in cash and cash equivalents		
Cash balance at the end of the year	2,487,107,389.80	3,613,209,716.27
Less: cash balance at the beginning of the year	2,687,579,159.85	613,826,456.62
Net increase in cash and cash equivalents	(200,471,770.05)	2,999,383,259.65

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

53. Supplementary information on the cash flow statement (continued)

The Company

	Accrued during this year RMB	Accrued during the previous year RMB
Reconciliation of net profit as cash flows from operating activities		
Net profit	115,350,200.09	869,978,299.16
Add: provision for impairment of assets	12,791,869.13	(21,862,543.25)
Depreciation of fixed assets	319,153,153.24	316,484,502.45
Depreciation of real estate held for investment	869,128.02	—
Intangible assets amortized	4,566,229.68	4,620,777.06
Investment income	(36,407,598.14)	(230,665,587.59)
Net losses from disposal of fixed assets	(5,375,152.20)	739,683.34
Finance costs	165,654,403.61	35,666,705.75
Decrease in stock (minus: increase)	397,317,086.04	(559,335,492.23)
Loss on change in fair value (minus: gain)	5,200,000.00	
Decrease in deferred income tax assets (minus: increase)	3,248,018.27	5,055,619.96
Decrease in operating receivables (minus: increase)	(2,023,728,576.95)	641,637,828.76
Increase in operating payables (minus: decrease)	(13,489,171.55)	491,252,152.77
Net cash flows from operating activities	(1,054,850,410.76)	1,553,571,946.18
Major investments and financing activities not involving cash settlements		
Capital converted from debts	—	—
Net change in cash and cash equivalents		
Cash balance at the end of the year	2,118,667,220.53	3,128,752,376.76
Less: cash balance at the beginning of the year	2,080,005,634.40	235,957,551.29
Net increase in cash and cash equivalents	38,661,586.13	2,892,794,825.47

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

54. Other cash received relating to operating activities

The Group		
	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Financial support fund	35,376,577.00	103,756,127.63
Interest income	27,044,701.31	7,941,905.77
Income from default penalty and fine	—	—
Other income	38,749,283.09	56,315,621.84
Total	101,170,561.40	168,013,655.24

The Company		
	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Financial support fund	21,250,516.00	80,030,000.00
Interest income	14,977,732.47	4,065,321.36
Repayments from subsidiaries	—	—
Income from default penalty and fine	—	—
Other income	16,179,277.98	192,114.88
Total	52,407,526.45	84,287,436.24

55. Other cash paid relating to operating activities

The Group		
	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Traffic expense	247,426,114.31	240,769,650.14
Hospitality expense	4,510,090.70	17,281,215.27
Rental expense	10,487,449.89	1,563,779.26
Travel expense	12,429,321.79	11,775,234.88
Office expense	5,510,093.64	5,800,591.57
Waste disposal expense	11,728,081.88	20,300,747.17
Insurance premium	10,018,968.26	9,967,305.71
Water and electricity expense	7,684,307.74	5,058,022.87
Repair expense	3,180,132.91	5,374,976.47
Advertising expense	454,684.90	—
Intermediary service expense	5,770,384.18	7,820,674.19
Quality compensation	1,443,493.44	2,803,811.33
Others	78,960,285.61	62,102,249.98
Total	399,603,409.25	390,618,258.84

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

55. Other cash paid relating to operating activities (continued)

The Company

	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Traffic expense	161,349,336.06	139,493,590.05
Hospitality expense	203,484.86	13,506,808.38
Rental expense	2,225,171.64	1,442,013.25
Travel expense	9,654,724.42	8,088,575.22
Office expense	2,920,353.51	2,833,848.07
Waste disposal expense	6,000,000.00	5,757,805.97
Insurance premium	6,073,582.28	6,865,708.19
Water and electricity expense	777,900.49	828,560.52
Repair expense	903,707.30	5,127,855.51
Advertising expense	79,000.00	—
Intermediary service expense	3,107,098.34	6,870,171.49
Quality compensation	78,642.03	2,329,776.54
Payments to subsidiaries	377,216,191.29	(229,691,500.00)
Others	847,912.34	41,384,226.13
Total	571,437,104.56	4,837,439.32

56. Cash received relating to other investment activities

The Group

	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Special subsidy funds received	47,990,000.00	65,922,610.10

The Company

	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Special subsidy funds received	4,850,000.00	42,656,386.46

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

57. Other cash paid relating to financing activities

The Group

	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Increase in restricted bank deposits during the period	1,340,013,989.64	—
Total	1,340,013,989.64	—

The Company

	Jan-Jun 2009 RMB	Jan-Jun 2008 RMB
Increase in restricted bank deposits during the period	1,315,594,417.01	—
Total	1,315,594,417.01	—

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

58. Business combination

The Group as a party in business combination of entities not under common control:

During the reporting period, the overview of business combination of entities not under common control happening to the Group are set out below:

(1) 壽光虹宜包裝裝飾有限公司

a. Overview of the acquired entity:

During the reporting period, Shouguang Chenming Modern Logistic Co., Ltd., a subsidiary of the Company, acquired 100% of equity interests in 壽光虹宜包裝裝飾有限公司 for a consideration of RMB1,700,000.00.

The above acquired subsidiary had fair value basically consistent with its carrying amount. The particulars are as follows:

b. Important financial information about the acquired entity:

Items	Carrying amount on the acquisition date RMB
Identifiable assets	
Current assets	15,883,011.87
Non-current assets	3,193,429.18
Sub-total	19,076,441.05
Identifiable liabilities	
Current liabilities	17,278,556.09
Sub-total	17,278,556.09
Total net assets	1,797,884.96
Less: Consideration of acquisition	1,700,000.00
Discount on acquisition	97,884.96
	Amount RMB
Cash and cash equivalents used as consideration of merger	1,700,000.00
Less: Cash and cash equivalents held by the merged subsidiary	930,134.89
Cash and cash equivalents received on acquiring the subsidiary	(769,865.11)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

58. Business combination (continued)

(2) 壽光市新源煤炭有限公司(Shouguang Xinyuan Coal Company Limited)

a. Overview of the acquired entity:

During the reporting period, Shouguang Chenming Modern Logistic Co., Ltd., a subsidiary of the Company, acquired 50% of equity interests in Shouguang Xinyuan Coal Company Limited for a consideration of RMB1,200,000.00. 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited), a wholly-owned subsidiary of Shouguang Chenming Modern Logistic Co., Ltd., holds 50% of equity interests in Shouguang Xinyuan Coal Company Limited. Therefore, Shouguang Chenming Modern Logistic Co., Ltd., a subsidiary of the Company, holds 100% of equity interests in Shouguang Xinyuan Coal Company Limited in aggregate.

b. Important financial information about the acquired entity:

Items	Carrying amount on the acquisition date RMB
Identifiable assets	
Current assets	2,274,962.38
Non-current assets	134,965.92
Sub-total	2,409,928.30
Identifiable liabilities	
Current liabilities	9,928.30
Sub-total	9,928.30
Total net assets	2,400,000.00
Proportion (50%) attributable to subsidiary of the Company Shouguang Chenming Modern Logistic Co., Ltd.	1,200,000.00
Less: Consideration of acquisition	1,200,000.00
Premium on acquisition	—
	Amount RMB
Cash and cash equivalents used as consideration of merger	1,200,000.00
Less: Cash and cash equivalents held by the merged subsidiary	534,803.82
Cash and cash equivalents received on acquiring the subsidiary	(665,196.18)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

58. Business combination (continued)

(3) 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited)

a. Overview of the acquired entity:

During the reporting period, Shouguang Chenming Modern Logistic Co., Ltd., a subsidiary of the Company, acquired 100% of equity interests in Shouguang Wei Yuan Logistics Company Limited for a consideration of RMB4,000,000.00.

b. Important financial information about the acquired entity:

Items	On the acquisition date	
	Carrying amount RMB	Fair value RMB
Identifiable assets		
Current assets	3,258,588.83	3,258,588.83
Non-current assets	8,669,524.08	10,415,167.17
Sub-total	11,928,112.91	13,673,756.00
Identifiable liabilities		
Current liabilities	6,745,475.69	6,745,475.69
Sub-total	6,745,475.69	6,745,475.69
Total net assets	5,182,637.22	6,928,280.31
Less: Consideration of acquisition		4,000,000.00
Discount on acquisition		2,928,280.31
		Amount RMB
Cash and cash equivalents used as consideration of merger		4,000,000.00
Less: Cash and cash equivalents held by the merged subsidiary		729,299.57
Cash and cash equivalents received on acquiring the subsidiary		(3,270,700.43)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

59. Segment reporting

Information on related segments of the Group is summarized below.

Segment revenue

30 June 2009

Unit: RMB

Segment Revenue	Machine-made paper	Construction materials	Electricity and steam	Others	Eliminations	Total
External Sales	6,398,733,007.43	143,529,702.92	108,739,961.97	24,363,887.41	0.00	6,675,366,559.73
Inter-segment Sales	0.00	20,115,336.89	105,798,621.26	4,149,091.03	(130,063,049.18)	0.00
Total	6,398,733,007.43	163,645,039.81	214,538,583.23	28,512,978.44	(130,063,049.18)	6,675,366,559.73
Segment results	520,686,283.18	(12,261,091.48)	30,436,733.34	(14,262,369.97)	0.00	524,599,555.07
Unallocated administrative expenses						(98,308,865.77)
Profit and loss on change in fair value						6,993,100.00
Finance expense						(195,044,146.37)
Profit before tax						238,239,642.93
Income tax						(52,124,816.31)
Net profit						186,114,826.62

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

59. Segment reporting (continued)

30 June 2008							Unit: RMB
Segment Revenue	Machine-made paper	Construction materials	Electricity and steam	Others	Eliminations	Total	
External Sales	8,039,776,651.12	315,811,262.25	125,937,828.75	70,876,527.28	0.00	8,552,402,269.40	
Inter-segment Sales	0.00	20,554,450.43	102,467,386.31	0.00	(123,021,836.74)	0.00	
Total	8,039,776,651.12	336,365,712.68	228,405,215.06	70,876,527.28	(123,021,836.74)	8,552,402,269.40	
Segment results	1,636,152,777.43	28,904,183.94	7,460,680.68	14,064,390.87	0.00	1,686,582,032.92	
Unallocated administrative expenses						(97,146,438.00)	
Profit and loss on change in fair value						1,232,217.00	
Finance expense						(244,012,030.75)	
Profit before tax						1,346,655,781.17	
Income tax						(267,002,051.55)	
Net profit						1,079,653,729.62	

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VII. Notes to the financial statements (continued)

59. Segment reporting (continued)

Segment assets

	30 June 2009 RMB	31 December 2008 RMB
Segment assets	28,288,735,880.08	26,171,579,378.89
Of which: Machine-made paper	24,630,646,742.73	22,372,631,986.59
Construction materials	644,265,935.57	695,862,447.58
Electricity and steam	2,582,776,807.04	2,677,917,950.86
Others	431,046,394.74	425,166,993.86
Unallocaed assets	132,911,185.39	127,916,366.12
Total assets	28,421,647,065.47	26,299,495,745.01

Segment liabilities

	30 June 2009 RMB	31 December 2008 RMB
Segment assets	3,560,672,710.64	3,755,093,982.68
Of which: Machine-made paper	2,962,617,455.79	3,147,919,928.82
Construction materials	247,277,554.24	217,104,359.91
Electricity and steam	145,456,176.30	199,308,497.61
Others	205,321,524.31	190,761,196.34
Unallocaed liabilities	10,769,686,905.01	8,522,627,097.37
Total assets	14,330,359,615.65	12,277,721,080.05

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Related party relations and transactions

- (1) Save for subsidiaries set out in note VI, information on the first major shareholder is set as follows

Name of related party	Place of incorporation	Principal operations	Relationship with the Company	Economic nature or type	Legal representative
Shouguang Chenming Holdings Co., Ltd	Shouguang City	Investments in papermaking, electricity, coal, forestry projects	The first major shareholder	Limited liability 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 finally approved the change in the holder of state-owned Shares of Chenming Paper and the change in nature of its equity interests arising from the establishment of Shouguang Chenming Holdings on 14 August 2006 (Guo Zi Chan Quan [2005] No. 1539) . Since then, the first major shareholder of the Company was changed from State-owned Assets Supervision and Administration Commission of Shouguang City to Shouguang Chenming Holdings .

- (2) Other related parties which entered into transactions with the Group but without controlling relation are as follows

	Organization code	Related party relation
Shouguang Liben Paper Making Co., Ltd.	61358854-8	Associated corporation
Qingzhou Chenming Denaturation Amylum Co., Ltd.	16937769-8	Associated corporation
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	78233868-9	Associated corporation
江西江報傳媒彩印有限公司	79479506-x	Associated corporation

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Related party relations and transactions (continued)

(3) Major connected transactions entered into between the Company and related parties during the year are as follows

(a) Sales and purchases

Details of sales and purchases of goods to and from related parties by the Company are as follows:

	30 June 2009		30 June 2008	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Sales – subsidiaries of the Company	583,027,020.14	99.32	491,700,523.33	95.57
– associated corporations of the Company	3,994,099.63	0.68	22,798,093.17	4.43
	587,021,119.77	100.00	514,498,616.50	100.00
Purchases – subsidiaries of the Company	2,649,861,106.25	100.00	3,541,829,002.39	100.00
	2,649,861,106.25	100.00	3,541,829,002.39	100.00

The Company sells and purchases to and from related parties at prices negotiated between both parties.

(b) Lending and borrowing

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

Name of subsidiaries	Annual rate %	Amount incurred during the year RMB	Balance for this year RMB	Percentage %	Amount incurred during the previous year RMB	Balance for the previous year RMB	Percentage %
Jilin Chenming Paper Co., Ltd.	6.723	–	80,000,000.00	4.53	(1,150,000,000.00)	80,000,000.00	4.11
Shandong Chenming Panels Co., Ltd.	5.022	(5,000,000.00)	32,000,000.00	1.81	(40,000,000.00)	37,000,000.00	1.9
Wuhan Chenming Hanyang Paper Co., Ltd.	4.779	0.00	550,000,000.00	31.14	(30,000,000.00)	550,000,000.00	28.25
Wuhan Chenming Qianneng Electric Power Co., Ltd.	4.779	20,000,000.00	55,000,000.00	3.11	(20,000,000.00)	35,000,000.00	1.8
Shandong Chenming Paper Qihe Paperboard Co., Ltd.	–	–	–	–	(120,000,000.00)	–	–
Jiangxi Chenming Paper Co., Ltd.	4.86-5.94	95,000,000.00	795,000,000.00	45.01	400,000,000.00	700,000,000.00	35.95
Heze Chenming Panels Co., Ltd.	4.779-6.723	0.00	71,000,000.00	4.02	15,000,000.00	71,000,000.00	3.65
Hailaer Chenming Paper Co., Ltd.	5.022	(900,000.00)	18,100,000.00	1.03	(10,000,000.00)	19,000,000.00	0.98
Qihe Chenming Panels Co., Ltd.	5.022	0.00	15,000,000.00	0.85	(7,000,000.00)	15,000,000.00	0.77
Juancheng Chenming Panels Co., Ltd.	4.779	0.00	40,000,000.00	2.27	20,000,000.00	40,000,000.00	2.05
Shandong Chenming Grand View Hotel Co., Ltd.	6.723	0.00	110,000,000.00	6.23	110,000,000.00	110,000,000.00	5.65
Shouguang Chenming Art Paper Co., Ltd.	6.723	(290,000,000.00)	–	–	290,000,000.00	290,000,000.00	14.89
Total		(180,900,000.00)	1,766,100,000.00	100.00	(542,000,000.00)	1,947,000,000.00	100.00

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Related party relations and transactions (continued)

(3) Major connected transactions entered into between the Company and related parties during the year are as follows (continued)

(c) Balance of credit and debt

Item	Closing balance RMB	Opening balance RMB
Accounts receivable – between subsidiaries of the Company	820,392,082.95	525,597,011.45
– between associated corporations of the Company	–	10,744,498.96
Total	820,392,082.95	536,341,510.41
Other receivables – between subsidiaries of the Company	1,220,869,658.46	840,005,604.20
– between associated corporations of the Company	1,738,181.29	14,678,824.86
Total	1,222,607,839.75	854,684,429.06
Prepayments - between subsidiaries of the Company	236,753,586.21	270,455,992.44
Accounts payable – between subsidiaries of the Company	1,694,317,263.96	826,483,624.07
– between associated corporations of the Company	–	–
Total	1,694,317,263.96	826,483,624.07
Other payables – between subsidiaries of the Company	72,977,918.95	109,518,990.30
Dividends receivable – between subsidiaries of the Company	139,874,997.10	164,874,997.10
Bills payable – between subsidiaries of the Company	–	3,260,000.00
Advance receipts – between subsidiaries of the Company	208,554.60	–

(d) Senior executive's remuneration

	Accrued during this year RMB'000	Accrued during the previous year RMB'000
Senior executive' s remuneration	2,020	4,824

Senior executives include the Company's Directors, Supervisors, general managers, deputy general managers, secretary to the Board of Directors and financial officers.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

VIII. Related party relations and transactions (continued)

(3) Major connected transactions entered into between the Company and related parties during the year are as follows (continued)

(e) Guarantees provided for subsidiaries

As at 30 June 2009, guarantees provided for subsidiaries by the Company to secure lending were as follows:

Name of subsidiaries	Amount under guarantee RMB
Jiangxi Chenming Paper Co., Ltd.	250,000,000.00
Jilin Chenming Paper Co., Ltd.	3,415,950.00
Wuhan Chenming Hanyang Paper Co., Ltd.	40,000,000.00
Zhanjiang Chenming Paper Pulp Co., Ltd.	106,831,900.00
Huanggang Chenming Arboriculture Co., Ltd.	50,000,000.00
Total	450,247,850.00

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

IX. Commitment

(1) Capital commitments

	Closing balance RMB	Opening balance RMB
Contracted but not yet recognized in the financial statements		
- Commitments in relation to acquisition and construction of long-term assets	265,497,085.85	291,332,151.32

(2) Operating lease commitments

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

	Closing balance RMB	Opening balance RMB
Minimum lease payments under irrevocable operating leases		
The first year after balance sheet date	25,870,232.17	49,278,297.28
The second year to fifth year after balance sheet date	114,384,808.28	27,355,917.46
The sixth year after balance sheet date and thereafter	1,089,413,914.54	56,189,228.75
Total	1,229,668,954.99	132,823,443.49

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

X. Subsequent events

1. On 6 July 2009, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, entered into equipment purchase contract and culture paper project equipment purchase contract with aggregate considerations of approximately RMB1.49 billion and RMB1.327 billion, respectively.
2. On 6 August 2009, Shouguang Meilun Paper Co. Ltd., a wholly-owned subsidiary of the Company, entered into a high-end light copperplate paper project equipment purchase contract with aggregate consideration of approximately RMB2 billion.
3. Pursuant to the relevant requirements of Administrative Measures Regarding Recognition of New Technology Enterprises (《高新技術企業認定管理辦法》), Guidance's on Recognition of New Technology Enterprises (《高新技術企業認定管理工作指引》) and Implementation Opinions on Administrative Work Regarding Recognition of New Technology Enterprises in Guangdong Province (《山東省高新技術企業認定管理工作實施意見》), the Company was recognized among the first lot of new technology enterprises in 2009. Pursuant to the relevant rules, the Company shall be subject to enterprise income tax at the rate of 15% for the three years upon recognition as new technology enterprise (i.e. from 2009 to 2011). The Company is in the progress of applying for preferential tax treatment.
4. Pursuant to the extraordinary general meeting of the Company held on 27 July 2009, a resolution on the construction of a high-end low weight coated paper project with an annual production capacity of 800,000 tonnes and construction of a high-end white coated linerboard project with annual production capacity of 600,000 tonnes in Shouguang City was passed. The investment amount for these project will be approximately RMB5.2 billion and RMB2.6 billion respectively.
5. Pursuant to the extraordinary general meeting of the Company held on 27 July 2009, a resolution on the construction of the project of Chenming International Logistics Centre and the ancillary railway special line in Shouguang City was passed. The investment amount for this project will be approximately RMB2.0 billion.

XI. Approval of the financial statements

These financial statements were approved by the Board of Directors of the Company on 27 August 2009.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Supplementary Information Provided

By the management for the first half of 2009

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

This reconciliation of 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 the first half year of 2009 were prepared in accordance with the PRC Accounting Standards of Business Enterprises (ASBEs) which set out net profit and net assets of RMB186,114,826.62 and RMB14,091,287,449.82 respectively. These figures are different from those reported in the financial statements prepared in accordance with the International Financial Reporting Standards in the following material aspects:

	30 June 2009 Net assets RMB	First half of 2009 Net profit RMB
Amount presented per IFRS	13,744,211,428.64	203,844,568.16
Special fund for treasury bond received and special accounts payable	328,701,962.36	(16,246,283.53)
Capitalization of foreign exchange gains and losses on project loans	18,374,058.82	(1,483,458.01)
Amount presented per PRC ASBES	14,091,287,449.82	186,114,826.62

The reason of such differences is as follows:

In years prior to 2006, according to the principles of the PRC Accounting Standards of Business Enterprises (ASBEs), special funds for treasury bond and special accounts payable related to construction of relevant fixed assets received by the Group were included in capital reserve. However; according to IAS, the Group will account for special funds for treasury bond and special accounts payable under deferred income to be amortized by installments over the useful lives of fixed assets.

The above differences were all incurred in years prior to 2006. The management believes such differences in accounting principles will gradually be eliminated in future years.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE ON FULLY DILUTED AND WEIGHTED AVERAGE BASIS

This calculation of return on net assets and earnings per was prepared by Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”) in accordance with the relevant requirements of “Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 09) – Calculations and disclosures for the 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 ordinary shares in the Company, after deducting extraordinary gains and losses	Calculated in accordance with the net profit attributable to holders of ordinary shares in the Company
Return on net assets		
Fully diluted basis	0.91%	1.28%
Weighted average basis	0.91%	1.28%
Earnings per share		
Basis earnings per share	0.054	0.076
Diluted earnings per share	N/A	N/A

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

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 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.

Balance sheet items	As at 30	As at 31	Change %	Reasons for the change
	June 2009 RMB	December 2008 RMB		
Bank balances and cash	3,992,960,347.64	2,853,418,128.07	39.94	(1)
Financial assets held for trading	12,200,000.00		100.00	(2)
Bills receivable	2,221,866,092.84	974,009,788.24	128.12	(3)
Accounts receivable	1,991,014,261.79	1,752,409,349.17	13.62	(4)
Prepayments	657,794,360.86	462,526,338.87	42.22	(5)
Inventories	2,980,266,373.67	3,397,792,930.38	(12.29)	(6)
Other current assets	127,832,652.63	151,993,045.95	(15.90)	(7)
Fixed assets	13,727,636,750.57	14,213,441,758.08	(3.42)	(8)
Construction in progress	536,675,503.19	431,379,272.50	24.41	(9)
Construction materials	27,683,267.72	42,079,864.21	(34.21)	(9)
Long-term deferred expenditure	44,014,023.55	37,227,730.36	18.23	(10)
Consumable biological assets	422,695,311.24	301,212,691.14	40.33	(11)
Short-term borrowings	4,898,959,345.72	1,516,945,042.67	222.95	(12)
Financial liabilities held for trading	5,200,000.00	198,900.00	2,514.38	(13)
Bills payable	326,094,292.58	367,627,562.14	(11.30)	(14)
Accounts payable	2,130,086,449.65	2,642,308,185.90	(19.39)	(15)
Advance receipts	192,986,623.31	101,693,578.57	89.77	(16)
Tax payables	111,825,380.13	49,965,982.34	123.80	(17)
Dividends payable	103,138,386.36	36,089.31	285,686.53	(18)
Non-current liabilities due within one year	382,381,364.15	1,038,125,240.62	(63.17)	(19)
Other current liabilities	1,252,519,999.98	1,941,874,444.43	(35.50)	(20)
Long-term borrowings	4,228,896,509.43	4,019,250,823.86	5.22	(21)
Deferred income	103,076,589.48	56,828,375.23	81.38	(22)

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

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

Income statement items	As at 30	As at 31	Change %	Reasons for the change
	June 2009 RMB	December 2008 RMB		
Operating income	6,675,366,559.73	8,552,402,269.40	(21.95)	(23)
Operating expenses	5,629,255,046.18	6,647,216,143.91	(15.31)	(24)
Selling expenses	339,929,245.25	402,926,002.43	(15.63)	(25)
Administrative expenses	335,899,354.53	265,718,708.42	26.41	(26)
Finance expense	176,847,315.84	78,635,192.38	124.90	(27)
Losses from impairment of assets	10,603,058.60	(30,714,668.67)	134.52	(28)
Gains on change in fair value	8,985,659.76	16,204,457.27	(44.55)	(29)
Investment income	(9,531,720.12)	(12,289,463.09)	22.44	(30)
Non-operating income	68,384,829.29	168,804,618.70	(59.49)	(31)
Non-operating expenses	5,322,631.80	7,929,167.09	(32.87)	(32)
Income tax expenses	52,124,816.31	267,002,051.55	(80.48)	(33)

- (1) Bank balances and cash of the Group as at 30 June 2009 increased by 39.94% over 31 December 2008, mainly because discounted bills of the Group for the six months ended 30 June 2009 led to an increase in bank balances and cash.
- (2) Financial assets held for trading increased by RMB12,200,000.00 during the period, due to the effects of future pooling foreign exchange contracts of Chenming (HK) Limited, a subsidiary of the Company.
- (3) Bills receivable increased by 128.12% during the period, mainly because the Group recorded significantly improved sales compared with the fourth quarter of 2008, increase in income and increase in unmatured discounted bills.
- (4) Accounts receivable increased by 13.62% during the period, mainly because sales income increased compared with the fourth quarter of 2008 as a result of improved operating environment.
- (5) Prepayment increased by 42.22% during the period, primarily due to the increase in amount of prepayments on raw materials during the period as operating environment improved.
- (6) Inventories decreased by 12.29% during the period, mainly because the Company adjusted its sales strategies according to market conditions and reinforced sales efforts to lower inventory or finished products.
- (7) Other current assets decreased by 15.9% during the period, mainly due to increase in advanced payment of income tax and decrease in deductible value added tax and purchase tax.
- (8) Fixed assets decreased by 3.42% during the period, mainly due to capitalisation of projects and purchase of fixed assets decreased during the reporting period, while the charge on depreciation reduced net amount of fixed assets.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

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

- (9) Construction in progress increased by 24.41% during the period. The reduction of 34.21% in construction materials was mainly due to (1) reclassification of the modification of equipment by the Company and Fuyu Chenming Paper Co., Ltd. to construction in progress; and (2) the effect of project inputs.
- (10) Long-term deferred expenditure increased by 18.23% during the period, primarily attributable to increase in lease payments during the period.
- (11) Consumable biological assets increased by 40.33% during the year, mainly due to purchase, growing and fair value change of forestry by subsidiaries of the Company, i.e. Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd. and Huanggang Chenming Arboriculture Co., Ltd.
- (12) Short-term borrowings increased by 222.95% during the period, due to (1) increase in unmatured discounted bills; and (2) the Company increased short-term borrowings to repay short-term debentures.
- (13) Financial liabilities held for trading increased by 2,514.38% during the period, primarily due to the effects of future pooling foreign exchange contracts of the Company.
- (14) Bills payable decreased by 11.30% during the period, mainly because the Company reduced its issuance of promissory notes.
- (15) Accounts payable decreased by 19.39% during the period, mainly attributable to (1) increase in amounts paid by the Company for raw materials during the period; and (2) Zhanjiang Chenming, a subsidiary of the Company, paid land premium during the period, reducing accounts payable by RMB120 million.
- (16) Advance receipts increased by 89.77% during the period, mainly because the Company received more advanced payments for goods.
- (17) Tax payables increased by 123.8% during the period, mainly due to the increase in income tax and value added tax payable during the period as a result of an improved economic environment.
- (18) Dividends payable increased by RMB103,102,297.05 during the period, primarily due to the dividends for the previous year declared by the Company in June 2009.
- (19) Non-current liabilities due within one year reduced by 63.17% during the period, mainly because the Group repaid part of the borrowings due within one year upon maturity.
- (20) Other current liabilities decreased by 35.5% during the period, principally because the Company repaid short-term debentures of RMB700 million during the period.
- (21) Long-term borrowings increased by 5.22% during the period, mainly due to the effects of increase in certain long-term borrowings by the Company.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

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

- (22) Deferred income increased by 81.38% during the period, mainly because Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, received RMB35 million from Zhanjiang City as grants for the water supply work and highway network work of its Zhanjiang pulp project.
- (23) Operating income decreased by 21.95% during the period, mainly because sales price for the first half of 2009 dropped compared to the corresponding period of last year due to the repercussion of the financial crisis.
- (24) Operating expenses decreased by 15.31% during the period, mainly attributable to lower raw material prices in the first half year of 2009 compared with that of the corresponding period of last year.
- (25) Selling expenses decreased by 15.63% during the period, mainly affected by lower transportation expenses.
- (26) Administrative expenses increased by 26.41% during the period, mainly due to loss from production interruption arising from suspension of panel production lines because of the impact of the financial crisis.
- (27) Finance expenses increased by 124.9% during the period, mainly because exchange gains reduced in the first half year of 2009 as compared with the corresponding period of last year, as a result of the effect of changes in exchange rates.
- (28) Losses from impairment of assets increased by 134.52% during the period, mainly because the Group had more accounts receivable at the end of June 2009 compared with the beginning of the year, leading to higher provision for bad debts.
- (29) Gains on change in fair value reduced by 44.55% during the period, mainly due to small change in fair value in timber assets compared with the corresponding period of last year.
- (30) Investment losses decreased by 22.44% during the period, primarily due to reduced losses of associated corporations during the period as compared with the corresponding period of last year.
- (31) Non-operating income decreased by 59.49% during the period, primarily attributable to (1) lower amount received in government grants compared with the corresponding period of last year; and (2) negative goodwill arising from acquisition of minority interests in the corresponding period of last year.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

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

(32) Non-operating expenses reduced by 32.87% during the period as compared with the corresponding period of last year, mainly due to lower donation expenses for the period compared with the corresponding period of last year.

(33) Income tax expenses decreased by 80.48% over the corresponding period of last year, mainly due to lower realized profit for the period compared with the corresponding period of last year due to the effects of the abovementioned factors.

The supplementary information provided by the management was signed by the responsible personnel of Shandong Chenming Paper Holdings Limited as shown below on 27 August 2009:

Head of Corporation:

Chief Financial Officer:

Head of finance section:

27 August 2009

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 176 to 200, which comprises the condensed consolidated statement of financial position of Shandong Chenming Paper Holdings Limited and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Standard ("IAS") 34 "Interim Financial Reporting". 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 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 August 2009

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Revenue	4	6,642,891	8,520,442
Cost of sales		(5,596,899)	(6,607,738)
Gross profit		1,045,992	1,912,704
Other income	6	100,780	337,903
Share of results of associates		(9,531)	(12,375)
Distribution expenses		(339,929)	(402,926)
Administrative expenses		(273,087)	(244,017)
Other expenses	7	(82,196)	—
Gain on change in fair value of derivative financial instruments		6,993	1,232
Gain on change in fair value less estimated point-of-sale cost of biological assets		1,993	14,972
Finance costs		(195,044)	(244,012)
Profit before tax	7	255,971	1,363,481
Income tax expense	8	(52,125)	(267,002)
Profit for the period		203,846	1,096,479
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(11)	468
Total comprehensive income for period		203,835	1,096,947
Profit for the period attributable to:			
Owners of the Company		170,987	960,060
Non-controlling interests		32,859	136,419
		203,846	1,096,479
Total comprehensive income attributable to:			
Owners of the Company		170,976	960,528
Non-controlling interests		32,859	136,419
		203,835	1,096,947
Earnings per share	10		
– Basic		RMB0.08	RMB0.55
– Diluted		N/A	N/A

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	At 30 June 2009 RMB'000 (unaudited)	At 31 December 2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	14,243,023	14,641,475
Prepaid lease payments - non-current portion	11	1,236,600	1,225,356
Investment property		27,296	28,165
Interests in associates	12	63,291	66,822
Available-for-sale investments		25,851	25,851
Goodwill		20,284	20,284
Biological assets	13	422,695	301,213
Deferred tax assets		132,911	127,916
		16,171,951	16,437,082
Current assets			
Inventories		2,980,266	3,397,793
Trade and other receivables	14	5,100,269	3,449,740
Prepaid lease payments - current portion	11	49,164	42,209
Income tax recoverable		25,279	27,088
Derivative financial instruments	16	12,200	—
Restricted bank deposits	15	1,505,853	165,839
Cash and cash equivalents		2,487,107	2,687,579
		12,160,138	9,770,248
Current liabilities			
Trade and other payables	17	3,304,517	3,670,671
Borrowings - amount due within one year	18	5,281,341	2,555,070
Short-term debentures	19	1,252,520	1,941,874
Provisions		—	17,987
Income tax payable		44,740	9,374
Dividend payable		103,138	36
Deferred income - current portion		27,500	21,598
Derivative financial instruments	16	5,200	199
		10,018,956	8,216,809
Net current assets		2,141,182	1,553,439
Total assets less current liabilities		18,313,133	17,990,521

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

	Notes	At 30 June 2009 RMB'000 (unaudited)	At 31 December 2008 RMB'000 (audited)
Non-current liabilities			
Borrowings - amount due after one year	18	4,228,897	4,019,251
Deferred income - non-current portion		333,094	307,869
Deferred tax liabilities		6,930	6,432
		4,568,921	4,333,552
Net assets			
		13,744,212	13,656,969
Capital and reserves			
Share capital	20	2,062,046	2,062,046
Reserves		9,918,020	9,850,146
Equity attributable to owners of the Company		11,980,066	11,912,192
Non-controlling interests		1,764,146	1,744,777
Total equity		13,744,212	13,656,969

DIRECTOR

DIRECTOR

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 2009

	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Attributable to owners of the Company	Non-controlling 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 2009 (audited)	2,062,046	5,765,795	825,360	117	880	3,257,994	11,912,192	1,744,777	13,656,969
Exchange differences arising on translation of foreign operation	–	–	–	–	(11)	–	(11)	–	(11)
Profit for the period	–	–	–	–	–	170,987	170,987	32,859	203,846
Total comprehensive income for the period	–	–	–	–	(11)	170,987	170,976	32,859	203,835
Dividends recognised as distribution	–	–	–	–	–	(103,102)	(103,102)	–	(103,102)
Transfer of reserves (note)	–	12,016	–	–	–	(12,016)	–	–	–
Distribution made by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	(13,490)	(13,490)
At 30 June 2009 (unaudited)	2,062,046	5,777,811	825,360	117	869	3,313,863	11,980,066	1,764,146	13,744,212

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 2009

	Share capital RMB'000 (unaudited)	Capital reserve- RMB'000 (unaudited)	Statutory surplus reserve RMB'000 (unaudited)	Discretionary surplus reserve RMB'000 (unaudited)	Translation reserve RMB'000 (unaudited)	Retained earnings RMB'000 (unaudited)	Attributable to owners of the Company RMB'000 (unaudited)	Non-controlling interests RMB'000 (unaudited)	Total RMB'000 (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 comprehensive income for the period	—	—	—	—	468	960,060	960,528	136,419	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 non-controlling interests	—	—	—	—	—	—	—	(95,443)	(95,443)
Decrease in non-controlling interest 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

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 2009

	Six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Net cash (used in) from operating activities	(526,102)	1,710,556
Investing activities		
Purchase of property, plant and equipment and lease payment on land use rights	(407,728)	(677,119)
Acquisition of additional interests in subsidiaries from minority shareholders of subsidiaries	—	(10)
Net cash outflow arising from acquisition of subsidiaries	(5,706)	—
Investment in an associate	(6,000)	—
(Increase) decrease in restricted bank deposits	(1,340,014)	25,621
Proceeds on disposal of property, plant and equipment	19,421	335
Government grants received	47,990	40,301
Investment income received from available-for-sale investments	—	86
Net cash used in investing activities	(1,692,037)	(610,786)
Financing activities		
Net proceeds on issuance of shares	—	2,661,332
Short-term debentures repaid	(700,000)	—
Net proceeds on issuance of short-term debentures	—	697,200
New borrowings raised	6,483,131	3,110,155
Borrowings repaid	(3,546,592)	(4,301,820)
Interest paid	(204,003)	(240,574)
Dividends paid to non-controlling interests of subsidiaries	(13,490)	(18,588)
Net cash from financing activities	2,019,046	1,907,705
(Decrease) increase in cash and cash equivalents	(199,093)	3,007,475
Cash and cash equivalents at beginning of the period	2,687,579	613,826
Effect of exchange rate changes on cash and cash equivalents	(1,379)	(8,091)
Cash and cash equivalents at end of the period	2,487,107	3,613,210

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 2009

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 Standard (the “IAS”) 34 “Interim Financial Reporting”.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and biological assets, that are measured at fair values, as appropriate.

A number of new or revised standards and interpretations are effective for the financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

IFRS 8 Operating Segments

(effective for annual periods beginning on or after 1 January 2009)

IFRS 8 is a disclosure standard that has resulted in a redesignation of the Group’s reportable segments (see Note 5), but has had no impact on the reported results or financial position of the Group.

IAS 1 (Revised) Presentation of Financial Statements

(effective for annual periods beginning on or after 1 January 2009)

IAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, IAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

Improvements to IFRSs May 2008

(issued in May 2008)

The improvements include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied, and have no impact on the Group’s accounting policies.

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

3. SIGNIFICANT 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.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008 ¹
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 ²
IAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
IAS 39 (Amendment)	Eligible Hedged Items ³
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
IFRS 3 (Revised)	Business Combinations ¹
IFRIC 17	Distributions of Non-cash Assets to Owners ¹
IFRIC 18	Transfers of Assets from Customers ⁴

¹ Effective for annual period beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for transfer on or after 1 July 2009

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 the financial position 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	
	2009 RMB'000	2008 RMB'000
Sale of paper products	6,366,257	8,007,817
Sale of construction materials	143,530	315,811
Sale of electricity and steam	108,740	125,938
Sale of chemical products	3,709	50,535
Others	20,655	20,341
	6,642,891	8,520,442

5. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are prepared in accordance with Accounting Standards for Business Enterprise (the “PRC GAAP”) and regularly reviewed by the chief operating decision maker, the Company’s Chief Executive Officer (the “CEO”), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments.

Information reported to the CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services, namely, paper products, construction materials, electricity and steam, and others. As this is also the basis of designation of the Group’s reportable segments under IAS 14, the application of IFRS 8 has not resulted in a redesignation of the Group’s reportable segments. However, other income such as exchange gain which was previously not allocated to segment results under IAS 14 is now allocated to segment result upon application of IFRS 8.

As the manufacture and sales of paper products accounted for a substantial part of the Group’s operation, no analysis of individual business segment was presented for the prior period under IAS 14. In the current period, as individual operating segments are the measure reported to the CEO for the purpose of resource allocation and assessment of segment performance, the management has presented additional analysis for individual operating segments. Segment information reported for the prior period has been restated to conform with current period presentation.

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

Six months ended 30 June 2009

	Paper product RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Other RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	6,398,733	143,530	108,740	24,364	—	6,675,367
Inter-segment sales	—	20,115	105,799	4,149	(130,063)	—
Total	6,398,733	163,645	214,539	28,513	(130,063)	6,675,367
Segment results	520,686	(12,261)	30,437	(14,262)	—	524,600
Unallocated expenses						(98,309)
Difference between financial statements prepared in accordance with IFRS and PRC GAAP						17,731
Gain on change in fair value of derivative financial instruments						6,993
Financial costs						(195,044)
Profit before tax						255,971
Income tax charge						(52,125)
Profit for the period						203,846

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

5. SEGMENT INFORMATION (continued)

Six months ended 30 June 2008

	Paper product RMB'000	Construction materials RMB'000	Electricity and steam RMB'000	Other RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	8,039,776	315,811	125,938	70,877	—	8,552,402
Inter-segment sales	—	20,555	102,467	—	(123,022)	—
Total	8,039,776	336,366	228,405	70,877	(123,022)	8,552,402
Segment results	1,636,153	28,904	7,461	14,064	—	1,686,582
Unallocated expenses						(97,146)
Difference between financial statements prepared in accordance with IFRS and PRC GAAP						16,825
Gain on change in fair value of derivative financial instruments						1,232
Financial costs						(244,012)
Profit before tax						1,363,481
Income tax charge						(267,002)
Profit for the period						1,096,479

Other operations mainly include the production and sale of chemical products and hotel operation.

Segment results represents the profit (loss) of each segment without allocation of unallocated corporate expenses, gain on change in fair value of derivative financial instruments, finance costs and difference between financial statements prepared in accordance with IFRS and PRC GAAP. This is the measure reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

6. OTHER INCOME

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Government grants:		
Expansion grants (note a)	35,377	103,756
Value-added tax refund (note b)	7,597	25,236
	42,974	128,992
Interest income	27,045	8,855
Net exchange gain	257	165,697
Net gain (loss) from sales of raw materials	5,828	(4,219)
Discount on acquisition of subsidiaries (Note 24)	3,026	—
Discount on acquisition of additional interests in subsidiaries (note c)	—	28,209
Gain from disposal of property, plant and equipment	5,771	—
Others	15,879	10,369
	100,780	337,903

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 during the six months ended 30 June 2008.

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 during the six months ended 30 June 2008.

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	
	2009 RMB'000	2008 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)
Loss on suspension of production (note)	82,196	—
Investment income from available-for-sale investments	—	(86)
Allowance for (reversal of) bad and doubtful debts	23,555	(30,715)
Reversal of allowance for inventories	(12,952)	—
Release of lease payment charge	9,897	18,905
Depreciation of property, plant and equipment	591,219	541,062
Depreciation of investment properties	869	869
(Gain) loss on disposal of property, plant and equipment	(5,771)	4,942

Note: As a result of the financial crisis in the second half of 2008, the Group's pulp production and construction business has been adversely affected and the Group has temporarily suspended certain production units during the period to reduce losses. The loss on suspension of production mainly includes depreciation of production facilities of RMB61,246,000 and staff cost of RMB16,656,000. Subsequent to 30 June 2009, the Group has resumed these production units.

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Income tax expense comprises:		
Charge for the period	55,951	257,351
Underprovision in prior years	671	715
Current income tax	56,622	258,066
Deferred tax (credit) charge	(4,497)	8,936
Charge for the period	52,125	267,002

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2009 (2008: 25%).

No provision for Hong Kong Profits Tax has been made by the Group for the six months ended 30 June 2008 and 2009 as the Group did not have any assessable profit or incur tax losses during the relevant periods.

9. DIVIDENDS

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Dividend declared for:		
– 2008 (RMB0.05 per share)	103,102	–
– 2007 (RMB0.16 per share)	–	273,015
	103,102	273,015

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

VIII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with International Financial Reporting Standards

10. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the Group's profit for the period attributable to the owners of the Company of RMB170,987,000 (2008: RMB960,060,000) and on the weighted average number of shares of 2,062,046,000 (2008: 1,731,753,000) in issue during the period.

The Group has no potential ordinary shares during each of the six months ended 30 June 2008 and 2009.

11. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group acquired property, plant and equipment amounting to approximately RMB205,723,000 (2008: RMB786,812,000) and made prepaid lease payments in relation to land use rights amounting to approximately RMB26,342,000 (2008: RMB82,187,000).

At 30 June 2009, the Group has pledged certain plant and machinery and buildings and land use rights having a carrying amount of approximately RMB1,113,812,000 and RMB73,852,000 (31 December 2008: RMB1,144,235,000 and RMB74,654,000) respectively to secure the loan facilities granted to the Group by certain banks and a non-controlling shareholder of a subsidiary of the Company.

12. INTERESTS IN ASSOCIATES

On 4 March 2009, the Group acquired 21.15% equity interest in 江西江報傳媒彩印有限公司 (Jiangxi Jiangbao Media Colour Printing Co. Ltd), a company established in Nanchang city, Jiangxi Province, the PRC and is engaged in printing, from an independent third party at a cash consideration of RMB6,000,000.

13. 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 RMB119,489,000 for the six months period ended 30 June 2009 (2008: RMB46,038,000).

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 RMB1,993,000 has been recognised and credited to the consolidated income statement for the six months ended 30 June 2009 (2008: RMB14,972,000).

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14. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade receivables aged:		
0 - 90 days	1,558,853	1,365,834
91 - 180 days	324,705	240,387
181 - 365 days	75,099	104,987
1 - 2 years	27,569	27,306
2 - 3 years	4,789	13,895
Total trade receivables	1,991,015	1,752,409
Bills receivable aged:		
0 - 90 days	1,134,143	802,843
91 - 180 days	1,087,723	171,167
Bills receivable	2,221,866	974,010
Advance to suppliers	649,201	448,282
Other receivables	229,594	260,795
Deposits and prepayment	8,593	14,244
	5,100,269	3,449,740

The Group allows an average credit period of 90 days to its trade customers with trading history and an average credit period of 60 days to non-controlling shareholders of its subsidiaries, otherwise sales on cash terms are required. Bills receivable are repayable on the pre-determined date within 180 days.

15. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent the bank deposits pledged to banks to secure certain short-term bills facilities granted to the Group by certain banks amounting to RMB1,505,853,000 (2008: RMB165,839,000) and are therefore classified as current assets. The restricted bank deposits carry fixed interest rate of 1.71% (2008: 0.36%) per annum as at 30 June 2009. The pledged bank deposits will be released upon the settlement of relevant short-term bills issued.

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16. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2009, 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	Forward contract rates
1 contract to buy US\$50,000,000	18 December 2009	US\$1 to RMB6.776
1 contract to buy US\$100,000,000	26 May 2010	US\$1 to RMB6.699
1 contract to sell US\$50,000,000	18 December 2009	US\$1 to RMB6.812
1 contract to sell US\$100,000,000	26 May 2010	US\$1 to RMB6.764

The above forward contracts are required to be settled net in cash on maturity date and were measured at fair value at each balance sheet dates. Their fair values were determined based on the valuation provided by counterparty financial institutions for equivalent instruments at the balance sheet date.

17. TRADE AND OTHER PAYABLES

An analysis of trade and other payables is as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade payables aged:		
0 - 90 days	1,354,094	2,001,600
91 - 180 days	207,556	275,863
181 - 365 days	370,909	216,240
1 - 2 years	117,109	98,420
2 - 3 years	46,788	17,648
Over 3 years	33,630	32,537
Trade payables	2,130,086	2,642,308
Bills payable aged:		
0 - 90 days	244,524	252,629
91 - 180 days	81,570	114,999
Bills payable	326,094	367,628
Other payables	595,453	506,114
Accrued charges	59,897	52,927
Advances received from customers	192,987	101,694
	3,304,517	3,670,671

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.

18. BORROWINGS



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20. SHARE CAPITAL

	Number of shares '000	Restricted A Shares '000	Type of shares			Total RMB'000
			A Shares '000	B Shares '000	H Shares '000	
At 1 January 2008	1,706,346	339,501	809,348	557,497	—	1,706,346
Issue of H shares (note a)	355,700	—	—	—	355,700	355,700
Transfer of A shares to H shares (note b)	—	(35,570)	—	—	35,570	—
Transfer of A shares held by directors, supervisors and senior management to restricted A shares (note c)	—	177	(177)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A shares (note d)	—	(120)	120	—	—	—
At 31 December 2008	2,062,046	303,988	809,291	557,497	391,270	2,062,046
Transfer of A shares held by directors, supervisors and senior management to restricted A shares (note c)	—	335	(335)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A shares (note d)	—	(187)	187	—	—	—
At 30 June 2009	2,062,046	304,136	809,143	557,497	391,270	2,062,046

Notes:

- 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.
- 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 an one-for-one basis.
- According to the relevant requirement of the Shenzhen Stock Exchange, the shares of the Company held by the directors and key managements of the Company may not be transferred in the six months period following the date when these individuals become owners of these shares (the 'lock-up period'). During the period ended 30 June 2009 and the year ended 31 December 2008, certain directors and key management of the Company acquired 335,192 A Shares and 176,774 A Shares from the public and these shares were reclassified from A Shares to Restricted A shares accordingly.
- The six-month minimum lock-up period for certain restricted A Shares held by certain directors and key management of the Company expired during the period ended 30 June 2009 and the year ended 31 December 2008, 186,820 Restricted A Shares and 120,000 Restricted A Shares were reclassified from Restricted A Shares to A Shares.

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21. CAPITAL COMMITMENTS

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Authorised but not contracted for acquisition of property, plant and equipment	7,450,346	5,622,480
Contracted but not provided for acquisition of property, plant and equipment	265,497	291,332
	7,715,843	5,913,812

22. NON-CASH TRANSACTION

During the period ended 30 June 2008, the Group distributed dividends of RMB95,443,000 to the non-controlling shareholders of the subsidiaries. The Group paid part of the dividends to these shareholders by way of 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 30 June 2008.

23. RELATED PARTY TRANSACTIONS

- (a) Apart from the transactions with related parties 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	
	2009 RMB'000	2008 RMB'000
<i>Associates:</i>		
Electricity charges received	3,896	15,461
Utility charges received	—	6,483
Miscellaneous service charges received	99	854
<i>Non-controlling shareholders of subsidiaries:</i>		
Sales of finished products	57,161	163,866
Technology consultancy fee paid	812	812
Interest paid	4,448	8,614
Minimum operating lease payment in respect of property, plant and equipment	3,480	3,583

Other than the above transactions, the Group also makes payments or collect debts 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 the end of the reporting period.

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23. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties (included in respective item on the balance sheet)

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
<i>Associates:</i>		
Trade receivables	—	10,744
Other receivables	1,738	14,679
<i>Non-controlling shareholders of subsidiaries:</i>		
Trade receivables	42,674	18,354
Borrowings	196,304	214,153

All the amounts due from associates and non-controlling shareholders of subsidiaries are unsecured, interest-free and expected to be recovered within one year from the end of the respective reporting periods. The borrowings from a non-controlling shareholder of a subsidiary are repayable after one year from the end of the respective reporting periods.

(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	
	2009 RMB'000	2008 RMB'000
Sales	1,807,550	2,150,307
Purchases	512,720	179,343
Construction works expenses paid	40,020	115,786

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23. RELATED PARTY TRANSACTIONS (continued)

(c) Material transactions and balances with other stated-owned enterprises in the PRC (continued)

(ii) Material balances

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Restricted bank deposits	967,937	150,650
Cash and cash equivalents	2,323,369	2,484,732
Trade and other receivables	735,228	823,004
Trade and other payables	547,612	552,004
Bank borrowings	7,235,370	6,284,920

(d) Compensation of key management personnel

The remuneration of directors and other members of senior management during the period was as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Short-term employee benefits		
– Directors	978	2,803
– Other senior management	784	1,787
Subtotal	1,762	4,590
Post-employment benefits		
– Directors	97	72
– Other senior management	161	162
Subtotal	258	234
Total	2,020	4,824

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24. ACQUISITION OF SUBSIDIARIES

In June 2009, the Group acquired certain subsidiaries engaged in decorative packaging, goods transportation and coal trading from various independent third parties at an aggregate cash consideration of RMB6,900,000. The consideration was paid in June 2009.

The fair value of assets and liabilities acquired is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	6,805	—	6,805
Prepaid lease payment	3,993	1,746	5,739
Inventories	5,534	—	5,534
Trade and other receivables	13,688	—	13,688
Cash and cash equivalents	2,194	—	2,194
Trade and other payables	(24,034)	—	(24,034)
	8,180	1,746	9,926
Discount on acquisition			(3,026)
Total consideration, satisfied by cash			6,900
Net cash outflow arising on acquisition:			
Cash consideration paid			(6,900)
Cash and cash equivalents acquired			2,194
			(4,706)

The businesses acquired contributed revenue and incurred loss amounting to RMB302,000 and RMB924,000 respectively for the six months ended 30 June 2009.

If the above acquisitions had been completed on 1 January 2009, the Group's revenue for six months ended 30 June 2009 would have been RMB6,646,116,000 and profit for six months ended 30 June 2009 would have been RMB202,588,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

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25. POST BALANCE SHEET EVENTS

- (a) On 6 July 2009, Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, entered into purchase contracts with independent third parties to purchase various equipment and parts at an aggregate consideration of approximately RMB1.3 billion for the purpose of its culture paper project and consideration of approximately RMB1.5 billion for the purpose of the Zhanjiang pulp project, respectively.

On 6 August 2009, Shouguang Meilun Paper Co., Ltd., a subsidiary of the Company, entered into purchase contracts with independent third parties to purchase various equipment and parts at an aggregate consideration of approximately RMB2 billion for the purpose of its coated paper project.

- (b) Pursuant to the extraordinary general meeting of the Company held on 27 July 2009, a resolution on the construction of a high-end low weight coated paper project with an annual production capacity of 800,000 tonnes in Shouguang City was passed. The total investment amount for this project will be approximately RMB5.2 billion.

In the same meeting, a resolution on the construction of a high-end white coated linerboard project with an annual production of 600,000 tonnes in Shouguang City was passed. The total investment amount for this project will be approximately RMB2.6 billion.

Another resolution on the construction of the project of Chenming International Logistics Centre and the ancillary railway special line in Shouguang City was passed in the meeting. The total investment amount for this project will be approximately RMB2 billion.

The above projects are subject to approval from the relevant government authorities in the PRC. The project investments will be financed by funds raised by the Group and bank loans.

- (c) Pursuant to the notification document from the relevant government authorities in Shandong Province issued on 6 July 2009, the Company has been recognised as one of the advanced technology enterprises in Shandong Province in 2009 for a period of three years. According to the applicable laws and regulations in the PRC, the Company will be entitled to pay the enterprise income tax at a reduced tax rate of 15% for three years after getting the approval from the relevant tax authority. As of the date of this report, the Company is in the progress of application to the tax authority.

26. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information of the Company was approved by the Board of Directors on 27 August 2009.

IX. Documents Available for Inspection

- I. Accounting statements signed and stamped with seal by the legal representative, financial controller and responsible personnel of the accounting institution;
- II. copy of the Interim Report signed by the legal representative;
- III. originals of corporate documents publicly disclosed in newspapers designated by CSRC during the reporting period and original copies of the relevant announcements;
- IV. copy of the Interim Report filed with the Stock Exchange of Hong Kong Limited;
- V. other relevant information.



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