山 東 晨 鳴 紙 業 集 團 股 份 有 限 公 司

SHANDONG CHENMING PAPER HOLDINGS LIMITED*

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

(Stock Code: 1812)

2008 Interim Report Summary and Results Announcement

§1 Important Notice

1.1 The members of the board (the "Board") of directors (the "Directors"), the supervisory committee (the "Supervisory Committee")and the Directors, supervisors (the "Supervisors") and senior management (the "Senior Management") of Shandong Chenming Paper Holdings Limited (the "Company", "us", and "we") hereby confirmed that there are no false representations, misleading statements or material omissions contained in this 2008 interim report (the "Report"), and jointly and severally accepts full responsibility for the truth, accuracy and completeness of the contents of this Report. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail. This interim report summary is extracted from the full text of the interim report, which is published at the same time on the website of CNINF (www.cninfo.com.cn) and the Company (www.chenmingpaper.com). Investor should read the full text of the interim report for details. The unaudited condensed consolidated financial statements for the six-month period ended 30 June 2008 prepared in accordance with International Financial Reporting Standards by the Group have been reviewed by Deloitte Touche Tohmatsu, the independent international auditors of the Company, in accordance with International Standard on Review Engagements ("ISRE") 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Federation of Accountants, however the condensed consolidated income statement for the six-month period ended 30 June 2007 disclosed in the interim financial information has not been reviewed by the auditors in accordance with ISRE 2410.

1.2 No Director, Supervisor or Senior Management is unable to warrant or object to the truth, accuracy and completeness of the information contained in this interim report.

1.3 This interim report is considered and passed by the tenth meeting of the fifth session of the Board with all Directors present.

1.4 The interim financial statements for the six months ended 30 June 2008 of the Company and its subsidiaries (collectively referred to as the "Group") prepared in accordance with China Accounting Standards and International Financial Reporting Standards are unaudited.

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

§2 Company Information

2.1 Basic Information

Stock Abbreviation	晨鳴紙業、晨鳴B、Chenming Paper (H Share)
Stock Code	000488, 200488, 1812
Stock Exchange	Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited
Registered Address and Office 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

	Secretary to the Board	Hong Kong Company Secretary	Securities Affairs Representative
Name	Hao Yun	Poon Shiu Cheong	Fan Yingjie, Sun Wenke
Correspondence Address	No. 595 Shengcheng Road, Shouguang City, Shandong Province, China	22/F, World Wide House, Central, Hong Kong	No. 595 Shengcheng Road, Shouguang City, Shandong Province, China
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2.2. Summary of Financial and Operating Results

2.2.1 Major financial data and indicators prepared in accordance with China Accounting Standards

Unit: RMB

	End of the current reporting period	End of last year	Increase/drecrease as at the end of the current reporting period compared with the end of last year (%)
Total assets	25,642,408,164.27	22,011,108,257.29	16.50%
Equity attributable to equity holders of the Company	12,138,169,586.13	8,745,035,011.85	38.80%
Net assets per share	5.8865	5.125	14.86%
	The reporting period (January to June)	**The Corresponding period of last year**	**Increase/decrease for the curruent reporting period compared with the corresponding period of last year (%)**
Operating profit	1,185,780,329.56	502,499,314.99	135.98%
Total profit	1,346,655,781.17	618,101,440.69	117.87%
Net profit attributable to equity holders of the Company	947,427,409.04	388,928,937.34	143.60%
Net profit after extraordinary gains or losses attributable to equity holders of the Company	823,334,761.83	352,868,732.01	133.33%
Basic earnings per share	0.55	0.26	111.54%
Diluted earnings per share	N/A	N/A	N/A
Return on net assets	7.81%	4.78%	increase in 3.03 percentage points
Net cash flows from operating activities	1,710,555,311.30	403,674,112.15	323.75%
Net cash flows from operating activities per share	0.83	0.24	245.83%

2.2.2 Extraordinary gains or losses items prepared in accordance with China Accounting Standards

√ Applicable ☐ Not Applicable

Unit: RMB

Extraordinary gains or losses items	Amount
Net gain or loss from disposal of non-current assets	182,864.70
Government grants received	106,938,176.97
Net gains or losses attributable to debt restructuring	-591,573.65
Negative goodwill resulting from the acquisition of minority interest	28,211,118.08
Reversal of impairment provision for accounts receivable after independent impairment tests	12,470,039.30
Non-operating net gain or loss other than the above	20,285,053.31
Effect of extraordinary gains or losses on minority shareholders	-4,896,744.50
Effect of extraordinary gains or losseson income tax	-38,506,287.00
Total	124,092,647.21

2.2.3 Major financial data and indicators prepared in accordance with International Financial Reporting Standards

Unit: RMB'000

	End of the current reporting period	End of the last year	Increase/decrease as at the end of the current reporting period compared with the end of last year (%)
Total assets	25,546,893	21,913,725	16.58%
Equity attributable to equity holders of the Company	11,776,917	8,371,151	40.68%
Net assets per share (RMB)	5.711	4.906	16.41%

Unit: RMB'000

	The reporting period (Janury to June 2008)	The corresponding period of last year	Increase/decrease for the current reporting period compared with the corresponding period of last year (%)
Profit before tax	1,363,481	597,868	128.06%
Profits attributable to equity holders of the Company	960,060	366,743	161.78%
Basic earnings per share (RMB)	0.55	0.23	139.13%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Return on net assets	8.15%	4.38%	increase in 3.77%
Net cash flows from operating activities	1,710,556	90,986	1,780.02%
Net cash flows from operating activities per share (RMB)	0.83	0.04	1,975.00%

2.2.4 Reconciliations of accounts prepared in accordance with China Accounting Standards and International Financial Reporting Standards

√ Applicable ☐ Not Applicable

Unit: RMB'000

	China Accounting Standards	International Financial Reporting Standards
Net profit	1,079,654	1,096,479
Net assets	13,895,882	13,512,443
Reason for difference	The differences in net profit and net assets between China Accounting Standards and International Financial Reporting Standards are mainly attributable to the differences in the accounting standards of the special fund for treasury bonds and special payables received by the Group.	

§3 Changes in Share Capital and Shareholders

3.1 Changes in Share Capital

√ Applicable ☐ Not Applicable

Unit: shares

	Opening balance		Increase/decrease (+/-) resulting from changes					Closing balance	
	Number of shares	Percentage	Increase in lock-up shares	Shares no longer subject to selling restrictions	Transfer of state-owned shares	Issue of new shares	Sub-total	Number of shares	Percentage
I. Restricted shares	339,500,453	19.90%	–	-120,101	-35,570,000	–	-35,690,101	303,810,352	14.73%
1. State-owned legal person shares	328,573,657	19.26%	–	–	-35,570,000	–	-35,570,000	293,003,657(1)	14.21%
2. Shares held by the senior management	10,926,796	0.64%	–	-120,101	–	–	-120,101	10,806,695(2)	0.52%
II. Non-restricted shares	1,366,845,488	80.10%	–	120,101	35,570,000	355,700,000	391,390,101	1,758,235,589	85.27%
1. Renminbi ordinary shares (A shares)	809,348,003	47.43%	–	120,101	–	–	120,101	809,468,104	39.26%
2. Domestic-listed foreign shares (B shares)	557,497,485	32.67%	–	–	–	–	–	557,497,485	27.04%
3. Overseas-listed foreign shares (H shares)	–	–	–	–	35,570,000	355,700,000	391,270,000	391,270,000	18.97%
III. Total number of shares	1,706,345,941	100.00%	–	–	–	355,700,000	355,700,000	2,062,045,941	100.00%

Note: 1. Pursuant to the Notice of the Provisional Administrative Measures for State-owned Shares reduction for Raising Social Security Fund promulgated by the State Council (《國務院關於印發減持國有股籌集社會保障資金管理暫行辦法的通知》), the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer from Shouguang Chenming Holdings Co., Ltd. to the Social Security Fund Council (the "NSSF Council") such number of A shares held by it in aggregate equivalent to 10% of the number of the offer shares, representing 35,570,000 state-owned legal person shares, which were converted into overseas listed foreign shares (H shares) and listed on the Main Board of The Stock Exchange of Hong Kong Limited upon the issuance of overseas listed foreign shares (H shares) by the Company. The number of A shares held by Shouguang Chenming Holdings Co., Ltd. was reduced to 293,003,657 shares.

2. During the reporting period, the restricted shares held by the senior management decreased from 10,926,796 shares to 10,806,695 shares by 120,101 shares. The reasons for such change were as follows:

① According to "the Practice Guidance for the Company's shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange" (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份管理業務操作指南》), the shares held by the existing directors, supervisors and senior management would be unlocked up on the basis of the percentage of 25% of the shares held at the beginning of each year. For the 27,301 shares held by the senior management, the nature of the shareholdings would be changed from "restricted shares held by the senior management" to "non-restricted RMB ordinary shares (A shares)".

② During the reporting period, the half year lock-up period for the resigned senior management of the Company was expired. Therefore, the nature of the 92,800 shares, used to be held by the senior management, was changed from restricted shares held by the senior management to the non-restricted RMB ordinary shares (A shares).

3.2 The top ten shareholders and the top ten shareholders of non-restricted shares

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

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledge or frozen
HKSCC Nominees Limited	Overseas non-state-owned legal person (Foreign shareholder)	18.89%	389,450,500	—	unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	None
Agricultural Bank of China －中郵核心成長股票型證券投資基金	Domestic non-state-owned legal person	3.47%	71,450,743	—	unknown
Agricultural Bank of China －中郵核心優選股票型證券投資基金	Domestic non-state-owned legal person	2.40%	49,528,227	—	unknown
Industrial and Commercial Bank of China－諾安股票證券投資基金	Domestic non-state-owned legal person	1.54%	31,820,948	—	unknown
DREYFUS PIFI-DREYFUS PREMIER GREATER CHINA	Overseas legal person	1.45%	29,945,645	—	unknown
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Overseas legal person	1.23%	25,370,723	—	unknown
Bank of China －華夏行業精選股票型證券投資基金(LOF)	Domestic non-state-owned legal person	1.23%	25,339,077	—	unknown
China Construction Bank －華夏紅利混合型開放式證券投資基金	Domestic non-state-owned legal person	0.98%	20,276,356	—	unknown
健康元藥業集團股份有限公司	Domestic non-state-owned legal person	0.92%	18,900,000	—	unknown

Shareholdings of the top ten shareholders of non-restricted shares		
Name of shareholders	**Number of non-restricted shares held (shares)**	**Classes of shares**
HKSCC Nominees Limited	389,450,500	H Shares
Agricultural Bank of China －中郵核心成長股票型證券投資基金	71,450,743	A Shares
Agricultural Bank of China －中郵核心優選股票型證券投資基金	49,528,227	A Shares
Industrial and Commercial Bank of China －諾安股票證券投資基金	31,820,948	A Shares
DREYFUS PIFI-DREYFUS PREMIER GREATER CHINA	29,945,645	B Shares
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	25,370,723	B Shares
Bank of China －華夏行業精選股票型證券投資基金(LOF)	25,339,077	A Shares
China Construction Bank －華夏紅利混合型開放式證券投資基金	20,276,356	A Shares
健康元藥業集團股份有限公司	18,900,000	A Shares
China Construction Bank －鵬華價值優勢股票型證券投資基金	18,546,596	A Shares
Connected relationship or concert-party relationship	Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the above 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》). Agricultural Bank of China－中郵核心成長股票型證券投資基金 and Agricultural Bank of China－中郵核心優選股票型證券投資基金 are the sub-funds of 中郵創業基金管理有限公司. 華夏行業精選股票型證券投資基金(LOF) and 華夏紅利混合型開放式證券投資基金 are the sub-funds of 華夏基金管理有限公司. Save for the above, the Company is not aware of any other shareholders of tradable 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》).	

3.3 Changes in the Company's controlling shareholders and beneficial controllers during the reporting period

□ Applicable √ Not Applicable

§4 Directors, Supervisors and Senior Management

4.1 Changes in shareholdings of the directors, supervisors and senior management

√ Applicable □ Not Applicable

Unit: shares

Name	Title	Number of shares held at the beginning of the year	Increase in the number of shares held during the reporting period	Decrease in the number of shares held during the reporting period	Number of shares held at the end of the reporting period	Reasons for change
Zhou Shaohua	Director	125,307	0	2,300	123,007	Note
Dong Jianwen	Deputy General Manager	196,794	0	11,700	185,094	Note

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

The number of the share options of the Company and shares subject to selling restrictions held by and granted to the above persons

√ Applicable □ Not Applicable

The 2001 general meeting of the Company considered and passed the resolution relating to the establishment of an equity incentive system for the senior management and resolved to provide equity incentives to the senior management. The Company had bought the A shares of the Company for some Directors and the executive management in previous years. The relevant matters had been disclosed in the annual report of 2004 and 2006. No equity incentives were granted during the year.

§5 Directors' Report

5.1 Revenue from operations by industry and product segments prepared in accordance with China Accounting Standards

Unit: RMB in ten thousand

Sales revenue by industry segments						
By industry or by product	Sales revenue	Cost of sales	Gross profit margins (%)	Increase/ decrease in sales revenue compared with the corresponding period of previous year (%)	Increase/ decrease in cost of sales compared with the corresponding period of previous year (%)	Increase/ decrease in gross profit margin compared with the corresponding period of previous year (%)
Paper products	801,457.21	620,749.11	22.55	30.00	24.11	3.68
Electricity and steam	12,593.78	11,018.55	12.51	36.31	30.35	4.00
Construction materials	31,581.13	27,355.91	13.38	-26.04	-27.74	-4.76
Chemicals products	5,053.55	2,043.91	59.55	28.24	-9.50	16.87
Others	4,554.56	3,554.13	21.97	-38.47	-31.59	-7.85
Total	855,240.23	664,721.61	22.28	25.81	20.63	3.34
Sales revenue by product segment						
Light weight coated paper	92,252.18	74,030.63	19.75	0.90	-1.68	2.10
Duplex press paper	120,706.92	91,631.96	24.09	38.53	34.04	2.54
Writing paper	20,073.80	15,562.46	22.47	81.59	80.63	0.41
Art paper	152,122.03	108,859.80	28.44	54.74	41.82	6.52
News press paper	111,113.03	89,354.84	19.58	27.61	28.04	-0.27
Paperboard	48,089.47	43,000.53	10.58	5.91	14.21	-6.50
White paper board	124,220.08	90,719.77	26.97	15.75	-1.45	12.75

There were no related transactions of sales of products and provision of labor service from the listed company to its controlling shareholders and its subsidiaries during the reporting period.

5.2 Breakdown of sales revenue by geographical segments prepared in accordance with China Accounting Standards

Unit: RMB in ten thousand

Regions	Sales revenue	Increase/decrease in sales revenue compared with the corresponding period of last year
PRC	761,180.78	31.43%
United States	2,187.89	-79.91%
Hong Kong	16,660.75	79.45%
Japan	6,489.49	-53.01%
South Africa	15,171.85	10.66%
Other regions	53,549.47	1.11%
Total	855,240.23	25.81%

5.3 Reasons for significant changes in principle operations and their structure

□ Applicable √ Not Applicable

5.4 Reasons for significant changes in the profitability (gross profit margin) of principal operations as compared with the corresponding period of last year in accordance with China Accounting Standards

√ Applicable ☐ Not Applicable

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

5.5 Reasons for significant changes in profit composition as compared with last year

☐ Applicable √ Not Applicable

5.6 The discussion and analysis under International Financial Reporting Standards

Revenue from operations

Unit: RMB'000

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

Unit: RMB'000

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

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

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

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

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

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

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

Cost of sales and gross profit

The ratio of cost of sales to revenue from operations

Unit: RMB'000

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

Gross Profit and Gross Profit Margin

Unit: RMB'000

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

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

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

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

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

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

Liquidity, financial resources and capital structure

Liquidity

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

(1) the cash flows from operating activities increased mainly due to:

   1. the revenue increase as a result of the rise of sales volume and the sales prices benefiting from the more favorable market conditions during the reporting period, as well as our greater efforts in the recovery of trade receivables, thus leading to the increase of the net cash flows from operating activities; and

   2. the reflection of discounted bills outstanding deemed as borrowings at the prior year end in the cash inflows from financing activities in the cash flow statement. The cash inflows from operating activities also increased due to deemed repayment of borrowings when bills becoming due during the reporting period, thus leading to an increase of the net cash flows from operating activities by RMB 420 million;

(2) the cash flows from investing activities increased mainly due to the change of restricted bank deposits, including letters of credit and acceptance deposits, a decrease in investment levels during the reporting period, and an increase of the special funds from the government; and

(3) the cash flows from financing activities increased mainly due to receipt of the proceeds from the issuance of H shares during the reporting period and the change in borrowings.

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

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

Principal sources of funding

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

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

As at 30 June 2008, the Group's new bank borrowings were increased by RMB3,110 million and the repayment of loans amounted to RMB4,300 million. The borrowings was bearing interest from 5.06% to 7.62%.

Gearing ratio of the Company

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

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

As at 30 June 2008, the secured assets of the Company 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 USD40,000,000.00 USD9,411,765.00 and USD17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. The net book value of the collateral with regard to fixed assets was RMB1,174,658,072.50 and that with regard to the land use rights or intangible assets was RMB75,454,889.54.

Contingent liabilities of the Company

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

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

Risk of fluctuations in foreign exchange rate and any relevant hedging

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

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

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

Business outlook for the second half of 2008

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

1. To accelerate the structural adjustment and achieve scientific development

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

2. To enhance independent innovation

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

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

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

4. To accelerate the forestry-pulp-paper integration

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

5. To enhance construction of projects financed by proceeds

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

5.7 Use of proceeds

5.7.1 Application of proceeds

√ Applicable ☐ Not Applicable

Unit: RMB in ten thousand

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

5.7.2 Change in the projects

☐ Applicable √ Not Applicable

5.8 Proposed change to the Board's business Plan for the second half year

☐ Applicable √ Not Applicable

5.9 Warning on any potential loss in retained net profit for the period from the beginning of the year to the end of next reporting period or any material change from the corresponding period of last year and the reason thereof (Predicted in accordance with the China Accounting Standards)

√ Applicable ☐ Not Applicable

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

5.10 Management's explanations on the "qualified opinions" for the reported period issued by the auditors

☐ Applicable √ Not Applicable

5.11 Management's explanations on the changes and settlements of issues raised in the "qualified opinions" issued by the auditors

☐ Applicable √ Not Applicable

§6 Material Matters

6.1 Acquisition, sale and reorganization of assets

6.11 Acquisition of assets

√ Applicable ☐ Not Applicable

Unit: RMB in ten thousand

Transaction party or ultimate controlling party	Assets acquired or transferred	Acquisition Date	Transaction price	Net Profit contributed to the Company from the Acquisition Date to the end of the reporting period (applicable to consolidation of entities under uncommon control)	Net Profit contributed to the Company from the beginning of the period to the end of the period (applicable to consolidation of entities under common control)	Connected transaction? (If yes, explain pricing principles)	Pricing principles	Does all the assets rights involved transferred?	Does all the debentures involved transferred?
The People's Government of Shouguang City, State-owned Assets Supervision and Administration Commission of Shouguang City	35.71% share equity of Shandong Chenming Power Supply Holdings Co., Ltd.	19 January 2008	8,639.38	Not applicable	Not applicable	Yes	The assessed price as reference	Yes	Yes

6.1.2 Sale of assets

☐ Applicable √ Not Applicable

6.1.3 The progress of the matter and effects of the matters to the operating results and financial conditions during the reporting period after the publication of the announcements on the asset reorganization reports or acquisition of disposed assets.

☐ Applicable √ Not Applicable

6.2 Guarantees

√ Applicable ☐ Not Applicable

Unit: RMB in ten thousand

External guarantees provided by the company (excluding guarantees for subsidiaries)						
Name of the guaranteed entity	Date of incurrence (Agreement signing date)	Guarantee amount	Types of Guarantee	Guarantee Period	Completed or not	Guarantee for connected parties (Yes or No)
Total guarantee amounts during the reporting period						0.00
Remaining guarantee amounts at the end of the reporting period(A)						0.00
Guarantees provided for the subsidiaries						
Total guarantee amounts for subsidiaries during the reporting period						10,694.00
Remaining guarantee amounts for subsidiaries at the end of the reporting period(B)						92,149.27
Total guarantee amounts provided by the Company (including guarantees for subsidiaries)						
Total guarantee amounts (A+B)						92,149.27
Total guarantee amounts as a percentage of net assets						7.59%
Of which:						
Guarantee amounts provided for shareholders, the defacto controller and connected parties(C)						0.00
Guarantee amounts provided directly or indirectly for entities with gearing ratio exceeding 70% (D)						46,743.64
Total guarantee amounts exceeding 50% of net assets (E)						45,405.63
Total amounts of three guarantees mentioned above*(C+D+E)						92,149.27

6.3 Non-recurrent connected creditor's rights and debts

☐ Applicable √ Not Applicable

6.4 Material litigation or arbitration

☐ Applicable √ Not Applicable

6.5 Other significant events and analysis of their impact of and solutions

√ Applicable ☐ Not Applicable

Except for the provision of entrusted loans to subsidiaries of the Company (Please see note 8 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details), the Company did not appoint any person to manage the Company's funds during the reporting period or in the preceding reporting period which had been carried over to this reporting period. Also, there was no trust, subcontracting and lease of the assets between the Company and other companies during the reporting period or in the preceding reporting period which had been carried over to this reporting period.

6.5.1 Investment in securities

☐ Applicable √ Not Applicable

6.5.2 Held the shareholdings of other listed companies

☐ Applicable √ Not Applicable

6.5.3 Independent opinion from independent directors in respect of the related parties from embezzling the Company's fund and external guarantees during the reported period.

After inspection, Shouguang Chenming Holdings Company Limited, the controlling shareholder, and other related parties, had not embezzled the Company's fund during the reporting period, except for the connected transactions which entered between the Company and its holding subsidiaries and fellow subsidiaries (Please see note 9 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details). The connected transactions are comparably true and accurate to represent the routine connected transactions of the Company, which complied with the principle of fair and reasonable, and related requirements of the Company Law and the Articles of Associations. The price of the transactions are true and fair and not resulted in impairment of the interests of the Company and other shareholders, especially the interest of medium and small shareholders, and non-associated shareholders. After inspection, the external guarantee amounts of the Company in the current period of the first half of 2008 and the aggregated external guarantee amounts both are nil, except for the guarantees provided to holding subsidiaries (Please see note 9 in the financial statements and notes thereto prepared in accordance with China Accounting Standards for details). The Company strictly complied with the related requirements of ''Notice on Regulating External Guarantees made by Listed Companies'' (Zheng Jian Fa [2005] No. 120) and the Articles of Associations, the Company has been in strict compliance with the obligation of disclose of the information about external guarantees, and truly provide the information of all the external guarantees to the qualified accountant according to the rule. During the reported period, the guarantees provided to holding subsidiaries by the Company conform to the requirements of the routine production and operation and reasonable utilization of the funds of the Company, its decision making procedure is legitimate, and not resulted in impairment of the interests of the Company and other shareholders, especially the interest of medium and small shareholders, and non-associated shareholders.

6.5.4 Undertakings of conditional shares by shareholders holding 5% or more interests in the Company in 2008

□ Applicable √ Not Applicable

6.6 Reception of activities including research, communication and interviews during the reporting period

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

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

§7 Financial statements

7.1 Audit opinion

Financial statements	√ Unaudited ☐ Audited

7.2 Financial statements prepared in accordance with China Accounting Standards

7.2.1 Balance Sheets

Prepared by: Shandong Chenming Paper Holdings Limited — 30 June 2008

Unit: RMB

Items	End of Period		Beginning of Period	
	Combined	Parent company	Combined	Parent company
Current assets:				
Monetary assets	3,714,383,576.78	3,199,087,163.69	740,621,843.91	348,948,724.68
Settlement reserves	—	—	—	—
Lendings to banks	—	—	—	—
Marketable financial assets	7,187,697.00	—	5,955,480.00	—
Bills receivable	1,060,198,464.41	405,502,240.90	1,676,684,054.95	998,809,409.00
Accounts receivable	1,448,599,988.48	1,349,046,095.45	1,660,020,696.84	1,466,109,588.60
Advance to suppliers	876,809,957.73	414,127,678.67	574,014,801.43	279,890,382.88
Premiums receivable	—	—	—	—
Reinsurance accounts receivable	—	—	—	—
Dividend receivable	—	145,674,997.10	—	42,933,862.14
Reinsurance reserve receivable	—	—	—	—
Interest receivable	—	—	—	—
Other receivables	184,705,743.35	538,081,786.52	196,162,672.11	776,521,148.45
Financial assets purchased under repurchase agreements	—	—	—	—
Inventory	2,600,562,908.51	1,280,690,241.77	1,744,492,612.36	721,354,749.54
Non-current assets due within one year	—	2,501,700,000.00	—	1,864,000,000.00
Other current assets	—	—	—	—
Total current assets	9,892,448,336.26	9,833,910,204.10	6,597,952,161.60	6,498,567,865.29

Items	End of Period		Beginning of Period	
	Combined	Parent company	Combined	Parent company
Non-current assets:				
Entrusted loans	—	590,000,000.00	—	625,000,000.00
Loans and advances	—	—	—	—
Available-for-sale financial assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivables	—	—	—	—
Long-term equity investments	83,914,596.38	2,278,653,121.69	96,289,936.43	2,194,652,949.31
Investment properties	29,033,852.17	29,033,852.17	29,902,980.19	29,902,980.19
Fixed assets	13,562,622,447.73	6,569,813,273.65	13,243,156,039.93	6,555,767,873.32
Construction in progress	811,995,951.52	46,397,314.96	904,753,634.02	275,351,308.78
Construction materials	59,191,829.45	3,253,753.06	44,433,213.61	6,850,752.92
Disposal of fixed assets	—	—	—	—
Productive biological assets	—	—	—	—
Oil and gas assets	—	—	—	—
Intangible assets	887,763,409.02	372,402,202.77	822,301,826.32	377,022,979.83
Development costs	—	—	—	—
Goodwill	20,283,787.17	—	20,283,787.17	—
Long term amortisation charges	43,815,389.53	—	56,513,234.75	—
Deferred income tax assets	98,168,565.04	67,460,809.69	103,361,571.98	72,516,429.65
Consumable biological assets	153,170,000	—	92,159,871.29	—
Other non-current assets	—	—	—	—
Total non-current assets	15,749,959,828.01	9,957,014,327.99	15,413,156,095.69	10,137,065,274.00
Total Assets	25,642,408,164.27	19,790,924,532.09	22,011,108,257.29	16,635,633,139.29

Items	End of Period		Beginning of Period	
	Combined	Parent company	Combined	Parent company
CURRENT LIABILITIES				
Short-term loans	2,099,397,384.04	1,727,816,192.59	3,594,000,057.28	3,350,420,391.17
Borrowings from the central bank	—	—	—	—
Deposits taken and balances with other banks	—	—	—	—
Borrowings from banks	—	—	—	—
Marketable financial liabilities	—	—	—	—
Notes payable	147,082,514.36	47,961,845.35	130,056,316.74	121,487,222.14
Accounts payable	2,127,943,709.74	1,642,110,177.74	1,656,706,980.62	1,332,552,331.70
Advances from customers	177,133,497.30	106,152,262.79	170,286,629.21	92,126,887.49
Financial assets sold under repurchase agreements	—	—	—	—
Fees and commissions payable	—	—	—	—
Employee benefits payable	218,307,517.64	126,039,020.68	234,880,219.06	119,224,432.42
Taxes payable	118,666,630.82	125,749,839.19	102,444,450.86	100,151,250.80
Interest payable	273,051,425.73	273,051,425.73	36,075.17	36,075.17
Other payables	444,172,768.68	319,950,176.74	305,050,016.38	278,838,344.66
Reinsurance accounts payable	—	—	—	—
Insurance reserve	—	—	—	—
Trading securities on a commissioned basis	—	—	—	—
Underwriting securities on a commissioned basis	—	—	—	—
Non-current liabilities due within one year	1,162,787,480.82	1,008,538,675.00	667,746,417.91	586,144,500.00
Short-term debentures	1,218,523,194.44	702,123,333.33	506,212,916.67	—
Other current liabilities	—	—	—	—
Total current liabilities	7,987,066,123.57	6,079,492,949.14	7,367,420,079.90	5,980,981,435.55

Items	End of Period		Beginning of Period	
	Combined	Parent company	Combined	Parent company
NON-CURRENT LIABILITIES:				
Long-term loans	3,708,482,090.26	2,638,079,535.94	4,056,194,662.35	2,899,617,835.94
Bonds payable	—	—	—	—
Long-term payables	—	—	—	—
Special payables	—	—	—	—
Anticipated liabilities	—	—	—	—
Deferred income	41,131,083.32	1,809,000.00	830,000.00	—
Deferred income tax liabilities	9,846,910.15	—	6,103,850.08	—
Other non-current liabilities	—	—	—	—
Total non-current liabilities	3,759,460,083.73	2,639,888,535.94	4,063,128,512.43	2,899,617,835.94
TOTAL LIABILITIES	11,746,526,207.30	8,719,381,485.08	11,430,548,592.33	8,880,599,271.49
OWNERS' EQUITY (or shareholders' equity):				
Paid-up captial (Share capital)	2,062,045,941.00	2,062,045,941.00	1,706,345,941.00	1,706,345,941.00
Capital surplus	6,100,544,240.89	6,192,089,748.26	3,737,991,906.21	3,827,378,359.74
Less: tresury shares	—	—	—	—
Surplus reserve	723,742,920.58	711,553,338.67	723,742,920.58	711,553,338.67
General risk reserve	—	—	—	—
Undistributed profits	3,251,062,407.86	2,105,854,019.08	2,576,650,349.38	1,509,756,228.39
Difference on translation	774,075.80	—	303,894.68	—
Total equity attributable to equity holders of the Company	12,138,169,586.13	11,071,543,047.01	8,745,035,011.85	7,755,033,867.80
Minority Interests	1,757,712,370.84	—	1,835,524,653.11	—
Total owners' equity	13,895,881,956.97	11,071,543,047.01	10,580,559,664.96	7,755,033,867.80
TOTAL LIABILITIES AND OWNERS' EQUITY	25,642,408,164.27	19,790,924,532.09	22,011,108,257.29	16,635,633,139.29

7.2.2 Income statements

Prepared by: Shandong Chenming Paper Holdings Limited		January to June 2008

Unit: RMB

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
I. Total operating revenue	8,552,402,269.40	7,253,178,510.24	6,797,896,720.16	5,671,924,984.93
Including: Operating revenue	8,552,402,269.40	7,253,178,510.24	6,797,896,720.16	5,671,924,984.93
Interest income	—	—	—	—
Premiums earned	—	—	—	—
Fees and commission income	—	—	—	—
II. Total costs of operations	7,370,536,934.02	6,470,481,400.35	6,295,206,493.05	5,385,375,292.49
Including: Costs of operations	6,647,216,143.91	6,161,287,463.14	5,510,418,331.42	5,003,493,491.98
Interest expenses	—	—	—	—
Fees and commission expenses	—	—	—	—
Surrender charges	—	—	—	—
Net claim payments	—	—	—	—
Net premium reserves on drawn-down polices	—	—	—	—
Policy dividend payments	—	—	—	—
Reinsurance fee	—	—	—	—
Tax and levies on operations	6,755,555.55	135,343.88	11,895,855.09	2,859,977.01
Selling and distribution expenses	402,926,002.43	197,903,117.82	304,204,074.67	135,334,159.33
General and administrative expenses	265,718,708.42	102,326,327.25	208,290,535.85	82,924,306.70
Finance expenses	78,635,192.38	30,691,691.51	201,121,690.39	154,665,213.73
Loss on impairment of assets	-30,714,668.67	-21,862,543.25	59,276,005.63	6,098,143.74

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
Add: Gain on change in fair value (minus: loss)	16,204,457.27	—	—	—
Investment income (minus: loss)	-12,289,463.09	230,665,587.59	-190,912.12	55,720,620.11
Including: Investment income from associates and joint ventures	—	—	—	—
Gain on translation (minus: loss)	—	—	—	—
III. Operating profit (minus: gain or loss)	1,185,780,329.56	1,013,362,697.48	502,499,314.99	342,270,312.55
Add: Non-operating income	168,804,618.70	80,045,436.63	120,924,970.26	65,418,025.12
Less: Non-operating expenses	7,929,167.09	5,943,534.62	5,322,844.56	3,064,797.43
Including: Loss on disposal of non-current assets	— —	— —	— —	— —
IV. Total profit	1,346,655,781.17	1,087,464,599.49	618,101,440.69	404,623,540.24
Less: Income tax expenses	267,002,051.55	218,351,458.24	132,187,730.90	83,241,309.64
V. Net profit (minus: net loss)	1,079,653,729.62	869,113,141.25	485,913,709.79	321,382,230.60
Net profit attributable to equity holders of the Company	947,427,409.04	869,113,141.25	388,928,937.34	321,382,230.60
Minority interests	132,226,320.58	—	96,984,772.45	—
VI. Earnings per share:				
(I) Basic earnings per share	0.55	0.50	0.26	0.21
(II) Diluted earnings pershare	N/A	N/A	N/A	N/A

7.2.3 Cash Flow Statements

Prepared by: Shandong Chenming Paper Holdings Limited January to June 2008

Unit: RMB

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
I. Cash Flows from Operating Activities:				
Cash received from sales of goods, rendering of services	8,936,604,199.60	7,474,230,963.24	6,609,813,627.46	4,717,761,752.15
Net increase in customer deposits and balances with other banks	—	—	—	—
Net increase in borrowings from the central bank	—	—	—	—
Net increase in borrowings from other financial institutions	—	—	—	—
Cash received as premiums under original policies	—	—	—	—
Net cash received from the reinsurance business	—	—	—	—
Net increase in reserves and investments funds held under trust for customers	—	—	—	—
Net increase in disposal of marketable financial assets	—	—	—	—
Cash received as interest, fees and commission	—	—	—	—
Net increase in borrowings from other banks	—	—	—	—
Net increase in funds related to the repurchase business	—	—	—	—
Refund of taxes and levies	25,236,318.81	—	45,021,691.39	—
Cash received relating to other operating activities	168,013,655.24	84,287,436.24	114,854,387.01	39,920,824.26
Subtotal of cash inflows from operating activities	9,129,854,173.65	7,558,518,399.48	6,769,689,705.86	4,757,682,576.41

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
Cash paid for goods and services	5,892,637,854.74	5,392,150,045.39	5,375,374,896.20	4,246,078,859.76
Net increase in customer loans and advances	—	—	—	—
Net increase in funds placed with the central bank and other banks	—	—	—	—
Cash paid for claims under original policies	—	—	—	—
Cash paid as interest, fees and commissions	—	—	—	—
Cash paid as policy dividends	—	—	—	—
Cash paid to and on behalf of employees	306,891,001.32	104,585,529.37	227,727,432.91	94,911,426.89
Payments of taxes and levies	829,151,747.45	503,373,439.22	508,244,069.47	229,271,513.06
Cash paid relating to other operating activities	390,618,258.84	4,837,439.32	254,669,195.13	-624,603,334.40
Subtotal of cash outflows from operating activities	7,419,298,862.35	6,004,946,453.30	6,366,015,593.71	3,945,658,465.31
Net cash flows from Investing activities	1,710,555,311.30	1,553,571,946.18	403,674,112.15	812,024,111.10

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
II. Cash Flows from Investing Activities:				
Cash received from investments	—	210,300,000.00	—	90,000,000.00
Cash received from returns on investments	85,876.96	122,215,844.01	—	55,911,532.23
Cash received from disposal of fixed assets, intangible assets and other long-term assets	335,259.76	1,006,638.42	533,031.00	493,610.50
Net cash received from disposal of subsidiaries and other operating entities	—	—	—	—
Cash received relating to other investing activities	65,922,610.10	42,656,386.46	4,385,569.53	—
Subtotal of cash inflows from investing activities	66,343,746.82	376,178,868.89	4,918,600.53	146,405,142.73
Cash paid to acquire fixed assets,intangible assets and other long-term assets	677,118,558.42	46,319,258.93	587,708,513.82	142,960,866.07
Cash paid on investments	10,000.00	813,000,000.00	—	883,400,000.00
Net increase in secured loans	—	—	—	—
Net cash received from subsidiaries and other operating entities	—	—	—	—
Other cash paid in relation to investing activities	—	—	5,934,284.87	—
Subtotal of cash outflows from investing activities	677,128,558.42	859,319,258.93	593,642,798.69	1,026,360,866.07
Net cash flows from investing activities	-610,784,811.60	-483,140,390.04	-588,724,198.16	-879,955,723.34

Items	The current period		The corresponding period of last year	
	Combined	Parent company	Combined	Parent company
III. Cash Flows from Financing Activities				
Cash received from investment	2,661,332,038.20	2,661,332,038.20	—	—
Representing: cash received from capital contribution from minority shareholders in subsidiaries	—	—	—	—
Cash received from borrowings	3,110,154,795.66	2,644,282,458.86	2,006,534,916.15	1,544,534,809.69
Cash received from issuance of bonds	—	—	15,768.48	—
Cash received relating to other financing activities	697,200,000.00	697,200,000.00	—	—
Subtotal of cash inflows from financing activities	6,468,686,833.86	6,002,814,497.06	2,006,550,684.63	1,544,534,809.69
Cash repayments of amounts borrowed	4,301,820,243.76	3,978,801,801.18	1,572,239,751.62	1,369,255,377.82
Cash payments for interest expenses, and distribution of dividends or profits	259,162,049.91	194,312,585.36	436,413,462.10	307,339,363.89
Representing: Dividend and profit distributions paid by subsidiaries to their minority shareholders	—	—	—	—
Cash payments relating to other financing activities	—	—	3,947,154.33	3,748,552.40
Subtotal of cash outflows from financing activities	4,560,982,293.67	4,173,114,386.54	2,012,600,368.05	1,680,343,294.11
Net cash flows from financing activities	1,907,704,540.19	1,829,700,110.52	-6,049,683.42	-135,808,484.42
IV. Effect of foreign exchange rate changes on cash	-8,091,780.24	-7,336,841.19	7,556,371.50	-1,163,801.63
V. Net increase in cash and cash equivalents	2,999,383,259.65	2,892,794,825.47	-183,543,397.93	-204,903,898.29
Add: Balance of cash and cash equivalents at the beginning of the period	613,826,456.62	235,957,551.29	826,269,791.68	431,939,246.80
VI. Balance of cash and cash equivalents at the end of the period	3,613,209,716.27	3,128,752,376.76	642,726,393.75	227,035,348.51

7.2.4 Statement of Change in Owners' Equity

Prepared by: Shandong Chenming Paper Holdings Limited January to June 2008

Unit: RMB

Items	Current period								
	Equity attributable to equity holders of the Company								
	Paid-up Capital (or Share capital)	Capital surplus	Less: treasury shares	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	Total owners' equity
I. Balance at prior year end	1,706,345,941.00	3,737,991,906.21	–	723,742,920.58	–	2,576,650,349.38	303,894.68	1,835,524,653.11	10,580,559,664.96
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–
Corrections of prior-year errors	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of the current year	1,706,345,941.00	3,737,991,906.21	–	723,742,920.58	–	2,576,650,349.38	303,894.68	1,835,524,653.11	10,580,559,664.96
III. Changes in the current year (+/-)	355,700,000.00	2,362,552,334.68	–	–	–	674,412,058.48	470,181.12	-77,812,282.27	3,315,322,292.01
(I) Net profit	–	–	–	–	–	947,427,409.04	–	132,226,320.58	1,079,653,729.62
(II) Profit and loss directly dealt with in shareholders' equity	–	–	–	–	–	–	470,181.12	–	470,181.12
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 on income tax in relation to items accounted for in equity	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	470,181.12	–	470,181.12
Sub-total of (I) and (II)	–	–	–	–	–	947,427,409.04	470,181.12	132,226,320.58	1,080,123,910.74
(III) Shareholders' contributions and decrease in capital	355,700,000.00	2,362,552,334.68	–	–	–	–	–	–	2,718,252,334.68
1. Shareholders' contributions in capital	355,700,000.00	2,362,552,334.68	–	–	–	–	–	–	2,718,252,334.68
2. Increase in capital from conversion of convertible bonds	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–
(IV) Profit distribution						-273,015,350.56	–	-138,055,062.26	-411,070,412.82
1. Transfer to surplus reserves	–	–	–	–	–	–	–	–	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–
3. Distribution to shareholders						-273,015,350.56	–	-138,055,062.26	-411,070,412.82
4. Others	–	–	–	–	–	–	–	–	–
(V) Acquisition of minority interest	–	–	–	–	–	–	–	-71,983,540.59	-71,983,540.59
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 make up for loss	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	-71,983,540.59	-71,983,540.59
IV Balance at current period end	2,062,045,941.00	6,100,544,240.89	–	723,742,920.58	–	3,251,062,407.86	774,075.80	1,757,712,370.84	13,895,881,956.97

Items	Last Year								
	Equity attributable to equity holders of the Company								
	Paid-up Capital (or Share capital)	Capital surplus	Less: treasury shares	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	Total owners' equity
1. Balance at prior year end	1,365,670,155.00	1,917,835,010.34	–	677,829,746.88	–	2,048,792,497.87	-2,440.00	1,739,491,572.97	7,749,616,543.06
Add : Changes in accounting policies	–	330,621,007.98	–	-35,138,178.20	–	-153,965,456.06	–	-1,881,791.39	139,635,582.33
Corrections of prior-year errors	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of the current year	1,365,670,155.00	2,248,456,018.32	–	642,691,568.68	–	1,894,827,041.81	-2,440.00	1,737,609,781.58	7,889,252,125.39
III. Changes in the current year(+/-)	340,675,786.00	1,489,535,887.89	–	81,051,351.90	–	681,823,307.57	306,334.68	97,914,871.53	2,691,307,539.57
(1) Net profit	–	–	–	–	–	967,636,172.39	–	250,905,016.90	1,218,541,189.29
(2) Profit and loss directly dealt with in shareholders' equity	–	1,000,000.00	–	–	–	–	306,334.68	–	1,306,334.68
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 on income tax in relation to items accounted for in equity	–	–	–	–	–	–	–	–	–
4. Others	–	1,000,000.00	–	–	–	–	306,334.68	–	1,306,334.68
Sub-total of (I) and (II)	–	1,000,000.00	–	–	–	967,636,172.39	306,334.68	250,905,016.90	1,219,847,523.97
(III) Shareholders' contributions and decrease in capital	340,675,786.00	1,488,535,887.89	–	–	–	–	–	37,554,000.00	1,866,765,673.89
1. Shareholders' contributions in capital	–	–	–	–	–	–	–	37,554,000.00	37,554,000.00
2. Increase in capital from conversion of convertible bonds	–	–	–	–	–	–	–	–	–
3. Others	340,675,786.00	1,488,535,887.89	–	–	–	–	–	–	1,829,211,673.89
(IV) Profit distribution	–	–	–	81,051,351.90	–	-285,812,864.82	–	-139,553,201.91	-344,314,714.83
1. Shareholders' contributions in capital	–	–	–	81,051,351.90	–	-81,051,351.90	–	–	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–
3. Distribution to shareholders	–	–	–	–	–	-204,761,512.92	–	-139,553,201.91	-344,314,714.83
4. Others	–	–	–	–	–	–	–	–	–
(V) Acquisition of minority interests	–	–	–	–	–	–	–	-50,990,943.46	-50,990,943.46
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 make up for loss	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	-50,990,943.46	-50,990,943.46
IV Balance at current period end	1,706,345,941.00	3,737,991,906.21	–	723,742,920.58	–	2,576,650,349.38	303,894.68	1,835,524,653.11	10,580,559,664.96

7.3 Notes to the financial statements

7.3.1 Should there be any changes in accounting policies, accounting estimates or corrections of accounting errors, please state the content, reasons and the amount involved

□ Applicable √ Not Applicable

7.3.2 Should there be any material changes in the scope of consolidation of the financial statements, please state the reasons and the amount involved

□ Applicable √ Not Applicable

7.3.3 Should a non-standard audit report be published, please provide related notes of matters involved

□ Applicable √ Not Applicable

7.4 Financial Statements prepared in accordance with International Financial Reporting Standards

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	**Six months ended 30 June 2008** *RMB'000 (unaudited)*	**2007** *RMB'000 (unaudited)*
Revenue	1	8,520,442	6,752,219
Cost of sales		(6,607,738)	(5,442,051)
Gross profit		1,912,704	1,310,168
Other income	3	337,903	186,669
Share of results of associates		(12,375)	(2,700)
Distribution expenses		(402,926)	(304,436)
Administrative expenses		(244,017)	(324,702)
Gain on change in fair value of derivative financial instruments		1,232	—
Gain on change in fair value less estimated point-of-sale cost of biological assets		14,972	18,856
Finance costs		(244,012)	(285,987)
Profit before tax	4	1,363,481	597,868
Income tax expense	5	(267,002)	(129,376)
Profit for the period		1,096,479	468,492
Attributable to:			
Equity holders of the Company		960,060	366,743
Minority interests		136,419	101,749
		1,096,479	468,492
Dividends	6	273,015	204,760
Earnings per share			
Basic		RMB0.55	RMB0.23
Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

at 30 June 2008

	Notes	**At 30 June 2008** *RMB'000* *(unaudited)*	**At 31 December 2007** *RMB'000* *(audited)*
Non-current assets			
Property, plant and equipment	8	14,386,166	14,147,218
Prepaid lease payments – non-current portion	8	850,209	791,740
Investment properties		29,034	29,903
Interests in associates		57,515	69,890
Available-for-sale investments		26,400	26,400
Goodwill		20,284	20,284
Biological assets	9	153,170	92,160
Deferred tax assets		98,169	103,362
		15,620,947	15,280,957
Current assets			
Inventories		2,600,563	1,744,493
Trade and other receivables	10	3,570,314	4,106,882
Prepaid lease payments – current portion	8	33,498	34,817
Derivative financial instruments	11	7,187	5,955
Restricted bank deposits		101,174	126,795
Bank balances and cash		3,613,210	613,826
		9,925,946	6,632,768

	Notes	At 30 June 2008 RMB'000 (unaudited)	At 31 December 2007 RMB'000 (audited)
Current liabilities			
Trade and other payables	12	3,069,926	2,485,607
Borrowings - amount due within one year	13	3,262,185	4,261,746
Short-term debentures	14	1,218,523	506,213
Provision		17,987	17,987
Income tax payable		145,395	95,829
Dividend payable		273,051	36
Deferred income - current portion		23,782	32,682
		8,010,849	7,400,100
Net current assets (liabilities)		1,915,097	(767,332)
Total assets less current liabilities		17,536,044	14,513,625
Non-current liabilities			
Borrowings – amount due after one year	13	3,708,482	4,056,195
Deferred income – non-current portion		305,272	271,030
Deferred tax liabilities		9,847	6,104
		4,023,601	4,333,329
Net assets		13,512,443	10,180,296

	Notes	**At 30 June 2008**	**At 31 December 2007**
		RMB'000	*RMB'000*
		(unaudited)	*(audited)*
Capital and reserves			
Share capital	15	2,062,046	1,706,346
Reserves		9,714,871	6,664,805
Equity attributable to equity holders of the Company		11,776,917	8,371,151
Minority interests		1,735,526	1,809,145
Total equity		13,512,443	10,180,296

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008

	Attributable to equity holders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
At 1 January 2008 (audited)	1,706,346	3,392,242	723,626	117	304	2,548,516	8,371,151	1,809,145	10,180,296
Exchange differences arising on translation of foreign operation	—	—	—	—	468	—	468	—	468
Profit for the period	—	—	—	—	—	960,060	960,060	136,419	1,096,479
Total recognised income for the period	—	—	—	—	468	960,060	960,528	136,419	1,096,947
Issue of shares by way of placing and public offering (Note 15)	355,700	2,362,553	—	—	—	—	2,718,253	—	2,718,253
Dividends recognised as distribution	—	—	—	—	—	(273,015)	(273,015)	—	(273,015)
Transfer of reserves (note)	—	11,891	—	—	—	(11,891)	—	—	—
Distribution made by subsidiaries to minority shareholders	—	—	—	—	—	—	—	(95,443)	(95,443)
Decrease in minority interests as a result of increase in interest in subsidiaries	—	—	—	—	—	—	—	(114,595)	(114,595)
At 30 June 2008 (unaudited)	2,062,046	5,766,686	723,626	117	772	3,223,670	11,776,917	1,735,526	13,512,443

	Share capital	Capital reserve	Convertible loan notes equity reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total
	Attributable to equity holders of the Company									
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
At 1 January 2007 (audited)	1,365,670	1,446,227	424,802	642,575	117	(2)	1,872,996	5,752,385	1,703,564	7,455,949
Profit for the period and total recognised income for the period	–	–	–	–	–	–	366,743	366,743	101,749	468,492
Shares issued upon conversion of convertible loan notes	340,696	1,913,207	(424,676)	–	–	–	–	1,829,207	–	1,829,207
Redemption of convertible loan notes	–	126	(126)	–	–	–	–	–	–	–
Dividends recognised as distribution	–	–	–	–	–	–	(204,760)	(204,760)	–	(204,760)
Transfer of reserves (note)	–	18,275	–	–	–	–	(18,275)	–	–	–
Contributions from minority shareholders	–	–	–	–	–	–	–	–	(90,553)	(90,553)
Decrease in minority interests as a result of increase in interest in subsidiaries	–	–	–	–	–	–	–	–	(50,991)	(50,991)
At 30 June 2007 (unaudited)	1,706,346	3,377,835	–	642,575	117	(2)	2,016,704	7,743,575	1,663,769	9,407,344

Note: The Group obtained government grants in relation to the construction of property, plant and equipment of the Group from the local municipal governments. The grants were recorded as deferred income in the balance sheet and credited to the income statement on a straight-line basis over the expected useful lives of the related assets. In accordance with the terms of the grants, the relevant amounts were transferred from retained earnings to capital reserve during the period as it cannot be distributed before winding up.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Net cash from operating activities	1,710,556	90,986
Investing activities		
Purchase of property, plant and equipment and lease payment on land use rights	(677,119)	(708,354)
Proceeds on disposal of property, plant and equipment	335	533
Acquisition of additional interests in subsidiaries from minority shareholders of subsidiaries	(10)	(950)
Decrease (increase) in restricted bank deposits	25,621	(94,578)
Government grants received	40,301	—
Investment income received from available-for-sale investments	86	—
Net cash used in investing activities	(610,786)	(803,349)
Financing activities		
Net proceeds on issuance of shares	2,661,332	—
Net proceeds on issuance of short-term debentures	697,200	—
New borrowings raised	3,110,155	2,006,535
Borrowings repaid	(4,301,820)	(974,924)
Redemption of convertible loan notes	—	(578)
Interest paid	(240,574)	(226,398)
Dividends paid	—	(155,223)
Dividends paid to minority shareholders of subsidiaries	(18,588)	(90,553)
Net cash from financing activities	1,907,705	558,859
Increase (decrease) in cash and cash equivalents	3,007,475	(153,504)
Cash and cash equivalents at beginning of the period	613,826	784,320
Effect of exchange rate changes on cash and cash equivalents	(8,091)	(1,939)
Cash and cash equivalents at end of the period, representing bank balances and cash	3,613,210	628,877

Notes

1. REVENUE

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Sale of paper products	8,007,817	6,194,003
Sale of construction materials	315,811	425,433
Sale of chemical products	50,535	39,406
Sale of electricity and steam	125,938	92,617
Others	20,341	760
	8,520,442	6,752,219

2. SEGMENT INFORMATION

Business segments

For management purpose, the Group is currently organised into following operating divisions: paper products, construction materials, chemical products, electricity and steam and others. The manufacture and sales of paper products accounted for over 90% of the segment revenue and results of the Group during the six months ended 30 June 2008 and 2007. Accordingly, no individual business segment analysis is presented and the consolidated segment information is presented as follows:

RESULT

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Segment result	1,456,245	820,209
Unallocated corporate expenses	(16,974)	(17,011)
Unallocated corporate income	164,393	64,501
Share of result of associates	(12,375)	(2,700)
Gain on change in fair value of derivative financial instruments	1,232	—
Gain on change in fair value less estimated point-of-sale cost of biological assets	14,972	18,856
Finance costs	(244,012)	(285,987)
Profit before tax	1,363,481	597,868
Income tax expenses	(267,002)	(129,376)
Profit for the period	1,096,479	468,492

Geographical segments

The Group's operations are located in the People's Republic of China ("PRC") only and sales are made to customers in the PRC and overseas.

The following table provides an analysis of the Group's revenue by geographical market that are based on location of customers.

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
PRC	7,579,847	5,745,684
Hong Kong	166,607	92,842
South Africa	151,719	137,100
Japan	64,895	138,110
United States	21,879	108,890
Others	535,495	529,593
	8,520,442	6,752,219

3. OTHER INCOME

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Government grants:		
Expansion grants (note a)	103,756	50,061
Value-added tax refund (note b)	25,236	39,268
	128,992	89,329
Interest income	8,855	4,889
Net exchange gain	165,697	62,031
Net gain (loss) from sales of raw materials	(4,219)	1,659
Insurance compensation	7,834	3,331
Discount on acquisition of additional interests in subsidiaries (note c)	28,209	24,041
Others	2,535	1,389
	337,903	186,669

Notes:

(a) The Group received government grants from the local municipal governments in relation to the encouragement of the development and advancement of the business of the Group. According to the relevant government grant documents, the grants are the general and unconditional subsidies for the business operations of the Group.

(b) Pursuant to various circulars issued by the State Administration of Taxation and local government authorities, the Group is entitled to receive various types of refund on value-added tax as it has used certain designated materials in its production.

(c) Pursuant to the transfer agreement dated 24 December 2007 entered into between the ultimate holding company of the Company, State-owned Assets Supervision and Administration Commission of Shouguang City and the People's Government of Shouguang City, as vendors and the Company as purchaser, the Company agreed to acquire 35.71% equity interest of a then 51% owned subsidiary, Shandong Chenming Power Supply Holdings Co., Ltd., at a consideration of RMB86,376,000. The transaction was completed in January 2008. A discount on acquisition of equity interest amounted to approximately RMB28,204,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 4 April 2008 entered into between Zhang Bangji, the independent third party, as vendor and Jilin Chenming Paper Co., Ltd., a wholly-owned subsidiary of the Company ("Jilin Chenming"), as purchaser, Jilin Chenming agreed to acquire 1% equity interest of a then 99% owned subsidiary, Jilin Chenming Waste Collection Co., Ltd., a subsidiary of the Company at a cash consideration of RMB10,000. A discount on acquisition of equity interest amounted to approximately RMB5,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 8 October 2006 entered into between Jiangxi Paper Industry Co., Ltd, an independent third party, as vendor and the Company as purchaser, the Company agreed to acquire 3.846% equity interest of a then 47.154% owned subsidiary, Jiangxi Chenming Paper Co., Ltd ("Jiangxi Chenming"), over which, the Group already has control before the acquisition, at a consideration of RMB26,000,000. The transaction completed on 5 March 2007 upon getting the approval from the government authorities of Jiangxi Province. A discount on acquisition of interest amounted to approximately RMB22,839,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 1 May 2007 entered into among Wu Xingqiang, an independent third parties and Hou Huancai, a director of the Company, as vendors and the Company as purchaser, the Company agreed to acquire 0.053% equity interest of a 99.947% then owned subsidiary, Shandong Chenming Paper Group Qihe Paperboard Co., Ltd from Wu Xiangqiang and Hou Huancai at a total consideration of RMB200,000. A discount on acquisition of interest amounted to approximately RMB257,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 9 May 2007 entered into between Liu Chunshan, an independent third party, as vendor and Shangdong Chenming Panels Co., Ltd. ("Shangdong Chenming Panels"), a subsidiary of the Company, as purchaser, Shangdong Chenming Panels agreed to acquire 10% equity interest of a then 90% owned subsidiary, Shouguang Chenming Floor Board Co., Ltd at a consideration of RMB50,000. A discount on acquisition of interest amounted to approximately RMB498,000 was recognised, after reassessment, immediately in profit or loss.

Pursuant to the transfer agreement dated 10 May 2007 entered into between ten independent third parties, as vendor and Shandong Chenming Power Supply Holdings Co., Ltd, a subsidiary of the Company, as purchaser, Shandong Chenming Power Supply Holdings Co., Ltd agreed to acquire 10% equity interest in a then 90% owned subsidiary, Shouguang Chenming Cements Co., Ltd at a consideration of RMB700,000. A discount on acquisition of interest amounted to approximately RMB447,000 was recognised, after reassessment, immediately in profit or loss.

4. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Gross rental income from investment properties	(1,242)	(1,242)
Less: Direct operating expenses from investment properties that generated rental income during the period	223	223
Net rental income from investment properties	(1,019)	(1,019)
Investment income from available-for-sale investments	(86)	—
(Reversal of) allowance for bad and doubtful debts	(30,715)	91,288
Allowance for inventories	—	882
Release of lease payment charge	18,905	18,400
Depreciation of property, plant and equipment	541,062	469,548
Depreciation of investment properties	869	843
Impairment of interest in associates	—	540
Impairment of available-for-sale investments	—	910
Loss on disposal/write off of property, plant and equipment	4,942	1,677

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Income tax charge comprises:		
Charge for the period	257,351	174,907
Underprovision in prior years	715	—
Current income tax	258,066	174,907
Deferred tax charge (credit)	8,936	(45,531)
Charge for the period	267,002	129,376

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are calculated at rates applicable to the relevant companies for the six months ended 30 June 2008 and 2007.

No provision for Hong Kong Profits Tax has been made as the Group does not have any assessable profit or incur tax losses for the six months ended 30 June 2008 and 2007.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25%. The statutory Enterprise Income Tax rate of 25% is applied to the group entities for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%) except for certain group entities which are entitled to various concessionary tax rates.

6. DIVIDENDS

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Dividend declared for:		
– 2006 (RMB0.12 per share)	—	204,760
– 2007 (RMB0.16 per share)	273,015	—
	273,015	204,760

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

7. EARNINGS PER SHARE

During the period, the calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

Earnings

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the Company)	960,060	366,743
Effect of dilutive potential shares:		
Interest on convertible loan notes (net of tax)	—	35,451
Earnings for the purpose of diluted earnings per share	960,060	402,194

Number of shares

	Six months ended 30 June	
	2008	**2007**
	'000	*'000*
Weighted average number of shares for the purposes of basic earnings per share	1,731,753	1,611,779
Effect of dilutive potential shares:		
Convertible loan notes	N/A	94,668
Weighted average number of shares for the purpose of diluted earnings per share	N/A	1,706,447

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an increase in profit per share.

8. MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group acquired property, plant and equipment amounting to approximately RMB786,812,000 (2007: RMB734,834,000) and made prepaid lease payments in relation to land use rights amounting to approximately RMB82,187,000 (2007: RMB20,189,000).

At 30 June 2008, the Group has pledged certain plant and machinery and buildings and land use rights having a carrying amount of approximately RMB1,174,658,000 and RMB75,455,000 (31 December 2007: RMB1,205,081,000 and RMB76,256,000) respectively to secure the loan facilities granted to the Group by certain banks and a minority shareholder of a subsidiary of the Company.

9. BIOLOGICAL ASSETS

Biological assets represent immature trees in the plantation forest purchased to be grown for lumber for own use. The Group incurred plantation expenditure of approximately RMB46,038,000 for the six months period ended 30 June 2008.

The biological assets are stated at their fair values less estimated point-of-sale costs. The fair value has been arrived at based on the estimation made by the Directors. The estimation is determined using the discounted value of the expected delivered market price for estimated timber volumes less cost of delivery and estimated maintenance costs up to when the timber becomes usable or saleable. The discount rate used is the applicable pre-tax weighted average cost of capital of the Group. Accordingly, gain on change in fair value less estimated point-of-sale cost of biological assets amounted to RMB14,972,000 has been recognised and credited to the consolidated income statement for the six months period ended 30 June 2008.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Trade receivables aged:		
0 - 90 days	1,253,046	1,295,048
91 - 180 days	142,849	265,222
181 - 365 days	40,016	54,812
1 - 2 years	12,689	40,301
2 - 3 years	—	4,638
Total trade receivables	1,448,600	1,660,021
Bills receivable	1,060,199	1,676,684
Other receivables	184,705	196,162
Deposits and prepayment	46,648	2,190
Advance to suppliers	830,162	571,825
	3,570,314	4,106,882

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

11. DERIVATIVE FINANCIAL INSTURMENTS

At 30 June 2008, the Group has entered into certain forward exchange contracts with financial institutions and the total notional amounts and details of these contracts committed by the Group are as follows:

Notional amount	Maturity date	Exchange rates RMB/USD	RMB'000
Sell USD4,000,000	20-25 August 2008	7.1062	28,425
Sell USD4,000,000	22-25 September 2008	7.0760	28,304
Sell USD4,000,000	20-24 October 2008	7.0496	28,198
Sell USD2,000,000	15 July 2008	7.1393	14,279
Sell USD2,000,000	15 August 2008	7.1031	14,206
Sell USD3,000,000	22 January 2009	6.7687	20,306
Sell USD3,000,000	28 November 2008	6.7727	20,318
			154,036

The total fair value of the Group's currency derivatives at 30 June 2008 are estimated to be approximately RMB7,187,000, which are based on fair value provided by counter parties which are financial institutions. As the currency derivatives are not designated as cash flow hedges, the change in fair values amounting to RMB1,232,000 has been credited to the income statement for the six months ended 30 June 2008.

12. TRADE AND OTHER PAYABLES

An analysis of trade and other payables is as follows:

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Trade payables aged:		
0 - 90 days	1,645,152	1,078,946
91 - 180 days	266,851	235,542
181 - 365 days	112,623	218,859
1 - 2 years	61,172	88,004
2 - 3 years	22,484	19,819
Over 3 years	19,662	15,537
Trade payables	2,127,944	1,656,707
Bills payable	147,083	130,056
Other payables	527,649	463,081
Accrued expenses	90,117	65,476
Advance from customers	177,133	170,287
	3,069,926	2,485,607

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.

13. BORROWINGS

During the period, the Group obtained new bank and other loans in the amount of RMB3,110,155,000 and made repayments in the amount of RMB4,301,820,000. The loans bear interest at the range from 5.06% to 7.62 % per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group.

14. SHORT-TERM DEBENTURES

Pusuant to a circular [2007] No. 427 issued by the People's Bank of China in 2007, the Company issued a debenture to third party debenture holders with face value of RMB700,000,000 on 6 June 2008. The debenture is unsecured, bears interest at 5.2% per annum and will be repayable one year after the issue date.

15. SHARE CAPITAL

	Number of shares	Restricted A Shares	A Shares	B Shares	H Shares	Total
	Type of shares					
	'000	*'000*	*'000*	*'000*	*'000*	*RMB'000*
At 1 January 2007	1,365,670	354,809	453,364	557,497	—	1,365,670
Shares issued upon conversion of convertible loan notes	340,676	—	340,676	—	—	340,676
Transfer of restricted A Shares held by PRC legal persons to A shares	—	(9,517)	9,517	—	—	—
Transfer of A shares held by Directors, supervisors and senior management to restricted A Shares	—	17	(17)	—	—	—
Transfer of restricted A Shares held by Directors, supervisors and senior management to A shares	—	(5,808)	5,808	—	—	—
At 31 December 2007	1,706,346	339,501	809,348	557,497	—	1,706,346
Issue of H shares (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 A shares (note c)	—	(120)	120	—	—	—
At 30 June 2008	2,062,046	303,811	809,468	557,497	391,270	2,062,046

Notes:

(a) On 18 June 2008, 355,700,000 H shares of the Company of RMB1.00 each were issued at HK$9.00 per share for cash by way of an international offering and a public offering on the Stock Exchange.

(b) In accordance with relevant approval document regarding the listing of shares of the company outside the PRC, Shouguang Chenming Holdings Co.,Ltd., the parent company of the Company is required to transfer 35,570,000 A shares to 中華人民共和國全國社會保障基金理事會 The National Social Security Fund Council of the PRC ("NSSF Council") upon the listing of H shares of the Company on the Stock Exchange, and all the shares held by NSSF Council were converted into H Shares on an one-for-one basis.

(c) Lock-up period for certain restricted A Shares held by certain directors and key management of the Company was expired during the period, 120,000 restricted A Shares were reclassified from Restricted A Shares to A Shares.

16. CAPITAL COMMITMENTS

	At 30 June 2008 *RMB'000*	At 31 December 2007 *RMB'000*
Contracted but not provided for acquisition of property, plant and equipment	388,318	362,388

17. NON-CASH TRANSACTIONS

During the period ended 30 June 2008, the Group distributed dividends of RMB95,443,000 to the minority shareholders of the subsidiaries. The Group paid part of the dividends to these shareholders by RMB18,588,000 in cash and RMB10,427,000 in bills. The remaining unpaid dividends amounting to RMB66,428,000 is included in other payables at the balance sheet date.

18. RELATED PARTY TRANSACTIONS

(a) Besides the acquisition of additional equity interest of Shandong Chenming Power Supply Holdings Co., Ltd. as disclosed in Note 3 (c), the Group has entered into the following significant transactions with its related parties during the period:

	Six months ended 30 June	
	2008 *RMB'000*	2007 *RMB'000*
Associates:		
Electricity charges received	15,461	5,610
Utility charges received	6,483	—
Miscellaneous service charges received	854	219
Minority shareholders of subsidiaries:		
Sales of finished products	163,866	159,941
Technology consultancy fee paid	812	812
Interest paid	8,614	11,237
Minimum operating lease payment in respect of property, plant and equipment	3,583	3,583

Other than the above transactions, the Group also settled or received on behalf of certain related parties during the periods and the unsettled balance is included in the balance with the respective related parties as at balance sheet date.

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

	At 30 June 2008	**At 31 December 2007**
	RMB'000	*RMB'000*
Associates:		
Other receivables	5,650	14,824
Trade payables	76	176
Minority shareholders of subsidiaries:		
Trade receivables	64,490	—
Long-term borrowings	237,782	272,705

All the amounts due from (to) associates and minority shareholders of subsidiaries are unsecured, interest-free and expected to be recovered repaid within one year from the respective balance sheet date, except for the borrowings from a minority shareholder of a subsidiary, which are repayable after one year from the respective balance sheet date.

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

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "State-owned Enterprises"). During the period, the Group had material transactions with some of these State-owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products, the Group does not differentiate whether the counter-party is a State-owned Enterprise or not. While the directors of the Company consider the State-owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its significant transactions with State-owned Enterprises during the periods as follows:

(i) **Material transactions**

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Sales	2,150,307	1,455,085
Purchases	179,343	469,956
Construction works expenses paid	115,786	16,670

(ii) Material balances

	At 30 June 2008	**At 31 December 2007**
	RMB'000	*RMB'000*
Bank balances and deposits	3,485,409	512,856
Trade and other receivables	778,315	994,266
Trade and other payables	265,171	279,712
Bank borrowings	6,377,953	7,985,080

(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	
	2008	**2007**
	RMB'000	*RMB'000*
Short-term employee benefits		
– Directors	2,803	1,494
– Other senior management	1,787	1,242
Subtotal	4,590	2,736
Post-employment benefits		
– Directors	72	77
– Other senior management	162	112
Subtotal	234	189
Total	4,824	2,925

19. Post balance sheet event

Pursuant to a circular [2007] No. 427 issued by the People's Bank of China and resolution of shareholders in general meeting in 2007, the Company is authorised to issue debentures amounting to RMB1,900,000,000 to the investors on or before 30 November 2008. The Company issued a one-year debenture with face value of RMB700,000,000 on 6 June 2008. On 25 August 2008, the Company announced that the Company will issue another debenture to the institutional investors with face value of RMB1,200,000,000 on 29 August 2008.

VIII. 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.

IX. Corporate governance

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

X. Audit committee

The Audit Committee of the Company had discussed with the management about 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 of 30 June 2008 prepared in accordance with China Accounting Standards and International Financial Reporting Standards respectively.

By order of the Board
Chen Hongguo
Chirman

28 August 2008

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng, Mr. Xing Fangtong, Mr. Wu Bingyu, Mr. Hou Huancai and Mr. Zhou Shaohua, the non-executive Directors are Mr. Gan Zhihe, Mr. Zhao Wei and Mr. Cao Chunyu and the independent non-executive Directors are Mr. Diao Yuntao, Mr. Wang Zhihua, Ms. Zhou Chengjuan, Ms. Wang Yumei and Mr. Lau Ying Kit.

* *For identification purpose only*