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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 Annual 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 warrant that there are no false representations, misleading statements or material omissions contained in this 2008 annual report (the "Report"), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents of this Report. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail. This annual report summary is extracted from the full text of the annual 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 annual report for details.

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

1.3 All Directors were present in the Board meeting for the review and approval of the annual report.

1.4 The financial report of the Company for 2008 was audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Delotte Touch Tohmatsu, which issued standard auditors' reports with unqualified opinion.

* *For identification purpose only*

1.5 Chen Hongguo, the person in charge of the Company, Liu Junwu, the financial controller of the Company and Wang Chunfang, head of the financial department, declare that they warrant the truthfulness and completeness of the financial statements in the 2008 annual report.

§2 Company Information

2.1 Basic Information

Stock abbreviation	晨鳴紙業、晨鳴B、Chenming Paper
Stock code	000488, 200488, 1812
Stock exchanges of listed shares	Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited
Registered address	No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Postal code of registered address	262700
Office address	No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Postal code of office address	262700
Global website of the Company	http://www.chenmingpaper.com
Email address	chenmmingpaper@163.com

2.2 Contact Persons and Contact Methods

	Secretary to the Board	Company Secretary, Hong Kong	Securities Affairs Representatives
Name	Hao Yun	Poon Shiu Cheong	Fan Yingjie, Sun Wenke
Correspondence address	No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China	22nd Floor, World Wide House, Central, Hong Kong	No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Telephone	(86)-0536-2158011	852-25010088	(86)-0536-2158011, (86)-0536-2156488
Facsimile	(86)-0536-2158640	852-25010028	(86)-0536-2158640
Email address	chenmmingpaper@163.com	kentpoon1009@yahoo.com.hk	chenmmingpaper@163.com

§3 Summary of Financial and Operating Results

3.1. Major financial data and indicators

3.1.1 Prepared in accordance with Accounting Standards for Business Enterprises

Unite: RMB

Items/ Indicators	2008	2007	Increase/ decrease (%)	2006	
				Before adjustments	After adjustments
Operating revenue	15,529,593,435.77	15,164,742,450.26	2.41%	11,814,092,426.36	11,983,464,568.89
Total profit	1,555,339,310.69	1,489,336,202.56	4.43%	891,269,259.51	615,690,757.28
Net profit attributable to the shareholders of the parent company	1,075,291,741.53	967,636,172.39	11.13%	602,967,195.37	356,907,182.90
Net profit after deducting extraordinary gains or losses attributable to the shareholders of the parent company	854,268,917.39	878,418,573.66	-2.75%	436,232,957.51	396,061,925.60
Net cash flows from operating activities	1,934,140,803.04	1,324,263,125.01	46.05%	1,008,558,176.84	1,008,558,176.84
Basic earnings per share	0.57	0.60	-5.00%	0.4425	0.26
Diluted earnings per share	N/A	0.59	N/A	0.4415	N/A
Basic earnings per share after deducting extraordinary gains or losses	0.45	0.54	-16.67%	0.3201	0.29
Rate of return on net assets on fully diluted basis	8.77%	11.06%	-2.29%	10.03%	5.80%
Rate of return on net assets on weighted average basis	10.24%	12.64%	-2.40%	10.83%	6.06%
Rate of return on net assets on fully diluted basis after deducting extraordinary gains and losses	6.97%	10.04%	-3.07%	7.26%	6.44%

Items/ Indicators	2008	2007	Increase/ decrease (%)	2006	
				Before adjustments	After adjustments
Rate of return on net assets on weighted average basis after deducting extraordinary gains and losses	8.13%	11.14%	-3.34%	7.84%	6.73%
Net cash flows per share from operating activities	0.9380	0.7761	20.86%	0.7385	0.7385
	At the end of 2008	**At the end of 2007**	**Increase / decrease (%)**	**At the end of 2006**	
				Before adjustments	**After adjustments**
Total assets	26,299,495,745.01	22,011,108,257.29	19.48%	20,547,990,949.39	20,558,560,560.77
Total equity attributable to the equity holders of the Company	12,259,078,901.99	8,745,035,011.85	40.18%	6,010,124,970.09	6,151,642,343.81
Net assets per share attributable to shareholders of the listed company	5.9451	5.1250	16.00%	4.4009	4.5045

3.1.2 Prepared in accordance with International Financial Reporting Standards

Unit: RMB in million

Results items	For the year ended 31 December			
	2008	2007	2006	2005
Revenue	**15,430.9**	14,878.9	11,714.0	9,625.8
Cost of sales	**(12,472.9)**	(11,845.6)	(9,461.7)	(7,662.5)
Gross profit	**2,958.0**	3,033.3	2,252.3	1,963.3
Other income	**500.5**	462.3	315.2	248.6
Gain on disposal of subsidiaries	**—**	—	35.9	—
Share of results of associates	**(23.2)**	(9.5)	(0.5)	0.6
Distribution expenses	**(705.6)**	(783.3)	(677.8)	(534.7)
Administrative expenses	**(542.7)**	(653.2)	(557.4)	(468.6)
Loss on change in conversion price of convertible loan notes	**—**	—	(229.4)	—
Gain on change in fair value of derivative financial instruments	**1.7**	6.0	—	—
Gain on change in fair value less estimated point-of-sale cost of biological assets	**0.9**	24.4	—	—
Impaiment loss on property, plant and equipment	**(8.5)**	—	—	—
Allowance for inventory	**(127.7)**	(0.9)	—	—
Finance costs	**(462.6)**	(555.7)	(512.6)	(311.3)
Profit before tax	**1,590.8**	1,523.4	625.7	897.9
Income tax expense	**(295.8)**	(270.8)	(100.7)	(175.8)
(Loss) profit from discontinued operation for the year	**—**	—	36.3	(7.8)
Profit for the year	**1,295.0**	1,252.6	561.3	714.3
Profit attributable to:				
Equity holders of the Company	**1,102.3**	994.0	400.6	640.8
Minority interests	**192.7**	258.6	160.7	73.5
	1,295.0	1,252.6	561.3	714.3

Assets and liabilities items	As at 31 December			
	2008	2007	2006	2005
Total assets	**26,207.3**	21,913.7	20,467.5	18,243.4
Total liabilities	**12,550.3**	11,733.4	13,011.5	11,368.4
Minority interests	**1,744.8**	1,809.1	1,703.6	1,663.1
Equity attributable to equity holders of the Company	**11,912.2**	8,371.2	5,752.4	5,211.9
Financial indicators	**2008**	2007	2006	2005
Earnings per share	**0.58**	0.62	0.29	0.47
Net assets per share	**5.78**	4.91	4.21	3.85
Rate of return on net assets	**9.25%**	11.87%	6.96%	12.29%

3.1.3 Extraordinary gains or losses items

√ Applicable ☐ Not Applicable

Unit: RMB

Extraordinary gains or losses items	**Amount**
Gains and losses generated from held for trading financial assets, other than effective hedging activities associated with normal business operations of the Company	1,738,200.00
Reversal of impairment provision on receivables tested for impairment on individual basis	39,718,405.84
Net gains and losses from disposal of non-current assets	-1,219,356.66
Government grants received	178,084,185.07
Net gains or losses attributable to debt restructuring	103,365.66
The shortfall of the consideration for the acquisition of minority interests in comparison with the attributable book value of the identifiable net assets of the acquiree	28,209,117.78
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	60,519.78
Non-operating net gain and loss other than the above	23,477,854.77
Effect of extraordinary gains or losses on income tax	-34,679,297.41
Effect on minority interests	-14,470,170.69
Total	221,022,824.14

3.2 Differences between accounts prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards

√ Applicable ☐ Not Applicable

Unit: RMB

	Net profit		Net Assets	
	Current period	Previous period	Opening balance	Closing balance
Under International Financial Reporting Standards	1,294,998,937.34	1,252,584,099.57	10,180,295,419.17	13,656,968,902.24
Under Accounting Standards for Business Enterprises	1,259,541,454.27	1,218,541,189.29	10,580,559,664.96	14,021,774,664.96
Items and total adjustments under International Financial Reporting Standards:				
Special fund for treasury bonds and special payables received	-32,490,567.06	-31,075,994.27	377,439,812.94	344,948,245.89
Under International Financial Reporting Standards	-2,966,916.01	-2,966,916.01	22,824,432.85	19,857,516.83
Under International Financial Reporting Standards	-35,457,483.07	-34,042,910.28	400,264,245.79	364,805,762.72
Explanation on differences between Accounting Standards for Business Enterprises and International Financial Reporting Standards	In year prior to 2006, according to the principles of the PRC Accounting Standards of Business Enterprises (ASBEs), the Group will receive special fund for treasury bond received and special accounts payable related to construction of relevant fixed assets which are included in capital reserve. However, according to IFRS, the Group will account for special fund for treasury bond received and special accounts payable under deferred income and be amortized by installments over the useful lives of fixed assets.			

§4 Changes in Share Capital and Shareholders

4.1 Changes in share capital

Unit: shares

	Opening balance		Increase/decrease (+/-) resulting from changes in the reporting period					Closing balance	
	Number of shares	Percentage	Increase in lock-up shares	Release of restricted shares	Reduction of shareholding in state-owned shares	Issue of new shares	Sub-total	Number of shares	Percentage
I. Restricted shares	339,500,453	19.90%	176,774	-120,101	-35,570,000	–	-35,513,327	303,987,126	14.74%
Of which: State-owned legal person shares	328,573,657	19.26%	–	–	-35,570,000	–	-35,570,000	293,003,657	14.21%
Shares held by senior management	10,926,796	0.64%	176,774	-120,101	–	–	56,673	10,983,469	0.53%
II. Non-restricted shares	1,366,845,488	80.10%	-176,774	120,101	35,570,000	355,700,000	391,213,327	1,758,058,815	85.26%
Of which: Renminbi ordinary shares (A shares)	809,348,003	47.43%	-176,774	120,101	–	–	-56,673	809,291,330	39.25%
Domestic listed foreign shares (B shares)	557,497,485	32.67%	–	–	–	–	–	557,497,485	27.04%
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 National Social Security Fund Council of the PRC (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 ("Hong Kong Stock Exchange") 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 changed by 56,673 shares from 10,926,796 shares to 10,983,469 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 share)". The Senior Management of the Company did not dispose any shares of the Company.

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

③ During the reporting period, the unlocked non-restricted shares held be Dong Jianwen, the resigning deputy general manager, were locked up again as his resignation had been effective for less than 6 months. The shares held by Meng Feng, the newly employed deputy general manager, were locked up, therefore the number of lock-up shares held by senior management increased by 176,774 shares.

Change in restricted shares

Unit: shares

Names of shareholders	Restricted shares at the beginning the of year	Restricted shares released this year	Restricted shares increased this year	Restricted shares at the end of the year	Reason for restriction	Date of release from restriction
Shouguang Chenming Holdings Company Limited	328,573,657	35,570,000	0	293,003,657	Commitments during the reform of conversion	29 March 2010
Shares held by Senior Management of the Company	10,926,796	120,101	176,774	10,983,469	Lock-up of shares held by senior management of the Company	Released according to relevant rules of the Shenzhen Stock Exchange
Total	339,500,453	35,690,101	176,774	303,987,126	—	—

4.2 Top ten shareholders and the top ten shareholders of non-restricted shares

Unit: shares

Total number of shareholders	The total number of shareholders was 153,980, of which, 116,525 were holders of A shares, 36,629 were holders of B shares and 826 were holders of H shares.

Shareholdings of the top ten shareholders

Names of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held	Number of restricted shares held	Number of shares pledged or locked-up
HKSCC Nominees Limited	Overseas non-state -owned legal person ("foreign shareholders")	18.89%	389,783,500	0	Unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	Nil
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	1.67%	34,499,190	0	Unknown
Agricultural Bank of China - 中郵核心優選股票型證券投資基金	Domestic non-state-owned legal person	1.62%	33,494,942	0	Unknown
Bank of China - 華夏行業精選股票型證券投資基金(LOF)	Domestic non-state-owned legal person	1.27%	26,107,478	0	Unknown
China Construction Bank - 鵬華價值優勢股票型證券投資基金	Domestic non-state-owned legal person	1.20%	24,731,696	0	Unknown
Industrial and Commercial Bank of China - 諾安股票證券投資基金	Domestic non-state-owned legal person	1.19%	24,578,106	0	Unknown
China Construction Bank - 華夏紅利混合型開放式證券投資基金	Domestic non-state-owned legal person	0.99%	20,415,255	0	Unknown
Joincare Pharmaceutical Group Industry Co., Ltd	Domestic non-state-owned legal person	0.92%	18,900,000	0	Unknown
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	Overseas legal person	0.85%	17,476,904	0	Unknown

Unit: shares

Shareholding of the top ten shareholders of non-restricted shares		
Name of shareholders	**Number of non-restricted shares held**	**Class of shares**
HKSCC Nominees Limited	389,783,500	H share
Agricultural Bank of China －中郵核心成長股票型證券投資基金	34,499,190	A share
Agricultural Bank of China －中郵核心優選股票型證券投資基金	33,494,942	A share
Bank of China －華夏行業精選股票型證券投資基金(LOF)	26,107,478	A share
China Construction Bank －鵬華價值優勢股票型證券投資基金	24,731,696	A share
Industrial and Commercial Bank of China －諾安股票證券投資基金	24,578,106	A share
China Construction Bank －華夏紅利混合型開放式證券投資基金	20,415,255	A share
Joincare Pharmaceutical Group Industry Co., Ltd	18,900,000	A share
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	17,476,904	B share
PLATINUM ASIA FUND	16,234,459	B share

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 other shareholders, nor is it a party acting in concert with any of them as defined in Administrative Measures for Information Disclosure of the Changes in Shareholdings of Listed Companies (《上市公司持股變動信息披露管理辦法》); among which, Agricultural Bank of China －中郵核心成長股票型證券投資基金 and Agricultural Bank of China－中郵核心優選股票型證券投資基金 are the sub-funds of 中郵創業基金管理有限公司. Bank of China — 華夏行業精選股票型證券投資基金(LOF) and China Construction Bank — 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 that any other shareholders of outstanding shares as aforesaid are connected with others 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》).

4.3 Profile of controlling shareholders and beneficial controllers

4.3.1 Change of controlling shareholders and beneficial controllers

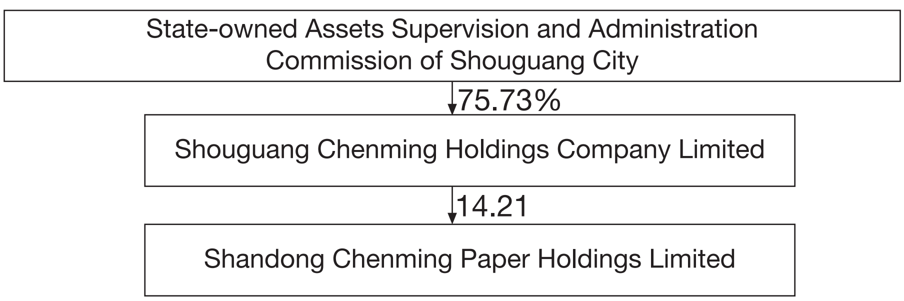
□ Applicable √ Not Applicable

4.3.2 Detailed profile of controlling shareholders and beneficial controllers

The controlling shareholder of the Company, Shouguang Chenming Holdings Company Limited (hereinafter referred to as "Chenming Holdings"), was established on 30 December 2005 with registered capital of RMB1.685 billion. Its legal representative is Chen Hongguo. Scope of business is investment in paper-making, electricity, heat and forestry projects. At the end of the reporting period, it held 293,003,657 state-owned legal person shares, representing 14.21% of the total share capital of the Company. During the reporting period, 35,570,000 state-owned shares were converted to overseas listed foreign shares (H share) and transferred to NSSF Council due to the reduction of shareholding of state-owned shares by the Company in connection with the issuance of overseas listed foreign shares (H share), the remaining shares held by it were neither pledged or locked-up. During the reporting period, Shandong San Wei Oil Group Company Limited ("Shandong Sanwei"), a shareholder of Chenming Holdings, transferred 10.86% equity interests in Chenming Holdings held by it to Shouguang Henglian Enterprise Investment Co. Ltd.; upon completion of transfer, Shandong Sanwei no longer held any equity interests in Chenming Holdings. State-owned Assets Supervision and Administration Commission of Shouguang City continued to hold 75.73% equity interests in Chenming Holdings. The beneficial controllers of the Company remained unchanged.

State-owned Assets Supervision and Administration Commission of Shouguang City is the controlling shareholder of Chenming Holdings, holding 75.73% equity interests in Chenming Holdings. Person in charge of the unit is Zhang Yuhua. Scope of business is administration and supervision of state-owned assets, properties and titles belonging to Shouguang City.

4.33 Chart illustrating the title and controlling relationship between the Company and the beneficial controllers



§5. Directors, Supervisors and Senior Management

5.1 Changes in shareholdings and remuneration of the Directors, Supervisors and senior management

Name	Position	Sex	Age	Terms in office	Shares held at the beginning of the year (share)	Shares held at the end of the year (share)	Change in number of shares (share)	Reasons for change	Total remuneration received from the Company during the reporting period (RMB in ten thousands)
I. Executive Directors									
Chen Hongguo	Chairman	M	44	April 2007 - April 2010	6,334,527	6,334,527	0	—	144.68
Yin Tongyuan	Vice-chairman and general manager	M	51	April 2007 - April 2010	3,231,520	3,231,520	0	—	96.12
Li Feng	Director, sales director	M	36	April 2007 - April 2010	471,818	471,818	0	—	59.40
Hou Huancai	Director	M	47	April 2007 - April 2010	628,915	628,915	0	—	54.00
Zhou Shaohua	Director	M	47	April 2007 - April 2010	125,307	123,007	-2,300	Note 2	27.00
Xing Fangtong	Director	M	43	April 2007 - April 2009	355,561	355,561	0	—	19.84
Wu Bingyu	Director	M	43	April 2007 - April 2009	428,107	428,107	0	—	27.65
II. Non-executive Directors									
Gan Zhihe	Director	M	64	April 2007 - April 2010	0	0	0	—	4.00
Zhao Wei	Director	M	49	April 2007 - April 2010	0	0	0	—	4.00
Cao Chunyu	Director	M	45	April 2007 - April 2010	0	0	0	—	4.00
III. Independent non-executive directors									
Diao Yuntao	Independent Director	M	44	April 2007 - April 2010	0	0	0	—	4.00
Wang Zhihua	Independent Director	M	50	April 2007 - April 2010	0	0	0	—	4.00
Zhou Chengjuan	Independent Director	F	45	April 2007 - April 2010	0	0	0	—	4.00
Wang Yumei	Independent Director	F	46	April 2007 - April 2010	0	0	0	—	4.00
Lau Ying Kit	Independent Director	M	34	April 2007 - April 2010	0	0	0	—	10.00
IV. Supervisors									
Gao Junjie	Chairman of supervisory committee	M	38	April 2007 - April 2010	39,606	39,606	0	—	7.42
Wang Ju	Supervisor	F	43	April 2007 - April 2010	0	0	0	—	13.45
Yang Hongqin	Supervisor	F	41	April 2007 - April 2010	0	0	0	—	6.94
Zhao Shujun	Supervisor	M	35	April 2007 - April 2010	0	0	0	—	6.47
Liu Wenzheng	Supervisor	M	37	April 2007 - April 2010	0	0	0	—	0.00
V. Senior management									
Wang Baoliang	Deputy general manager	M	35	April 2007 - April 2010	209,200	209,200	0	—	28.08
Geng Guanglin	Deputy general manager	M	35	April 2007 - April 2010	437,433	437,433	0	—	45.90
Ren Wei	Deputy general manager	M	47	April 2007 - April 2010	109,200	109,200	0	—	21.60
Li Xueqin	Deputy general manager	F	43	April 2007 - April 2010	429,348	429,348	0	—	25.92
Hao Yun	Deputy general manager, secretary to the Board	M	46	April 2007 - April 2010	708,441	708,441	0	—	27.00
Wang Zaiguo	Deputy general manager	M	46	April 2007 - April 2010	195,600	195,600	0	—	21.6
Wang Shihong	Deputy general manager	M	45	April 2007 - April 2010	0	0	0	—	18.00
Fang Lijun	Deputy general manager	M	39	April 2007 - April 2010	436,851	436,851	0	—	25.24
Meng Feng	Deputy general manager	M	37	April 2008 - April 2010	185,700	185,700	0	—	27.00
Han Chunlai	Deputy general manager	M	45	April 2008 - April 2010	0	0	0	—	21.60
Xia Guangchun	Deputy general manager	M	44	April 2007 - April 2009	70,700	70,700	0	—	18.73
Liu Junwu	Chief financial officer	M	47	April 2007 - April 2009	0	0	0	—	17.28
Total	—	—	—	—	14,397,834	14,395,534	-2,300	—	798.92

1. None of the Directors, Supervisors and senior management of the Company had received any remuneration from shareholder or other related entities.

2. During the reporting period, Mr. Zhou Shaohua, an Executive Director of the Company, sold part of the outstanding A shares held by him in secondary market after sales restrictions were released.

Share incentives granted to directors, supervisors and senior management during the reporting period

☐ Applicable √ Not Applicable

5.2 Attendance of directors in meetings of the Board

Name of director	Position	Number of meetings that required attendance	Number of meetings attended in person	Number of meetings participated by way of conference communication	Number of meetings attended by proxy	Number of meetings absent	Absence in two consecutive meetings
Chen Hongguo	Chairman	9	7	2	0	0	No
Yin Tongyuan	Vice- chairman and general manager	9	7	2	0	0	No
Li Feng	Director	9	7	2	0	0	No
Hou Huancai	Director	9	7	2	0	0	No
Zhou Shaohua	Director	9	7	2	0	0	No
Xing Fangtong	Director	9	7	2	0	0	No
Wu Bingyu	Director	9	7	2	0	0	No
Gan Zhihe	Director	9	7	2	0	0	No
Zhao Wei	Director	9	7	2	0	0	No
Cao Chunyu	Director	9	7	2	0	0	No
Diao Yuntao	Independent non-executive director	9	7	2	0	0	No
Wang Zhihua	Independent non-executive director	9	7	2	0	0	No
Zhou Chengjuan	Independent non-executive director	9	7	2	0	0	No
Wang Yumei	Independent non-executive director	9	7	2	0	0	No
Lau Ying Kit	Independent non-executive director	9	7	2	0	0	No

Explanation on two consecutive absences from meetings of the Board

Meetings of the Board held during the year	9
Of which: number of meetings that required attendance in person	7
Number of meetings held by way of conference communication	2
Number of meetings held by combination of attendance in person and by way of conference communication	0

§6 Directors' Report

6.1 Management discussion and analysis under Accounting Standards for Business Enterprises

(I) Overall operations during the reporting period

In 2008, the Group experienced rapid development of the domestic economy during the first half year, and suffered the slowdown of economy resulted from the global financial crisis, which presented the Company and the whole papermaking industry an austere test in the 2008. During the first half of 2008, market supply and demand for paper products underwent 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 of obsolete capacity in the papermaking industry under the "Eleventh Five-Year Plan" by way of accelerated closure of companies not up to standard environmentally and of obsolete capacity. Since the second half of 2007, the price of the Company's products had seen rises of various degrees driven by many factors such as the surge in raw materials costs. Meanwhile, the phenomenon of the Beijing Olympic Games boosted the swift development of the macroeconomic environment to the speedway of growth, as a result of the high positive correlation between the papermaking industry and the marcoeconomy, the whole papermaking industry was positioned in a benevolent environment of growth that had seen prices of paper and pulp maintained at generally higher positions, as reflected from the significant increase in paper demands. To a lesser extent, the papermaking industry was also one of the benefactors of the appreciation of Renminbi, because the appreciation of Renminbi made the import of pulp, waste paper and paper making equipment by domestic corporations less expensive, which turned into lowering of production costs and finance expenses as well as higher profitability. Under the influence of the above macroeconomic factors, the Company enjoyed substantial growth in its economic benefits in the first half year of 2008, which served as a solid base for the operations of the whole year.

In the second half of 2008, the subprime crisis in the United States turned into a global financial crisis, and its further deterioration severely impacted the global economy. China's economy retreated in its pace of growth, directly led to the slump in paper demands both domestically and overseas, as more clearly shown in the post-Olympic Games period. Against the backdrop of demand constriction and slow-moving inventories, the price of most paper products in China suffered significant downward correction. Although the cost of raw materials recorded significant period-on-period drops in October to an extent exceeding the period-on-period drop in paper prices, the decline in costs did not sufficiently reflect in the fourth quarter results due to the approximately two-month inventory period of raw materials. The management of Chenming Paper had taken effective measures to tackle the challenges in the second half year: in respect of product structure, the Company reinforced its efforts in research and development of new products to optimize product offerings; in terms of sales, flexible sales strategies were used to lower inventory level and build-up a policy to avoid business risks; for supply of raw materials, through considering the actual state of affairs in the Company, production limitations were imposed on certain pulp production lines on a targeted basis; while procurement of principal raw materials were strictly based on the principle of "tendering for lump sum purchases and quality to price comparison for small lot purchases" under the Group's central administration in order to minimize procurement costs.

1. Overview of production and operation

During 2008, the Company completed machine-made paper production of 3.17 million tonnes, representing a growth of 300,000 tonnes compared with 2007, or a growth of 10.45%; revenue realized from principal operations amounted to RMB15,530 million, up RMB365 million or 2.41% over 2007. Costs of principal operations were RMB12,557 million, increased by RMB482 million or 3.99% over 2007. Realized operating profit and net profit attributable to equity holders of the Company were RMB1,293 million and RMB1,075 million respectively, showing respective growths of 0.62% and 11.13%.

The growths were mainly attributable to: the 98,000-tonne annual capacity waste paper de-inking project, the 120,000-tonne annual capacity art paper project and the Jilin 300-tonne daily chemical pulp production line came into operation successively during the reporting period, while the proprietary 300,000-tonne per annum super art paper project and the Jilin 180,000-tonne light weight coated paper project commenced operation in 2007 achieved benchmark during the reporting period, thereby expanding the production size of the Company. In spite of the financial crisis which resulted in lower sales prices in the fourth quarter, sales price for the year on an integrated basis was higher than 2007; on the other hand, unit production costs were driven up by inflated raw material prices, however, was countered by the decrease of 87,000 tonnes in sales volume to record slightly increased but substantially unchanged cost of revenue. The reduction in interest expenses and asset losses and the acquisition of minority interests in subsidiaries had resulted in increases in operating profit and net profit.

2. Progress of the Zhanjiang Chenming pulp project

(1) As undertaken in the offering prospectus, 91% of the proceeds from H share offering were used in the Zhanjiang Chenming pulp project in Guangdong Province. As at 31 December 2008, RMB500 million was injected into the project while the rest of the amount was deposited in a bank account for the project to ensure safety of the funds.

(2) The construction area of the woodlands for papermaking materials reached 600,000 mu already, of which 260,000 mu of woodlands for papermaking materials had obtained legal forestry rights certificates (林權證) at the end of 2008.

(3) The site formation work of the Zhanjiang Chenming pulp project was 70% complete.

(4) On the site of the Zhanjiang Chenming pulp project, the ancillary fencing work, catchment and drainage work design and the tendering works were under progress and would soon commence in all areas.

(5) Actively worked with domestic ancillary equipment providers and installation service providers through idea exchange, detailed discussions and preparation in connection with the proposal and plan in tendering of the project by stages

(6) Procurement of main imported equipment. As affected by the global financial crisis, the price of steel materials experienced a significant decline. To maximize the benefits under the construction of the Zhanjiang Chenming pulp project and ensure the investment returns of shareholders, the project company believed it necessary to further lower the relevant terms in pricing of the related main equipment supply contracts. The import price of the main equipment are currently under negotiation, and the project company will determine the construction progress of the main equipment in view of the international economic environment and pay the import equipment prepayments as stipulated in the contracts, in order to proceed with the construction of the Zhanjiang Chenming pulp project in an active and steady manner.

3. Management and innovation

(1) The Company had made it a policy to convene joint-meetings for production, sales and management in 2008, which called management of the Company, responsible personnel in relevant departments and officials above chief representative level of each sales administrative area to attend the joint-meetings. During the meetings, the economic operations of each type and model of machines was seriously analyzed to identify and raise issues, while each of such issues would be discussed to formulate corrective measures. For the weaker links of management in the Company and each subsidiary that were identified, the Group would establish dedicated committees in the areas of technology, environmental protection, energy saving and equipment, allocation, costs, electricity and safety, etc. Professionally structured vertical management was enhanced to help the Company and all subsidiaries identify and solve issues in the course of operation to allow effective and better level of governance throughout the Company.

(2) During the reporting period, the national-level technology centers and post-doctoral technological research workstations were utilized to scrupulously improve upon our abilities to innovate and create. Also, the corporate collaborations with advanced international corporations such as Arjo Wiggins of France and Sappi of South Africa immersed us in an engaging atmosphere of research and development and innovation, under which we produced a series of high added-value new products that would be suitable for marketing and sales; these products had optimized our product structure and increased our market competitiveness, thereby building ourselves as an international brand name in both PRC and overseas markets. The "High Yield Pulping and Chemical Pulping Technological Research" (高得率製漿及化學製漿技術研究) of the Company was granted construction work job qualification by Yuandu Scholars (鳶都學者) of Weifang City. Our study subject "The Practical Key Techniques Study in Mixed Wide Leaves for Bleaching in a Chemithermomechanical Pulping Process" (混合闊葉材漂白化學熱磨機械漿生產應用關鍵技術研究) was listed as a national scientific support project under the "Eleventh Five-Year Plan", the results of the study improved the quality of pulping using mixed wide leaves through bleaching in chemithermomechanical pulping process. In response to market demands, newly development products such as environmental-friendly high-end low basis weight coated paper, environmental-friendly high-end copperplate paper and environmental-friendly high-end white paperboard were introduced to further enrich our product mix and allow more channels of profit generation.

In connection with energy saving and emission reduction, the Company maximized recycling and reuse to the largest extent by implementing a scientific method of water usage categorized by quality, quantity, process and techniques in our production system. Papermaking water was reused at a rate above 90%. During the reporting period, a 30,000 cubic daily capacity intermediate water reuse project was put into use, all the processed waste water would be returned to use in production to reduce overall pollutants and waste emission by 40%. Building upon the recycling of methane, electricity plant ash-slag and papermaking mud produced in the processing of waste water with anaerobic gas, the "double alkali method" of desulphurization was used for the modification of three coal powder kilns to reduce production of sulfur dioxide by 7,000 tonnes annually and process white sludge recovered from papermaking alkali by 17,000 tonnes. The 130t/h circulating sulphurized bed boiler for waste substances equipped with a 12MW single stage extraction turbine electricity generation module was put into operation for mixed usage of solid waste substances, including bark, wood bits, sawdust, ink sludge and mud, producing a win-win situation with both economic benefits and environmental benefits.

During the reporting period, the Company was listed on the main board of Hong Kong Stock Exchange and became the first company in China listed with A, B and H shares;

The Company was named by the People's Government of Shandong Province as the "Leading Enterprise of Foreign Economic and Trade in Shandong Province" (山東省外經貿先進企業);

The Company's aldehyde-free fiberboard was given the "Technological Advancement Award for China's Fiberboard Industry" (中國纖維板行業技術進步獎);

The Company won the accolades of "Pioneering Energy Saving Enterprise in Shandong Province" (山東省節能先進企業) and "Leading Unit in Earthquake Relief in Weifang City" (濰坊市抗震救災先進單位);

The Company was honored with the titles of "Excellent Paper Making Enterprise in China for the Year 2008" (2008中國造紙年度優秀企業) and "Model Company of Labor Protection Integrity" (勞動保障誠信示範單位);

The People's Government of Shandong Province heralded the Company as "Leading Tax-paying Enterprise in Shandong Province" (山東省納稅先進企業);

The Company was ranked 165 in the Top 500 China Manufacturing Enterprises (中國製造企業500強) published by China Enterprise Confederation and China Enterprise Director Association, retaining its highest position among papermaking industrial players.

(II) Prospect of the future developments of the Company

1. The development trend of the industry to which the Company belongs and the strategic plans for the Company's future development

The industry to which the Company belongs is the paper making industry, which is a light industry. The paper making industry is an important basic raw materials industry which is closely related to the national economy and social matter development. The paper making industry features capital and skills intensive characteristics with prominent economy of scale. Its growth rate is strongly and positively correlated to that of GDP.

As the extent and scope of influence under the global financial crisis is still highly uncertain, this will directly affect the pace of economic growth in China, and therefore make it difficult for the Company to accurately judge the development prospects of the papermaking industry. Nevertheless, as the papermaking industry in China is still undergoing a general direction of growth, the Board is of opinion that: after the trough experienced in the second half of 2008, papermaking industry will begin to stabilize; while the price for upstream raw materials will remain low for a certain period, the price for paper products will be able to maintain a reasonable balanced point of profitability; following the implementation of the new environmental protection policies and renewed efforts in implementing policies related to the papermaking industry, small-to-medium papermaking enterprises will face expansion limitation, challenges in economy of scale and heavier costs for environmental protection in their future development, which will lead to higher degree of industry concentration that is beneficial to enterprises with larger structural scale.

Based the above viewpoints, the Company will stick to its existing strategy already made to operate in an orderly way towards the development, mainly including the following aspects:

(1) Solving the bottleneck of the raw materials which restricts the Company's development and improving the control over product cost

The Company established the Zhanjiang Chenming pulp project and ancillary raw materials bases as its major development targets, while the Company also accelerated the construction of the Hubei forestry project base, establishing the production chain of "forestry-pulp-paper integration" in order to eliminate any restrictions posed by upstream resource industries on the Company and strengthen the sustainable development capacity of the Company.

(2) Dedicated to research and development and production of the advanced paper products and enhancing the Company's share in high-end PRC and international markets.

By relying on the existing national-level technological research and development centres and post-doctoral scientific research work stations, the Company put greater efforts to innovate, research and develop products, develop new advanced paper products, improve existing product quality; strengthen the omni-directional co-operations with the international advanced paper making enterprises, utilizing their advanced management models, production technologies and marketing experiences as much as possible; continue to increase the input in projects, expand production capacity, build paper making production lines with high technical input, further improve the Company 's production scale, product specifications, strive to step into the direction towards becoming a frontrunner in the international paper making industry in the future.

(3) Paying close attention to environment protection construction, and committed to the goal of "energy saving, reduced emission and harmonious development"

The Company is devoted to its mission of "environmental protection comes first during enterprise's development", and adopts the goal of "energy saving, reduced emission and harmonious development". As the national environmental protection standard is raised and more efforts are made to administration, the Company will emphasize to develop the recycle economy, exchange of wastes, recycle use, enhance the resources utilization ratios to the greatest extent, put greater efforts in the construction of environmental protection project at the same time and guarantee the discharge of wastes in strict compliance with the standard.

(4) Continuous improving the Company ‘s operational efficiency

The Company will further optimize and promote production procedures and production equipment, thereby increasing output and improving production efficiency and products quality; further improve the Company’s unifies administrative system, including the unified sales of products and unified procurement of raw materials; continue to optimize the portfolio of financial instruments and lower financial costs.

(5) Taking advantage of capital operation of the Company to realize low-cost expansion

As the Chinese paper industry is in the process of consolidation, the Company may engage in such an acquisition or merger if it fits the expansion strategies of the Company and optimizes the geographic layout of the Company to realize low-cost expansion and take advantage of capital operation of the Company accumulated throughout the years.

2. With the full knowledge of the management of the future development trends, the management of the Company are of the view that 2009 will see a gradual return of paper industry boom due to various factors such as greater macroeconomic control in China, introduction and implementation of stimulus plans, mandatory elimination of backward production capacity and the further requirement for energy saving and emission reduction, despite the persistent repercussions of the financial crisis.

The major tasks of the Company in 2009 are as follows:

(1) To accelerate the structural adjustment and achieve scientific development

The Company will actively optimize the low value-added and resource-consuming products, eliminate obsolete techniques, equipment and raw materials, and improve technical equipment and product grade. In order to improve the quality and volume of the pulp, the headquarters of the Company, Wuhan Chenming Hanyang Paper Co., Ltd. and Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. will upgrade the oxygen delignification techniques for some pulp production lines. Shouguang Chenming Art Paper Co., Ltd will carry out the project of changing first and second drying to vacuum rolls in light of the web break and low output problems in it dryer section. Jiangxi Chenming Paper Co., Ltd. and Fuyu Chenming Paper Co., Ltd. (富裕晨鳴紙業有限責任公司), two subsidiaries of the Company, will successfully carry out technological upgrade projects in light of their actual situation.

(2) To enhance independent innovation

Leveraging on the support and resources of the national-level technology centres and the post-doctoral technological research workstations, we will enhance cooperation with leading international papermaking enterprises as well as conduct collaboration and exchange ideas with PRC and international scientific research institutes. Through actively acquiring, promoting and applying new skills and technologies, we will fully utilize the scientific and technological resources to keep up with the forefront technologies of international research studies, aiming to capture an advanced position when competing for market share. With respect to talents, we will reinforce the establishment of technical teams and encourage innovation; more resources will be mobilized to nurture top-notch technical talents, and solicitation of technical professionals of all kinds will be carried out through all means without any prejudice. By exploiting the technological and research advantages of the Company, we can focus aggressively on the research and development of new products; based on prevailing market demands and after considering the actual state of affairs of the Company, we aim to broaden the Company's sources of revenue by actively developing new products with high added value and high technological content, including: high basis weight copperplate paper, anti-forgery white paper board and restickable business labels.

(3) To enhance energy saving and emission reduction and ability to sustain development

Energy saving, emission reduction and environmental protection are the highlighted items in the corporate development strategies of the Company. Reduction of water resources consumption continue to be the focal point of such work, through developing and promoting new technologies, techniques and equipment for water conservation, we aim to raise our ratio of repeated water utilization. We will also excel to perform well in the project "對製漿生產線原黑液提取工段進行改造的項目". Inspection and supervision on the completion of energy saving and emission reduction at each unit will be regularly conducted by the environmental protection department, and practical experiences obtained from implementing such advanced energy saving and emission reduction technologies will be communicated in a timely manner, in order to ensure that these works are carried out in an effective way.

(4) To accelerate the forestry-pulp-paper integration

The Company speeds up the progress of the Zhanjiang pulp project by making great efforts in professional management, target management and planning management with careful organization and scientific deployment. The project site construction is in full swing and the "Five Accesses and One Leveling" will be completed as soon as possible in order to carry out wood chip yards, warehouse and plants construction, as well as complete labelling work for the technologies of main imported equipment such as pulping and recovery of black liquor. At the same time, the Company fully communicates with the domestic ancillary equipment suppliers and service providers to complete the tender biddings and plans in the course of the Zhanjiang Chenming pulp project, thereby speeding up the project progress. The Company puts great emphasis on the Zhanjiang Chenming and accelerates the construction of raw timber bases of the forestry subsidiaries in Hubei to build an industry chain of "forestry-pulp-paper integration".

(5) To strengthen corporate brand building to gain market share in the PRC and oversea markets

The Company builds its brand with product quality. The Company is determined to nurture "Chenming" as an internationally well-known brand by enhancing quality awareness across the Group to raise the product quality of the Company to the utmost top level among its counterparts. The Company also strengthens the building of its marketing team through optimization of the salary assessment plan to give incentive to the operating staff to improve their service quality in order to build up "Chenming" as brand of quality service. The Company strives to gain its market share in the PRC market and expands overseas at the same time by seriously studying and making good use of the PRC export policy, exploring export channels to gain its market share in the overseas market.

(6) Standardization of corporate management to fully enhance the operating quality

The Company consistently maintains a philosophy of people-oriented management and further explores and innovates new management models. The Company also strives to enhance its overall management level to quicken its convergence with international practices by making a reference to the management experience of the international leading enterprises.

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

The competition of the paper product market becomes intense, exaggerated by the repercussions of the financial crisis in the fourth quarter of 2008, as the production capacity of the paper industry rapidly grows in recent years. The results of the Company will be undermined due to the increased volatility in prices of various paper products and the volatility of the raw material prices. In face of the intense market competition, the Company continues to develop new products with high added value and high technological level. However, the product development process covering from experiment, research, testing, mass production and gaining market recognition is so long that the Company is subject to the risk of product development failure at any time.

4. Future capital requirement, sources of funds and their planned use

The demand for capital of the Company is ever increasing as the Company and its operating scale continuously grows. As the largest paper making company and a Company listed with A shares, B shares and H shares, the Company has a good reputation in the financial market and extensive financing sources. The Company will adopt the following effective sources of funds based on its growth and future development strategies:

(1) Reinforcement for market sales – The Company will increase its sales revenue and put greater efforts in the recovery of receivables to speed up capital turnover, utilize capital potential and take full advantage of its own funds;

(2) Taking advantage of the credibility and reputation of the Company – The Company will secure bank loans and syndicated loans and strengthen its internal financial control and enhance its capital utilization;

(3) Optimization of financial structure to reduce finance expenses – The Company intends to issue of medium-term notes of not more than RMB 2,300 million to fund working capital and repay bank loans.

(4) Reasonable use of proceeds from H shares issue – The Company will contribute capital into the Zhanjiang pulp project on schedule as set out in the prospectus.

6.2 Principal operations by industry and product (Prepared in accordance with Accounting Standards for Business Enterprises)

Unit: RMB in ten thousands

Principal operations by industry						
By industry or product	Sales revenue	Cost of sales	Gross profit margin (%)	Year-on-year increase/ decrease in sales revenue (%)	Year-on-year increase/ decrease in cost of sales (%)	Year-on-year increase/ decrease in gross profit margin (%)
Machine made paper	1,457,392.10	1,181,495.56	18.93%	5.18%	7.02%	-1.39%
Electricity and steam	23,555.16	19,948.53	15.31%	-3.92%	8.67%	-9.81%
Construction materials	51,259.42	44,427.32	13.33%	-41.08%	-38.92%	-3.06%
Chemicals for papermaking	8,863.99	3,697.06	58.29%	-3.66%	-19.44%	8.17%
Hotel industry	2,414.89	835.63	65.40%	—	—	—
Others	9,473.78	5,272.13	44.35%	-7.18%	-32.05%	20.36%
Total	1,552,959.34	1,255,676.23	19.14%	2.41%	3.99%	-1.23%
Principal operations by product						
Light weight coated paper	175,859.59	146,586.20	16.65%	-6.94%	-4.64%	-2.01%
Duplex press paper	206,039.86	158,442.89	23.10%	-0.56%	-2.11%	1.21%
Writing paper	38,933.62	30,774.44	20.96%	53.72%	57.92%	-2.1%
Copperplate paper	261,118.84	197,660.47	24.30%	12.96%	11.41%	1.05%
News press paper	213,287.29	172,542.40	19.10%	7.64%	7.74%	-0.08%
Paperboard	83,347.88	79,816.12	4.24%	-9.10%	4.03%	-12.09%
White paperboard	215,858.53	174,874.58	18.99%	-8.20%	-9.42%	1.09%

6.3 Breakdown of income from paper products of principal operations by geographical segment (Prepared in accordance with Accounting Standards for Business Enterprises)

Unit: RMB in ten thousands

Geographical segment	Sales revenue	Year-on-year increase/decrease in sales revenue (%)
PRC	1,263,291.65	9.37%
United States	4,965.80	-80.14%
Hong Kong	20,712.97	-31.70%
Japan	14,667.01	-56.11%
South Africa	23,646.04	-19.17%
Other overseas countries	130,108.63	15.63%
Total	1,457,392.10	5.18%

6.4 Items measured at fair value

√ Applicable ☐ Not Applicable

Historical cost method is normally used for measurement in preparing the financial statements of the Company, except the below asset items were carried at fair value:

(1) Financial assets carried at fair value through profit or loss for the current period

(2) Consumable biological assets (please refer to Note 17 of financial statements items prepared in accordance with Accounting Standards for Business Enterprises)

(3) Changes on and effects of changes in major assets carried at fair value:

Unit: RMB

Statement items	Item	Method of obtaining fair value	Balance as of 31 December 2008	Balance as of 31 December 2007	Effect on profit or loss for the year
Financial assets held for trading	Derivative financial instruments	Quotations from financial institutions	0	5,955,480.00	1,738,200.00
Consumable biological assets	Consumable timber assets	Note (1)	301,212,691.14	92,159,871.29	918,451.60

The Group adopted the following critical methodology and assumptions when estimating the fair value of financial assets held for trading and consumable biological assets carried at fair value at the balance sheet date:

(1) Derivative financial instruments: the fair values of forward foreign exchange contracts were determined by the difference between the present value of the price of contractual forward foreign exchange and the spot foreign exchange price at the balance sheet date. The Group used the forward contract settlement exchange rate for same day settlement published by banks on 31 December 2008 as the basis and used the contractual settlement exchange rate for determination of the difference.

(2) Consumable biological assets: independent valuers determined the market price of timber harvest by the active market quotations in Zhanjiang City and Fujian Province where our biological assets were located. In estimating future cash flow, the independent valuers considered the following factors: 1) the expected nominal market price of the timber harvest; 2) expected timber gains was dependent on the opinion and judgment of biological assets by considering the expected timber reserve level and timber production rate formulated by experts for a limited scope; 3) the expected costs for maintaining and nurturing existing biological assets; and 4) the expected costs of sales (including our estimated harvest costs and transportation costs).

6.5 Management discussion and analysis under International Financial Reporting Standards

Revenue from operations

Unit: RMB '000

By industry or product	2008 Revenue from principal operations	2008 As a percentage of revenue from operations (%)	2007 Revenue from principal operations	2007 As a percentage of revenue from operations (%)
Sales of paper products	**14,561,339.00**	**94.37**	13,837,756.00	93.00
Sales of electricity and steam	**235,552.00**	**1.53**	68,996.00	0.46
Sales of construction materials	**512,594.00**	**3.32**	869,910.00	5.85
Sales of chemicals products	**88,640.00**	**0.57**	92,004.00	0.62
Others	**32,785.00**	**0.21**	10,209.00	0.07
Total	**15,430,910.00**	**100.00**	14,878,875.00	100.00

Unit: RMB '000

Geographical segment	2008 Revenue from principal operations	2008 As a percentage of revenue from operations (%)	2007 Revenue from principal operations	2007 As a percentage of revenue from operations (%)
PRC	**13,502,030.00**	**87.50**	12,573,625.00	84.51
United States	**49,658.00**	**0.32**	250,063.00	1.68
Hong Kong	**207,130.00**	**1.34**	303,261.00	2.04
Japan	**146,670.00**	**0.95**	334,189.00	2.24
South Africa	**236,460.00**	**1.54**	292,530.00	1.97
Other overseas countries	**1,288,962.00**	**8.35**	1,125,207.00	7.56
Total	**15,430,910.00**	**100.00**	14,878,875.00	100.00

Revenue from operations for 2008 was RMB15,431 million, representing an increase of RMB552 million or 3.71% over 2007. Under the impact of various factors including the financial crisis, exports business declined moderately compared with 2007; among which revenue from exports to Hong Kong dropped 31.70% from 2007 to RMB207 million; revenue from exports to United Stated fell 80.14% compared with 2007 to stand at RMB50 million; revenue from exports to Japan amounted to RMB147 million, down 56.11% over 2007; exports to South Africa reached RMB236 million to record a drop of 19.17% compared with 2007. Revenue from exports to other overseas areas was RMB1,289 million, representing an increase of 14.55% over 2007, mainly contributed by exports to areas such as Singapore and the Middle East.

Revenue from paper products amounted to RMB14,561 million, representing growth of 5.23% over 2007; the growth was primarily due to a substantial surge in average product price for the year on integrated basis over 2007, despite the influence of unfavorable market conditions and the drop in product price during the fourth quarter of 2008 as a result of the financial crisis.

Revenue from electricity and steam amounted to RMB236 million, surged 241.40% over 2007, mainly due to the fact that sales of certain electricity and heat were accounted for as raw materials in 2007 and therefore reflected in other gains.

Revenue from construction materials amounted to RMB513 million, a plunge of 41.08% compared with 2007, mainly due to reduction in revenue as a result of unfavorable market conditions that led to lower sales volume of fiberboard in 2008 compared with 2007.

Revenue from chemical products for papermaking operations amounted to RMB89 million, down 3.66% compared with 2007, mainly due to lower sales volume of chemicals in 2008 compared with that of 2007 as affected by factors such as market conditions, which resulted in lower revenue.

Cost of sales and gross profit

Cost of sales as a percentage of revenue from operations

Unit: RMB '000

By industry or product	**2008** Cost of sales	**2008** As a percentage of revenue from operations (%)	2007 Cost of sales	2007 As a percentage of revenue from operations (%)
Sales of paper products	**11,780,147.00**	**80.90%**	11,005,949.00	79.54%
Sales of electricity and steam	**199,485.00**	**84.69%**	58,925.00	85.40%
Sales of construction materials	**444,273.00**	**86.67%**	727,364.00	83.61%
Sales of chemical products	**36,971.00**	**41.71%**	45,891.00	49.88%
Others	**12,035.00**	**36.71%**	7,495.00	73.42%
Total	**12,472,911.00**	**80.83%**	11,845,624.00	79.61%

Gross profit and gross profit margin

By industry or product	**2008** Gross profit	**2008** Gross profit margin	2007 Gross profit	2007 Gross profit margin
Sales of paper products	**2,781,192.00**	**19.10%**	2,831,807.00	20.46%
Sales of electricity and steam	**36,067.00**	**15.31%**	10,071.00	14.60%
Sales of construction materials	**68,321.00**	**13.33%**	142,546.00	16.39%
Sales of chemical products	**51,669.00**	**58.29%**	46,113.00	50.12%
Others	**20,750.00**	**63.29%**	2,714.00	26.58%
Total	**2,957,999.00**	**19.17%**	3,033,251.00	20.39%

Cost of sales of the Company in 2008 reached RMB12,473 million, increased by 5.30% over 2007. Profit margin dropped 2.48% compared with 2007 to RMB2,958 million, principally because costs of sales in the first to third quarters of 2008 rose due to higher price of raw materials and slower sales. Gross profit margin for 2008 was 19.17%, down by 1.22% compared with 2007, mainly because the financial crisis led to lower gross profit margin of the Group in the fourth quarter, which contributed to the drop in overall gross profit margin for the year compared with 2007.

Cost of sales for paper products was RMB11,780 million, representing a growth of 7.03% over 2007, mainly due to higher cost of sales resulted from increased price of raw materials and weaker sales volume between the first and third quarters of 2008.

Cost of sales of the electricity and steam amounted to RMB199 million, increased by 238.54% over 2007, mainly because certain electricity and heat were accounted for as sales of raw materials in 2007, and were therefore reflected in other gains.

Cost of sales of the construction materials amounted to RMB444 million, decreased by 38.92% over 2007, mainly due to the decrease in sales volume of fiberboard in 2008 under the influence of market conditions and the corresponding drop in costs of sales.

Cost of sales of the chemical products was RMB37 million, decreased by 19.44% over 2007, mainly due to lower costs from weak sales of chemicals in 2008 as affected by market conditions.

Other income

Other income of the Group for 2008 amounted to RMB501 million, increased by 8.26% over 2007, mainly due to: (1) proceeds of RMB2,728 million from issuance of H shares of the Company in 2008, which increased interests income; and (2) government grants received in 2008 exceeded that of 2007 by RMB35 million.

Share of results of associates

In 2008, the Group's share of results of associates was -RMB23.2 million, representing a decrease of 144.21%, mainly due to the exacerbation of losses in associates in 2008.

Distribution expenses

Distribution expenses in 2008 was RMB706 million, representing a drop of 9.92% over 2007, principally affected by the financial crisis which caused sales volume in the fourth quarter of 2008 to drop and in turn substantially lowered transportation expenses.

Administrative expenses

Administrative expenses in 2008 amounted to RMB543 million, representing a decrease of 16.92% over 2007, mainly due to more efforts put in by the Group in its collection of goods payments, where the already provided for impairment receivables due from 佛山市順德區星辰紙業有限公司 (Foshan Shunde Xingchen Paper Co., Ltd.) were recovered in 2008, this led to the reversal of fully provided bad debts and reduced administrative expenses; meanwhile, under the impact of the financial crisis, the loss from production interruption in certain subsidiaries led to an increases in administrative expenses.

Gain on change in fair value of derivative financial instruments

In 2008, gains from derivative financial instruments decreased by RMB4.217 million in 2007 to RMB1.738 million, mainly due to the future pooling foreign exchange contracts, which were dominated in USD, entered into by Jiangxi Chenming, a subsidiary of the Company, with Changbei branch of China Construction Bank and Changbei branch of Bank of China respectively on 18 October 2007. Such financial assets had change in fair value of RMB1.738 million at the end of 2008, representing a decrease of RMB4.217 million compared with 2007.

Profit from change in fair value less estimated point-of-sale cost of biological assets

Profit from change in fair value less estimated point-of-sale cost of biological assets in 2008 was RMB918,000, decreased by RMB23.497 million from 2007, mainly due to the change in fair value of forestry assets of the Company.

Impairment loss on property, plant and equipment

In 2008, impairment loss on property, plant and equipment was RMB8.563 million, mainly due to 襄樊晨鳴銅版紙有限公司 (Xiangfan Chenming Copperplate Pater Co., Ltd) cancelled its registration in 2008, therefore its fixed assets with net worth of RMB6.766 million was fully provided for impairment.

Allowance for inventory

In 2008, allowance for inventory increased by RMB127 million compared with 2007, mainly because under the impact of the financial crisis, the Group provided allowance for drop in inventory price by stating at the lower of net realizable value and cost.

Finance costs

Finance costs amounted to RMB463 million in 2008, decreased by 16.75% compared with 2007, mainly due to invigoration of the Group's capital operations to issue short-term debentures and repay certain portions of short-term borrowings, at the same time the Company redeemed all the convertible bonds of the Company in advance on 14 May 2007, leading to lower interest expenses in 2008 compared with 2007.

Income tax expenses

The Group recorded income tax expense of RMB296 million in 2008, representing an increase of 9.23% over 2007, mainly due to higher profit of the Company in 2008 over that of 2007, causing income tax to increase.

Profit attributable to minority interests

Profit attributable to minority interests amounted to RMB193 million in 2008, representing a decrease of 25.47% over 2007, mainly due to (1) reduction in realized net profit of certain non-wholly owned subsidiaries of the Company in 2008, reducing profit attributable to minority interests; and (2) the Company's acquisition of 35.71% minority interests in subsidiary Shandong Chenming Power Supply Holdings Co.,Ltd. during the year, the effects of which reduced profit attributable to minority interests.

Profit attributable to equity holders of the Company and profit margin

Profit of the Group attributable to the equity holders of the Company was RMB1,102 million for 2008, representing an increase of 10.89% over 2007; while profit margin was 7.14%, grew 0.46% compared with 6.68% in the corresponding period of 2007. The changes were mainly due to: (1) acquisition of minority interests in Shandong Chenming Power Supply Holdings Co., Ltd. by the Company increased revenue, while profit attributable to equity holders of the Company also increased due to the additional shareholding interests; (2) the Company strengthened its efforts in recovery of goods payments and received payments of impaired receivables from 佛山市順德區星辰紙業有限公司 (Foshan Shunde Xingchen Paper Co., Ltd.) to reverse bad debts already provided in full, hence increased profit attributable to the equity holders of the Company; and (3) invigoration of the Company's capital operations to issue short-term debentures and repay certain portions of short-term borrowings, so as to reduce interest expenses and increase net profit.

Liquidity

In 2008, the cash flows from operating activities, the cash flows from investing activities and the cash flows from financing activities of the Company were RMB 1,934 million, -RMB 1,543 million and RMB 1,700 million respectively, increased by 22.87%, - 38.41% and 371.95% from 2007. The main reasons were:

(1) The increase in the cash flows from operating activities was mainly due to increased income and profit in 2008, decreased settlement ratio of bill receivable and increased financial subsidies of the Company.

(2) The decrease in the cash flows from investing activities was mainly due to : the launch of the 120,000 tonnes art paper project during the reporting period by the Company, the acquisition of Heilongjiang Xida Paper Company Limited（黑龍江斯達紙業有限公司）and Heilongjiang Paper Plant（黑龍江造紙廠）by Fuyu Chenming Paper Co., Ltd.（富裕晨鳴紙業有限責任公司）, a subsidiary of the Company, in 2008, the Zhanjiang project and an increase in technological transformation investment projects.

(3) The increase in the cash flows from financing activities was mainly due to receipt of the proceeds from the issuance of H shares in June 2008, changes in borrowings and short-term financing debentures.

Significant seasonal effect on the capital requirements of the Company

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

Principal sources of funding

In 2008, the principal sources of funding of the Company 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 in the Hong Kong capital market.

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

As at 31 December 2008, the Group's new bank borrowings were increased by RMB 6,002 million (excluding RMB 1,900 million raised from this issuance of the short-term financing debentures), and the repayment of loans amounted to RMB 7,547 million (excluding RMB 500 million of the repayment of loans for the period). The borrowing was bearing interest from 3.6% to 7.7%.

Gearing ratio of the Company

As at 31 December 2008, the gearing ratio of the Group was 32.5% (including minority interests), dropped by 7.8% compared with the ratio of 40.3% in 2007, mainly due to the fact that the Company increased the capital by the way of H shares issue in June 2008, and the Company repaid part of the loans in 2008, thus the loans from bank dropped. Meanwhile, it was also because of an increase in equity attributable to equity holders of the Company. The formula adopted by the Group in calculating gearing ratio was as follows: gearing ratio = total borrowings/total assets (Total borrowings refers to borrowings due within one year, borrowings due after one year, short-term debentures and convertible bonds).

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

As at 31 December 2008, the secured assets of the Group included: International Finance Corporation ("IFC"), Deutsche Bank AG ("DEG") and China Construction Bank Nanchang Changbei Branch entered into an loan agreement with Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. As at 31 December 2008, the net book value of the collateral with regard to fixed assets was RMB 1,144,235,273.50 and that with regard to the land use rights (intangible assets) was RMB 74,653,598.66.

Contingent liabilities of the Company

As at 31 December 2008, there were no contingent liabilities of the Group.

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

Risk of fluctuations in foreign exchange rate and any relevant hedging

As at 31 December 2008, the exchange gain of the Group was RMB 157 million mainly due to: the exchange gain from the foreign currency borrowings and accounts payable resulting from 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 exchange rate fluctuations of foreign currencies against RMB could have an impact on the financial position of the Group.

During the year ended 31 December 2008 under review, the Group used financial instruments denominated in US dollar for hedging purposes. However, the Group will continue to monitor the exposure of proceeds from global offering to foreign exchange fluctuations.

6.6 Use of proceeds

√ Applicable ☐ Not Applicable

The Company issued 355.7 million H shares in June 2008 with the issue price of HK$ 9. The total proceeds from the issue were translated into RMB 2,831 million. The net proceeds less the expenses of RMB 103 million were RMB 2,728 million. As of 31 December 2008, RMB 746 million of the proceeds from the issue was used, of which, RMB 245 million was used to fund the working capital and RMB 501 million was used in the Zhanjiang pulp project primarily for land and plants areas construction. As of the end of the reporting period, the use of proceeds in the reporting period was as follows:

Unit: RMB in ten thousands

Total proceeds	272,825		Use of total proceeds during the reporting period		74,565	
			Accumulated use of total proceeds		74,565	
Project undertaken	Proposed investment	Project changes	Actual investment	Benefits realized	Whether progressing as scheduled	Whether progressing as scheduled with estimated benefits
Zhanjiang 700,000-tonne per annum pulp project	248,271	No	50,055	-	-	-
Supplement to working capital	24,554	No	24,510	-	-	-
Total	272,825	-	74,565	-	-	-
Explanation on failure to progress as scheduled and realize benefits (by project)	Nil					
Reasons for modification and modification procedures (by project)	Nil					
Use of unused proceeds and their status	The entire unused portion of the proceeds to be used in the Zhanjiang pulp project as set out in the prospectus was deposited at special deposit bank accounts.					

Change in project

☐ Applicable √ Not Applicable

6.7 Non-financing projects

√ Applicable ☐ Not Applicable

Unit: RMB in ten thousands

Project name	Amount involved	Progress	Benefits of the project
120,000-tonne annual capacity art coated paper project	78,300.00	Formally commenced operation in October 2008	Loss of RMB10.80 million
98,000-tonne annual capacity office waste paper deinking project	26,300.00	Commenced operation	Effectively lowered cost of pulp
Grand View Hotel project	26,000.00	Trial operation commenced in April 2008	Loss of RMB38.97 million
Total	130,600.00	—	—

6.8 Reasons for correction of accounting policies, accounting estimates or material accounting errors of the Company given by the Board and explanation on their effects

☐ Applicable √ Not Applicable

6.9 Explanation by the Board on the "non-standard auditing report" issued the accounting firm

☐ Applicable √ Not Applicable

6.10 Proposal of the Board on this profit distribution or transfer of capital reserves into share capital

(1) Cash bonus of the Company in the last three years

Unit: RMB

	Amount of cash bonus (tax included)	Net profit attributable to equity holders of the parent company for the bonus distribution year	Ratio of cash bonus to net profit attributable to equity holders of the parent company
2007	273,015,350.56	967,636,172.39	28.21%
2006	204,761,512.92	616,598,966.61	33.21%
2005	163,880,245.56	479,207,870.83	34.20%

(2) The proposed profit distribution plan of 2008

According to the relevant requirements imposed by the State Ministry of Finance and Articles of Association, the distributable profit shall be the lower of the distributable profit as calculated prepared in accordance with Accounting Standards for Business Enterprises and that calculated in accordance with International Financial Reporting Standards. The net profit attributable to shareholders realized in 2008 according to the Accounting Standards for Business Enterprises was RMB973,557,811.58, and net profit attributable to shareholders realized in 2008 according the International Financial Reporting Standards was RMB1,000,553,922.04; accordingly, the amount of distributable profit for this year was RMB973,557,811.58.

Based on the total share capital of 2,062,045,941 shares as at the end of 2008, a ash bonus of RMB0.5 (tax included for A shares) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB103,102,297.05 (tax included), which accounted for 10.59% of the net profit attributable to equity holders of the Company as set out in the combined financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2008 after deducting appropriation to statutory reserves. The balance after this distribution would be rolled over for distribution in subsequent years.

Profit of the Company during the reporting period for which no cash distribution proposal had been proposed

□ Applicable √ Not Applicable

§7 Material matters

7.1 Assets acquisition

√ Applicable ☐ Not Applicable

1. The fifth meeting of the fifth session of the Board considered and approved the resolution to further increase the shareholding in Shandong Chenming Power Supply Holdings Co., Ltd. ("Chenming Power") by the Company. In the reporting period, the Company completed the related shareholding increase. The Company purchased 2,378,000 state-owned shares, representing 2.39% of the registered share capital, and 33,175,000 collective shares, representing 33.32% of the registered share capital, of Chenming Power, from the State-owned Assets Supervision and Administration Commission of Shouguang City and the People's Government of Shouguang City respectively. The consideration for the shares was determined based on the net assets of Chenming Power. The shares of Chenming Power held by the Company were increased to 91,326,061 shares and the shareholding in Chenming Power of the Company was increased to 86.71% from 51%. The increase in shareholding constituted no change to the business of the Company on going concern and to the management of the Company. Under Rule 10.1.3 (V) of the Listing Rules of the Shenzhen Stock Exchange, this constituted connected transaction for which independent directors had expressed their independent opinion and the Company disclosed information related to this connected transaction. For details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and http://www.cninfo.com.cn on 22 January 2008.

2. On 1 August 2008, the third extraordinary meeting of the fifth session of the Board considered and approved the related resolution regarding to the related assets acquisition of Fuyu Chenming Paper Co., Ltd. ("Fuyu Chenming"), a wholly-owned subsidiary of the Company. According to the net assets value and auction price of the relevant assets acquired, the assets acquisition involved a total amount of RMB208.02 million. At the beginning of August 2008, the management executed the relevant agreements for acquisition of such assets in full compliance with the mandate granted by and amount estimated by the Board. For details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily, http://www.cninfo.com.cn and the Hong Kong Stock Exchange website on 2 August 2008.

7.2 Disposal of assets

☐ Applicable √ Not Applicable

Effects of matters in 7.1 and 7.2 on the continuity of business and stability of management of the Company.

7.3 Material guarantees

√ Applicable ☐ Not Applicable

Unit: RMB in ten thousands

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)						
Guarantee provided for	Date of guarantee (execution date of agreement)	Amount guaranteed	Nature of guarantee	Period of guarantee	Whether performance is completed	Whether guarantee was provided for a related party (yes or no)
Total guarantee provided during the reporting period		0				
Total remaining guarantee provided at the end of the reporting period		0				
Guarantees provided by the Company for subsidiaries						
Total guarantee provided for subsidiaries during the reporting period		15,683				
Total remaining guarantee provided for subsidiaries at the end of the reporting period		78,409.44				
Total amount of guarantee provided by the Company (including guarantees provided for subsidiaries)						
Total amount of guarantee provided		78,409.44				
Total amount of guarantee provided as a percentage of the net assets of the Company		6.4%				
Of which:						
Amount of guarantee provided for shareholders, beneficial controllers and its related parties		0				
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70%		2,005				
Amount of guarantee exceeding 50% of net assets		0				
Sum of the above three amounts of guarantee		2,005				
Explanation on possible joint obligation on outstanding guarantees provided		Nil				

7.4 Material connected transactions

Material connected transactions of the Group that took place during the reporting period were set out in the related contents in Part IV of Section X in the full text of the 2008 Annual Report.

7.4.1 Connected transactions in the ordinary course of operation

□ Applicable √ Not Applicable

7.4.2 Related creditors' rights and liabilities transactions

□ Applicable √ Not Applicable

7.4.3 Appropriation of funds and repayment in 2008

□ Applicable √ Not Applicable

7.5 Entrusted wealth management

√ Applicable □ Not Applicable

During the reporting period, in order to save financial expenses, increase incomes, and regulate funds exchanged between the Company and its subsidiaries at the same time, the Company granted entrusted loans from banks of RMB1,790 million to Jiangxi Chenming Paper Co., Ltd, Wuhan Chenming Hanyang Paper Co., Ltd and Heze Chenming Panels Co., Ltd, subsidiaries of the Company, at their disposal for usage.

During the reporting period, save for the above entrusted loans to the controlling subsidiaries, the Company had no other entrusted wealth management matters or those incurred in prior periods extending into the reporting period.

7.6 Performance of commitments

√ Applicable ☐ Not Applicable

1. Commitments during the reform of Conversion

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

(1) According the audited financial reports (standard and without qualified opinion) of the Company for 2005-2007, if the compound annual growth rate of the Company's net profit for 2005 to 2007 is less than 20%, then it shall be determined the register day for the top-up matching price share right (i.e. the tenth trading day of disclosing the 2007 annual report) after the fifth trading day of disclosing the 2007 annual report and disclosed the top-up matching price announcement and complete the implementation of top-up matching price on the first trading day after the top-up matching price share right register day. Chenming Holdings will transfer, without consideration, 5% of the total number of tradable A Shares on share right register day to implement the scheme to holders of tradable A Shares with no restricted conditions registered after the close of register day to top-up matching-price share right. (If this scheme is implemented between stock right register day to the top-up matching price share right register day, there is a change in capital due to bonus issue and transfer to capital surplus, it shall adjust number of shares for this top-up matching price arrangement.)

(2) Shares held by Chenming Holdings shall not be listed and traded within 48 months from the date of the reform of Conversion.

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

2. Undertakings and their performance during the reporting period

The financial reports of the Company from 2005 to 2007 were audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd., while it issued auditors' reports of 德師京(審報字(06)第173號，德師報(審)第PB006號，德師報(審)字(08)第P0262號 respectively, all of them were of unqualified opinion. The net profit of Company under Accounting Standards for Business Enterprises amounted to RMB 503,721,298.14, RMB 602,433,342.24, RMB 602,967,195.37 and RMB 967,636,172.39 in 2004, 2005, 2006 and 2007 respectively.

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

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

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

7.7 Material litigation and arbitration

□ Applicable √ Not Applicable

7.8 Other material matters and their effects and analysis with explanation on the solutions

7.8.1 Securities investment

□ Applicable √ Not Applicable

7.8.2 Shareholding in other listed companies

□ Applicable √ Not Applicable

7.8.3 Shareholding in non-listed financial institutions

□ Applicable √ Not Applicable

7.8.4 Purchases and sales in shares of other listed companies

□ Applicable √ Not Applicable

§8 Supervisory Committee's Report

√ Applicable ☐ Not Applicable

I. Performance of duties

In the reporting period, all the Supervisors, who are accountable to the shareholders, performed their duties in accordance with Company Law, the Articles of Association, and Procedural Rules for Supervisory Committee's Meetings, and under the principle of diligence. They monitored whether the business activities were lawfully operated, and supervised the financial management and connected transactions of the Company. In the reporting period, they examined and supervised the subsidiaries and branch companies in terms of accounting, raw materials purchase, sales of goods, and connected transactions to provide strong protection for the lawful operation and healthy development of the Company.

II. Meetings of the supervisory committee

1. The fourth meeting of the fifth session of the supervisory committee was held on 19 January 2008. The resolution regarding to writing off part of bad debts of sales branches of Shandong Chenming Paper Holdings Limited was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and http://www.cninfo.com.cn on 22 January 2008.

2. The fifth meeting of the fifth session of the supervisory committee was held on 11 April 2008. Resolutions regarding to 2007 financial report, 2007 financial statements of the Company, supervisory committee' report for 2007, the 2007 annual report, and adjustments of opening balance on 2007 balance sheet was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and http://www.cninfo.com.cn on 9 May 2007.

3. The sixth meeting of the fifth session of the supervisory committee was held on 27 April 2008. The 2008 first quarter report of the Company and its original text were considered and passed at the meeting.

4. The seventh meeting of the fifth session of the supervisory committee was held on 28 August 2008. The 2008 interim report of the Company and its summary were considered and passed at the meeting.

5. The eighth meeting of the fifth session of the supervisory committee was held on 30 October 2008. The 2008 third quarter report of the Company and its original text were considered and passed at the meeting.

III. Independent opinion of the supervisory committee

1. Operation According to the law

   (1) In the reporting period, the Company conducted its businesses according to Company Law, Securities Law, Articles of Association of the Company and the related national laws and regulations. Information disclosures were conducted under the principles of truthfulness, completeness, accuracy, and timeliness. No false or misleading information was released.

   (2) The Board undertook all of the rights and responsibilities set out by Company Law, Securities Law, and Articles of Association of the Company, and fully implemented the resolutions passed by the shareholders' meetings and Board meetings. The decision making processes were lawful with timely consideration and approval of the production targets, sustainable development measures, operation according to the law and standardization operation. A comprehensive internal control system was established to ensure a healthy development of the Company. The management of the Company was able to perform their duties as stipulated in the Articles of Association of the Company and executed the resolutions of the Board. No contravention of laws or regulations or the Articles of Association nor acts detrimental to the interests of the Company were found.

2. Financial position inspection

   The financial statements of the Company were audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Deloitte Touche Tohmatsu, which issued standard auditors' reports without unqualified opinion on them upon auditing. In the opinion of the supervisory committee, the auditors' report gave a true and fair view of the financial conditions and operating results of the Company.

3. Using of proceeds

   The actual use of the proceeds from the latest fund raising activity was consistent to their intended use.

4. Significant purchase or sales of assets

   The consideration for the purchase of assets by the Company was fair and reasonable and no insider trades and connected transactions, which were detrimental to the interests of any shareholders or resulted in loss of assets of the Company, were found.

5. Connected transactions

   The connected transactions were entered into at arm's length and were not detrimental to the interests of the Company and the shareholders.

§9 Financial Reporting

9.1 Auditors' opinions

Auditors' report	Standard unqualified opinion
Full text of the auditors' report	

TO THE SHAREHOLDERS OF SHANDONG CHENMING PAPER HOLDINGS LIMITED

We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") , which comprise the company and consolidated balance sheets as at 31 December 2008, the company and consolidated income statements, the company and consolidated statements of changes in equity and the company and consolidated cash flow statements for 2008 and notes to the financial statements.

1. **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**
   The Chenming Group's management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal controls relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. OPINION

In our opinion, the Chenming Group's financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the company and consolidated financial position of Chenming Group as at 31 December 2008 and the results of their operations and their cash flows for 2008.

Deloitte Touche Tohmatsu CPA Ltd.,
Shanghai, The People's Republic of China
童傳江
張扣娣
Chinese Certified Public Accountant

8 April 2009

Meanwhile, Deloitte Touche Tohmatsu audited and issued standard auditors' reports without qualified opinion on the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for 2008 of the Group which were prepared in accordance with the International Financial Reporting Standards.

9.2 Financial statements prepared in accordance with Accounting Standards for Business Enterprises

9.2.1 Balance sheets

Prepared by: Shandong Chenming Paper Holdings Limited 31 December 2008

Unit: RMB

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
CURRENT ASSETS:				
Monetary assets	2,853,418,128.07	2,142,439,739.51	740,621,843.91	348,948,724.68
Settlement reserves	—	—	—	—
Lendings to banks	—	—	—	—
Marketable financial assets	—	—	5,955,480.00	—
Bills receivable	974,009,788.24	465,681,067.32	1,676,684,054.95	998,809,409.00
Accounts receivable	1,752,409,349.17	1,937,280,312.86	1,660,020,696.84	1,466,109,588.60
Advance to suppliers	462,526,338.87	438,759,362.48	574,014,801.43	279,890,382.88
Premiums receivable	—	—	—	—
Reinsurance accounts receivable	—	—	—	—
Reinsurance reserve receivable	—	—	—	—
Interest receivable	—	—	—	—
Dividend receivable	—	164,874,997.10	—	42,933,862.14
Other receivables	135,889,612.93	936,468,514.72	196,162,672.11	776,521,148.45
Financial assets purchased under repurchase agreements	—	—	—	—
Inventory	3,397,792,930.38	1,682,657,074.51	1,744,492,612.36	721,354,749.54
Entrusted loans due within one year	—	982,000,000.00	—	1,864,000,000.00
Other current assets	151,993,045.95	52,747,204.98	—	—
TOTAL CURRENT ASSETS	9,728,039,193.61	8,802,908,273.48	6,597,952,161.60	6,498,567,865.29

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
NON-CURRENT ASSETS:				
Entrusted loans	—	965,000,000.00	—	625,000,000.00
Available-for-sale financial assets	—	—	—	—
Held-to-maturity investments	—	—	—	—
Long-term receivables	—	—	—	—
Long-term equity investments	92,673,769.14	4,081,859,577.02	96,289,936.43	2,194,652,949.31
Investment properties	28,164,724.15	28,164,724.15	29,902,980.19	29,902,980.19
Fixed assets	14,213,441,758.08	6,258,618,550.53	13,243,156,039.93	6,555,767,873.32
Construction in progress	431,379,272.50	59,788,891.26	904,753,634.02	275,351,308.78
Construction materials	42,079,864.21	1,981,408.48	44,433,213.61	6,850,752.92
Disposal of fixed assets	—	—	—	—
Consumable biological assets	301,212,691.14	—	92,159,871.29	—
Oil and gas assets	—	—	—	—
Intangible assets	1,277,076,588.53	364,509,396.99	822,301,826.32	377,022,979.83
Development costs	—	—	—	—
Goodwill	20,283,787.17	—	20,283,787.17	—
Long term amortisation charges	37,227,730.36	—	56,513,234.75	—
Deferred income tax assets	127,916,366.12	78,605,721.73	103,361,571.98	72,516,429.65
Other non-current assets	—	—	—	—
Total non-current assets	16,571,456,551.40	11,838,528,270.16	15,413,156,095.69	10,137,065,274.00
TOTAL ASSETS	26,299,495,745.01	20,641,436,543.64	22,011,108,257.29	16,635,633,139.29

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
CURRENT LIABILITIES:				
Short-term borrowings	1,516,945,042.67	1,144,068,305.68	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	198,900.00	—	—	—
Notes payable	367,627,562.14	210,151,045.59	130,056,316.74	121,487,222.14
Accounts payable	2,642,308,185.90	1,716,031,795.17	1,656,706,980.62	1,332,552,331.70
Advances from customers	101,693,578.57	66,019,457.87	170,286,629.21	92,126,887.49
Financial assets sold under repurchase agreements	—	—	—	—
Fees and commissions payable	—	—	—	—
Employee benefits payable	190,209,067.13	98,888,359.60	234,880,219.06	119,224,432.42
Taxes payable	49,965,982.34	16,156,180.51	102,444,450.86	100,151,250.80
Interest payable	—	—	—	—
Dividend payable	36,089.31	36,089.31	36,075.17	36,075.17
Other payables	346,226,242.06	283,099,241.86	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	1,038,125,240.62	883,602,600.00	667,746,417.91	586,144,500.00
Short-term debentures payable	1,941,874,444.43	1,941,874,444.43	506,212,916.67	—
Other current liabilities	—	—	—	—
TOTAL CURRENT LIABILITIES	8,195,210,335.17	6,359,927,520.02	7,367,420,079.90	5,980,981,435.55

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
NON-CURRENT LIABILITIES:				
Long-term borrowings	4,019,250,823.86	3,064,076,035.94	4,056,194,662.35	2,899,617,835.94
Bonds payable	—	—	—	—
Long-term payables	—	—	—	—
Deferred gains	56,828,375.23	5,537,541.95	830,000.00	—
Anticipated liabilities	—	—	—	—
Deferred income tax liabilities	6,431,545.79	—	6,103,850.08	—
Other non-current liabilities	—	—	—	—
TOTAL NON-CURRENT LIABILITIES	4,082,510,744.88	3,069,613,577.89	4,063,128,512.43	2,899,617,835.94
TOTAL LIABILITIES	12,277,721,080.05	9,429,541,097.91	11,430,548,592.33	8,880,599,271.49
OWNERS' EQUITY (or SHAREHOLDERS' EQUITY):				
Paid-up captial (or Share capital)	2,062,045,941.00	2,062,045,941.00	1,706,345,941.00	1,706,345,941.00
Capital surplus	6,093,483,801.92	6,184,215,988.77	3,737,991,906.21	3,827,378,359.74
Less: treasury shares	—	—	—	—
Surplus reserve	825,476,850.53	813,287,268.62	723,742,920.58	711,553,338.67
General risk reserve	—	—	—	—
Undistributed profits	3,277,192,810.40	2,152,346,247.34	2,576,650,349.38	1,509,756,228.39
Difference on translation	879,498.14	—	303,894.68	—
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12,259,078,901.99	11,211,895,445.73	8,745,035,011.85	7,755,033,867.80
Minority interests	1,762,695,762.97	—	1,835,524,653.11	—
TOTAL OWNERS' EQUITY	14,021,774,664.96	11,211,895,445.73	10,580,559,664.96	7,755,033,867.80
TOTAL LIABILITIES AND OWNERS' EQUITY	26,299,495,745.01	20,641,436,543.64	22,011,108,257.29	16,635,633,139.29

9.2.2 Income statements

Prepared by: Shandong Chenming Paper Holdings Limited

January -December 2008

Unit: RMB

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
I. Total operating revenue	15,529,593,435.77	13,557,782,274.40	15,164,742,450.26	12,552,589,262.55
Including: Operating revenue	15,529,593,435.77	13,557,782,274.40	15,164,742,450.26	12,552,589,262.55
Interest income	—	—	—	—
Premiums earned	—	—	—	—
Fees and commission income	—	—	—	—
II. Total costs of operations	14,216,396,637.6	12,708,741,616.05	13,900,807,779.78	11,804,833,303.74
Including: Costs of operations	12,556,762,340.80	11,949,922,698.03	12,074,481,475.02	10,887,601,388.35
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	12,582,354.31	306,581.16	17,854,424.80	282,690.99
Selling and distribution expenses	705,595,565.95	340,787,921.65	783,289,341.85	397,932,244.92
General and administrative expenses	561,194,537.62	207,830,251.32	530,820,858.29	210,224,821.41
Finance expenses	287,136,504.05	197,961,693.30	392,163,050.56	303,883,491.96
Loss on impairment of assets	93,125,334.87	11,932,470.59	102,198,629.26	4,908,666.11

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
Add: Gain on change in fair value ("-" denotes loss)	2,656,651.60	—	30,370,880.31	—
Investment income ("-" denotes loss)	-23,081,752.26	302,967,881.91	-9,461,550.75	222,885,767.76
Including: Investment income from associates and joint ventures	-23,167,629.22	-23,167,629.22	-9,461,550.75	-9,461,550.75
Gain on translation ("-" denotes loss)	—	—	—	—
III. Operating profit ("-" denotes loss)	1,292,771,697.51	1,152,008,540.26	1,284,844,000.04	970,641,726.57
Add: Non-operating income	274,366,224.82	142,693,393.66	232,218,083.67	47,503,266.20
Less: Non-operating expenses	11,798,611.64	5,983,889.34	27,725,881.15	10,417,366.26
Including: Loss on disposal of non-current assets	5,007,364.04	1,388,338.83	27,181,945.34	10,400,342.17
IV. Total profit ("-" denotes total loss)	1,555,339,310.69	1,288,718,044.58	1,489,336,202.56	1,007,727,626.51
Less: Income tax expenses	295,797,856.42	271,378,745.12	270,795,013.27	197,214,107.46
V. Net profit ("-" denotes net loss)	1,259,541,454.27	1,017,339,299.46	1,218,541,189.29	810,513,519.05
Net profit attributable to equity holders of the Company	1,075,291,741.53	1,017,339,299.46	967,636,172.39	810,513,519.05
Profit and loss of minority interests	184,249,712.74	—	250,905,016.90	—
VI. Earnings per share:				
(I) Basic earnings per share	0.57	0.54	0.60	0.50
(II) Diluted earnings per share	—	—	0.59	0.50

9.2.3 Cash Flow Statements

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

January -December 2008

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
I. Cash flows from operating activities:				
Cash received from sales of goods and rendering of services	16,583,978,475.35	12,816,080,559.54	15,346,933,191.88	14,486,782,584.79
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	33,851,926.78	—	75,372,967.36	—
Cash received relating to other operating activities	237,097,779.40	163,421,906.83	118,085,044.97	539,291,856.66
Subtotal of cash inflows from operating activities	16,854,928,181.53	12,979,502,466.37	15,540,391,204.21	15,026,074,441.45
Cash paid for goods and services	12,123,175,577.65	10,851,617,699.47	11,811,905,431.94	12,261,934,180.86
Net increase in customer loans and advances	—	—	—	—

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
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	696,574,804.91	272,735,589.72	487,126,693.03	180,749,301.33
Payments of taxes and levies	1,312,935,590.68	782,472,375.13	1,039,124,100.69	561,696,003.74
Cash paid relating to other operating activities	788,101,405.25	511,205,605.42	877,971,853.54	470,013,272.89
Subtotal of cash outflows from operating activities	14,920,787,378.49	12,418,031,269.74	14,216,128,079.20	13,474,392,758.82
Net cash flows from operating activities	1,934,140,803.04	561,471,196.63	1,324,263,125.01	1,551,681,682.63
II. Cash flows from investing activities:				
Cash received from investments	—	2,332,000,000.00	—	620,000,000.00
Cash received from investment income	85,876.96	187,328,257.66	—	200,606,101.29
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	603,818.56	1,193,105.59	15,746,133.62	962,227.06
Net cash received from disposal of subsidiaries and other operating entities	—	—	—	—
Cash received relating to other investing activities	57,823,238.62	5,643,238.62	—	—
Subtotal of cash inflows from investing activities	58,512,934.14	2,526,164,601.87	15,746,133.62	821,568,328.35
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,542,798,830.74	108,944,870.20	884,022,116.21	677,874,762.20
Cash paid on investments	19,564,645.55	3,618,100,000.00	108,725,512.44	1,338,426,063.80
Net increase in secured loans	—	—	—	—
Net cash received from subsidiaries and other operating entities	—	—	—	—
Other cash paid in relation to investing activities	—	—	—	—

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
Subtotal of cash outflows from investing activities	1,562,363,476.29	3,727,044,870.20	992,747,628.65	2,016,300,826.00
Net cash flows from investing activities	-1,503,850,542.15	-1,200,880,268.33	-977,001,495.03	-1,194,732,497.65
III. Cash flows from financing activities				
Cash received from investment	2,711,191,895.71	2,711,191,895.71	37,554,000.00	—
Including: cash received from capital contribution from minority shareholders in subsidiaries	—	—	—	—
Cash received from borrowings	6,002,051,512.02	5,332,258,412.74	8,076,267,182.50	6,241,624,261.50
Cash received from issuance of bonds	1,892,400,000.00	1,892,400,000.00	496,965,000.00	—
Cash received relating to other financing activities	—	50,557,068.28	—	—
Subtotal of cash inflows from financing activities	10,605,643,407.73	9,986,407,376.73	8,610,786,182.50	6,241,624,261.50
Cash repayments of amounts borrowed	7,546,630,384.92	6,890,979,853.42	6,137,101,438.52	4,053,206,228.24
Cash payments for interest expenses, and dividend or profit distribution	858,902,641.36	596,770,954.15	897,534,770.36	620,902,705.10
Including: dividend and profit distribution paid by subsidiaries to their minority shareholders	142,483,663.78	—	139,553,201.91	—
Cash payments for repayment of short-term debentures	500,000,000.00	—	2,000,000,000.00	2,000,000,000.00
Cash payments relating to other financing activities	39,043,580.93	—	89,146,310.05	117,291,492.65
Subtotal of cash outflows from financing activities	8,944,576,607.21	7,487,750,807.57	9,123,782,518.93	6,791,400,425.99
Net cash flows from financing activities	1,661,066,800.52	2,498,656,569.16	-512,996,336.43	-549,776,164.49
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-17,604,358.18	-15,199,414.35	-4,759,232.11	-3,154,716.00
V. Net increase in cash and cash equivalents	2,073,752,703.23	1,844,048,083.11	-170,493,938.56	-195,981,695.51
Add: Balance of cash and cash equivalents at the beginning of the period	613,826,456.62	235,957,551.29	784,320,395.18	431,939,246.80
VI. Balance of cash and cash equivalents at the end of the period	2,687,579,159.85	2,080,005,634.40	613,826,456.62	235,957,551.29

9.2.4 Statement of Change in Owners' Equity

Prepared by: Shandong Chenming Paper Holdings Limited

2008

Unit: RMB

Items	Current period								
	Equity attributable to equity holders of the Company								
	Paid-up capital (or share capital)	Minority interests	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	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
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 ("-" denotes decrease)	355,700,000.00	2,355,491,895.71	–	101,733,929.95	–	700,542,461.02	575,603.46	(72,828,890.14)	3,441,215,000.00
(I) Net profit	–	–	–	–	–	1,075,291,741.53	–	184,249,712.74	1,259,541,454.27
(II) Profit and loss directly dealt with in owners' equity	–	–	–	–	–	–	575,603.46	–	575,603.46
1. Net change in the fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–	–
2. Effect on equity movements of other owners in the invested entities under the equity method	–	–	–	–	–	–	–	–	–
3. Effect of income tax on items accounted for in owners' equity	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	575,603.46	–	575,603.46
Sub-total of (I) and (II)	–	–	–	–	–	1,075,291,741.53	575,603.46	184,249,712.74	1,260,117,057.73
(III) Owners' contributions and decrease in capital	355,700,000.00	2,355,491,895.71	–	–	–	–	–	–	2,711,191,895.71
1. Owners' contributions in capital	355,700,000.00	–	–	–	–	–	–	–	355,700,000.00
2. Share-based payments accounted for in owners' equity	–	–	–	–	–	–	–	–	–
3. Others	–	2,355,491,895.71	–	–	–	–	–	–	2,355,491,895.71
4. Transfer from convertible bonds to equity	–	–	–	–	–	–	–	–	–
(IV) Profit distribution	–	–	–	101,733,929.95	–	(374,749,280.51)	–	(142,483,663.78)	(415,499,014.34)
1. Transfer to surplus reserves	–	–	–	101,733,929.95	–	(101,733,929.95)	–	–	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–
3. Distribution to owners (or shareholders)	–	–	–	–	–	(273,015,350.56)	–	(142,483,663.78)	(415,499,014.34)
4. Others	–	–	–	–	–	–	–	–	–
(V) Acquisition of minority interest	–	–	–	–	–	–	–	(114,594,939.10)	(114,594,939.10)
(VI) Transfer within owners' equity	–	–	–	–	–	–	–	–	–
1. Transfer from capital reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–
2. Transfer from surplus reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–
3. Transfer from surplus reserve to make up for loss	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
IV Balance at current period end	2,062,045,941.00	6,093,483,801.92		825,476,850.53		3,277,192,810.40	879,498.14	1,762,695,762.97	14,021,774,664.96

Items	Last year								
	Equity attributable to equity holders of the Company								
	Paid-up capital (or share capital)	Minority interests	Less: Treasury shares	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	Total owners' equity
I. 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	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
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 ("-" denotes decrease)	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
(I) Net profit	–	–	–	–	–	967,636,172.39	–	250,905,016.90	1,218,541,189.29
(II) Profit and loss directly dealt with in owners' 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 of income tax on items accounted for in owners' 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) Owners' contributions and decrease in capital	340,675,786.00	1,488,535,887.89	–	–	–	–	–	37,554,000.00	1,866,765,673.89
1. Owners' contributions in capital	–	–	–	–	–	–	–	37,554,000.00	37,554,000.00
2. Share-based payments accounted for in owners' equity	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–
4. Transfer from convertible bonds to equity	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. Transfer to surplus reserves	–	–	–	81,051,351.90	–	(81,051,351.90)	–	–	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–
3. Distribution to owners (or shareholders)	–	–	–	–	–	(204,761,512.92)	–	(139,553,201.91)	(344,314,714.83)
4. Others	–	–	–	–	–	–	–	–	–
(V) Acquisition of minority interest	–	–	–	–	–	–	–	(50,990,943.46)	(50,990,943.46)
(VI) Transfer within owners' equity	–	–	–	–	–	–	–	–	–
1. Transfer from capital reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–
2. Transfer from surplus reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–
3. Transfer from surplus reserve to make up for loss	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
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

9.3 As compared with the latest annual report, changes in accounting policies, accounting estimates and auditing methods in details

□ Applicable √ Not Applicable

9.4 Material accounting errors and their restatements, reasons and effects

□ Applicable √ Not Applicable

9.5 As compared with the latest annual report, changes in the scope of consolidation during the reporting period in details

√ Applicable □ Not Applicable

(1) 黃網晨鳴林業發展有限責任公司 (Huanggang Chenming Arboriculture Co., Ltd.) – The company contributed capital to set up Huanggang Chenming Arboriculture Co., Ltd. on 23 January 2008. Its registered capital was RMB 10 million and it was fully owned by the Company. Its principal activities were nutrition of forest resources, cultivation, processing and sales of forest, and comprehensive development and utilization of forestry.

(2) 威寧晨鳴林業發展有限責任公司 – The Company contributed capital to set up 威寧晨鳴林業發展有限責任公司 on 1 September 2008. Its registered capital was RMB 10 million and it was fully owned by the Company. Its principal activities were nutrition of forest resources, cultivation, processing and sales of forest, forest and tree nursery construction, comprehensive development and utilization of forestry, and development and utilization of related ancillary products and related business consultation.

(3) 黃網晨鳴漿紙有限公司 – The Company contributed capital to set up 黃網晨鳴漿紙有限公司 on 26 September 2008. Its registered capital was RMB 20 million and it was fully owned by the Company. Its principal activities were construction of raw timber base, operation and acquisition of lumber, production of pulp and related products, preparation of production, processing and sales projects.

During the reporting period, for the establishment of subsidiaries by the controlling subsidiaries of the Company please refer to the financial statements prepared in accordance with Accounting Standards for Business Enterprises and Note VII thereto.

9.6 Financial statements prepared in accordance with International Financial Reporting Standards

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008	2007
		RMB'000	RMB'000
Revenue	1	**15,430,910**	14,878,875
Cost of sales		**(12,472,911)**	(11,845,624)
Gross profit		**2,957,999**	3,033,251
Other income	2	**500,511**	462,316
Share of results of associates		**(23,168)**	(9,462)
Distribution expenses		**(705,596)**	(783,289)
Administrative expenses		**(542,680)**	(653,232)
Gain on change in fair value of derivative financial instruments		**1,738**	5,955
Gain on change in fair value less estimated point-of-sale cost of biological assets		**918**	24,415
Impairment loss on property, plant and equipment		**(8,563)**	—
Allowance for inventory		**(127,749)**	(882)
Finance costs		**(462,613)**	(555,693)
Profit before tax	3	**1,590,797**	1,523,379
Income tax expense	4	**(295,798)**	(270,795)
Profit for the year		**1,294,999**	1,252,584
Attributable to:			
Equity holders of the Company		**1,102,288**	994,013
Minority interests		**192,711**	258,571
		1,294,999	1,252,584
Dividends	5	**273,015**	204,760

		2008	2007
Earnings per share	6		
– Basic		**RMB 0.58**	RMB 0.62
– Diluted		**N/A**	RMB 0.60

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008	2007
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	7	**14,641,475**	14,147,218
Prepaid lease payments - non-current portion	8	**1,225,356**	791,740
Investment property		**28,165**	29,903
Interests in associates		**66,822**	69,890
Available-for-sale investments		**25,851**	26,400
Goodwill		**20,284**	20,284
Biological assets	9	**301,213**	92,160
Deferred tax assets		**127,916**	103,362
		16,437,082	15,280,957
Current assets			
Inventories		**3,397,793**	1,744,493
Trade and other receivables	10	**3,449,740**	4,106,882
Prepaid lease payments - current portion	8	**42,209**	34,817
Derivative financial instruments	11	**—**	5,955
Income tax recoverable		**27,088**	—
Restricted bank deposits		**165,839**	126,795
Bank balances and cash		**2,687,579**	613,826
		9,770,248	6,632,768

	NOTES	2008	2007
		RMB'000	RMB'000
Current liabilities			
Trade and other payables	12	**3,670,671**	2,485,607
Borrowings - amount due within one year	13	**2,555,070**	4,261,746
Short-term debentures	14	**1,941,874**	506,213
Provision		**17,987**	17,987
Income tax payable		**9,374**	95,829
Dividend payable		**36**	36
Deferred income - current portion		**21,598**	32,682
Derivative financial instruments	11	**199**	—
		8,216,809	7,400,100
Net current assets (liabilities)		**1,553,439**	(767,332)
Total assets less current liabilities		**17,990,521**	14,513,625
Non-current liabilities			
Borrowings - amount due after one year	13	**4,019,251**	4,056,195
Deferred income - non-current portion		**307,869**	271,030
Deferred tax liabilities		**6,432**	6,104
		4,333,552	4,333,329
Net assets		**13,656,969**	10,180,296
Capital and reserves			
Share capital	15	**2,062,046**	1,706,346
Reserves		**9,850,146**	6,664,805
Equity attributable to equity holders of the Company		**11,912,192**	8,371,151
Minority interests		**1,744,777**	1,809,145
Total equity		**13,656,969**	10,180,296

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Convertible loan notes equity reserve RMB'000	Statutory surplus reserve RMB'000 (note b)	Dis-cretionary surplus reserve RMB'000 (note b)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	1,365,670	1,446,227	424,802	642,575	117	(2)	1,872,996	5,752,385	1,703,564	7,455,949
Exchange differences arising on translation of foreign operation and net income recognised directly in equity	—	—	—	—	—	306	—	306	—	306
Profit for the year	—	—	—	—	—	—	994,013	994,013	258,571	1,252,584
Total recognised income and expense for the year	—	—	—	—	—	306	994,013	994,319	258,571	1,252,890
Shares issued upon conversion of convertible loan notes	340,676	1,913,207	(424,676)	—	—	—	—	1,829,207	—	1,829,207
Dividends recognised as distribution	—	—	—	—	—	—	(204,760)	(204,760)	—	(204,760)
Redemption of convertible loan notes	—	126	(126)	—	—	—	—	—	—	—
Transfer of reserves	—	—	—	81,051	—	—	(81,051)	—	—	—
Transfer of reserve upon recognition of deferred income (note c)	—	32,682	—	—	—	—	(32,682)	—	—	—
Contributions from minority shareholders	—	—	—	—	—	—	—	—	37,554	37,554
Distributions made by subsidiaries to minority shareholders	—	—	—	—	—	—	—	—	(139,553)	(139,553)
Decrease in minority interests as a result of increase in interest in subsidiaries	—	—	—	—	—	—	—	—	(50,991)	(50,991)
At 31 December 2007	1,706,346	3,392,242	—	723,626	117	304	2,548,516	8,371,151	1,809,145	10,180,296

	Attributable to equity holders of the Company									
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Convertible loan notes equity reserve RMB'000	Statutory surplus reserve RMB'000 (note b)	Dis-cretionary surplus reserve RMB'000 (note b)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
Exchange differences arising on translation of foreign operation and net income recognised directly in equity	—	—	—	—	—	576	—	576	—	576
Profit for the year	—	—	—	—	—	—	1,102,288	1,102,288	192,711	1,294,999
Total recognised income and expense for the year	—	—	—	—	—	576	1,102,288	1,102,864	192,711	1,295,575
Issue of shares by way of placing and public offering (Note 31)	355,700	2,355,492	—	—	—	—	—	2,711,192	—	2,711,192
Dividends recognised as distribution	—	—	—	—	—	—	(273,015)	(273,015)	—	(273,015)
Transfer of reserves	—	—	—	101,734	—	—	(101,734)	—	—	—
Transfer of reserve upon recognition of deferred income (note c)	—	18,061	—	—	—	—	(18,061)	—	—	—
Distributions made by subsidiaries to minority shareholders	—	—	—	—	—	—	—	—	(142,484)	(142,484)
Decrease in minority interests as a result of increase in interest in subsidiaries	—	—	—	—	—	—	—	—	(114,595)	(114,595)
At 31 December 2008	2,062,046	5,765,795	—	825,360	117	880	3,257,994	11,912,192	1,744,777	13,656,969

Notes:

a. Capital reserve comprises surplus between the fair value of the net assets and the nominal value of shares issued when the Company was converted from a state-owned enterprise to a joint stock limited company, premium of shares issued, transfers from convertible loan notes equity reserve upon exercise and redemption of convertible loan notes, capital surplus arising from capital injection from minority shareholders, transfers from accumulated profits for those government grants recognised in the income statement under International Financial Reporting Standards but are not distributable in accordance with the legal requirement in the People's Republic of China (the "PRC"). The capital reserve can only be used for conversion into share capital.

b. In accordance with the relevant PRC Company Laws and its relevant regulations and the Articles of Association of the Company and other PRC group entities, the Company and other PRC group entities are required to appropriate 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC General Accepted Accounting Principle to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the Company and other PRC group entities. After the appropriation of the statutory surplus reserve, appropriation of discretionary surplus reserve can be made upon approval by the shareholders in shareholders' meeting.

   Both surplus reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the Company and other group entities into share capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC entity.

c. 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 consolidated balance sheet and credited to the consolidated 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 year as it cannot be distributed before winding up.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	RMB'000	RMB'000
Operating activities		
Profit before tax	**1,590,797**	1,523,379
Adjustments for:		
Share of results of associates	**23,168**	9,462
Interest income	**(37,758)**	(11,146)
Finance costs	**462,613**	555,693
Depreciation of property, plant and equipment	**1,118,083**	923,309
Depreciation of investment properties	**1,738**	1,693
Release of lease payment charge	**20,379**	34,592
Release of government grants	**(32,068)**	(32,682)
Loss on disposal of property, plant and equipment	**1,219**	9,749
Impairment loss on property, plant and equipment	**8,563**	—
(Reverse of) allowances for bad and doubtful debts	**(43,735)**	99,868
Allowances for inventories	**127,749**	882
Impairment of available-for-sale investments	**549**	910
Impairment of interest in associates	**—**	540
Dividend income from available-for-sale investment	**(86)**	—
Gain on change in fair value of derivative financial instruments	**(1,738)**	(5,955)
Gain on change in fair value less estimated point-of-sale cost of biological assets	**(918)**	(24,415)
Net exchange (gain) loss	**(172,969)**	5,111
Discount on acquisition of additional interests in subsidiaries	**(28,209)**	(24,041)
Discount on acquisition of interests in subsidiaries	**(61)**	—

	2008	2007
	RMB'000	RMB'000
Operating cash flows before		
movements in working capital	**3,037,316**	3,066,949
Increase in inventories	**(1,971,611)**	(286,775)
Increase in biological assets	**(205,256)**	(48,231)
Decrease (increase) in trade and other receivables	**631,972**	(847,362)
Increase (decrease) in trade and other payables	**837,080**	(44,760)
Cash generated from operations	**2,329,501**	1,839,821
Income tax paid	**(433,118)**	(276,783)
Interest received	**37,758**	11,146
Net cash from operating activities	**1,934,141**	1,574,184
Investing activities		
Purchase of property, plant and equipment	**(1,064,904)**	(784,153)
Increase in prepaid lease payments	**(477,895)**	(151,786)
Additional cost incurred in investment property	**—**	(994)
Acquisition of additional interests in subsidiaries		
from minority shareholders of subsidiaries	**(10)**	(87,326)
Investment in associates	**(20,100)**	—
Purchase of available-for-sale investments	**—**	(21,400)
Increase in restricted bank deposits	**(39,044)**	(84,846)
Proceeds on disposal of property, plant		
and equipment	**604**	15,746
Government grants received	**57,823**	—
Dividend income received from		
available-for-sale investments	**86**	—
Net cash inflow arising from acquisition		
of subsidiaries	**546**	—
Net cash used in investing activities	(1,542,894)	(1,114,759)

	2008	2007
	RMB'000	RMB'000
Financing activities		
Net proceeds on issuance of new shares	**2,711,192**	—
New borrowings raised	**6,002,052**	8,076,267
Borrowings repaid	**(7,546,631)**	(6,334,110)
Proceeds from issuance of short-term debentures	**1,900,000**	500,000
Expense incurred in connection with the issuance of short-term debentures	**(7,600)**	(3,035)
Repayment of short-term debentures	**(500,000)**	(2,000,000)
Redemption of convertible loan notes	**—**	(578)
Interest paid	**(443,404)**	(556,281)
Dividends paid	**(273,015)**	(205,424)
Dividends paid to minority shareholders of subsidiaries	**(142,484)**	(139,553)
Capital contribution by minority shareholders of subsidiaries	**—**	37,554
Net cash from (used in) financing activities	**1,700,110**	(625,160)
Net increase (decrease) in cash and cash equivalents	**2,091,357**	(165,735)
Cash and cash equivalents at 1 January	**613,826**	784,320
Effect of exchange rate changes on cash and cash equivalents	**(17,604)**	(4,759)
Cash and cash equivalents at 31 December, represented by	**2,687,579**	613,826
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**2,687,579**	613,826

Note:

1. REVENUE

	2008	2007
	RMB'000	RMB'000
Sale of paper products	**14,561,339**	13,837,756
Sale of construction materials	**512,594**	869,910
Sale of chemical products	**88,640**	92,004
Sale of electricity and steam	**235,552**	68,996
Others	**32,785**	10,209
	15,430,910	14,878,875

2. OTHER INCOME

	2008	2007
	RMB'000	RMB'000
Government grants:		
Expansion grants (note a)	**178,084**	102,005
Value-added tax refund (note b)	**33,852**	75,373
	211,936	177,378
Interest income	**37,758**	11,146
Net exchange gain	**157,412**	173,392
Net gain from sales of raw materials	**21,798**	63,662
Insurance compensation	**12,889**	7,930
Discount on acquisition of additional interests in subsidiaries (note c)	**28,209**	24,041
Discount on acquisition of a business (Note 36)	**61**	—
Payable write off	**7,188**	3,483
Penalty income	**8,733**	95
Others	**14,527**	1,189
	500,511	462,316

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 (壽光市國有資產管理局) and the People's Government of Shouguang City (壽光市人民政府), 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 for the year ended 31 December 2008.

Pursuant to the transfer agreement dated 4 April 2008 entered into between Zhang Bangji, the independent third party, as vendor and Jilin Chenming Paper Co., Ltd., a wholly-owned subsidiary of the Company ("Jilin Chenming"), as purchaser, Jilin Chenming agreed to acquire 1% equity interest of a then 99% owned subsidiary, Jilin Chenming Waste Collection Co., Ltd., a subsidiary of the Company at a cash consideration of RMB10,000. A discount on acquisition of equity interest amounted to approximately RMB5,000 was recognised, after reassessment, immediately in profit or loss for the year ended 31 December 2008.

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 for the year ended 31 December 2007.

Pursuant to the transfer agreement dated 1 May 2007 entered into among Wu Xiangqiang, 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 for the year ended 31 December 2007.

Pursuant to the transfer agreement dated 9 May 2007 entered into between Liu Chunshan, an independent third party, as vendor and Shandong Chenming Panels Co., Ltd. ("Shandong Chenming Panels"), a subsidiary of the Company, as purchaser, Shandong 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 for the year ended 31 December 2007.

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 for the year ended 31 December 2007.

3. PROFIT BEFORE TAX

	2008	2007
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Wages and salaries	**474,186**	427,848
Staff welfare	**119,450**	41,466
Retirement benefit scheme contribution	**58,229**	55,345
Discretionary performance bonus	**39**	20,236
Total staff costs (including directors' emoluments)	**651,904**	544,895
Gross rental income from investment properties	**(2,484)**	(2,484)
Less: Direct operating expenses from investment properties that generated rental income during the period	**446**	446
Net rental income from investment properties	**(2,038)**	(2,038)
(Reversal of) allowance for bad and doubtful debts	**(43,735)**	99,868
Allowance for inventories	**127,749**	882
Auditors' remuneration	**5,608**	4,200
Cost of inventories recognised as an expenses	**12,308,235**	11,785,623
Release of lease payment charge	**20,379**	34,592
Depreciation of property, plant and equipment	**1,118,083**	923,309
Depreciation of investment properties	**1,738**	1,693
Impairment loss on property, plant and equipment	**8,563**	—
Impairment of interest in associates	**—**	540
Impairment of available-for-sale investment	**549**	910
Loss on disposal/write off of property, plant and equipment	**1,219**	9,749
Minimum operating lease payment in respect of property, plant and equipment	**14,446**	34,817
Repairs and maintenance expenditure on property, plant and equipment	**256,701**	245,530
Research and development costs	**11,830**	6,226
Dividend income from available-for-sale investments	**(86)**	—

4. INCOME TAX EXPENSE

	2008	2007
	RMB'000	RMB'000
Income tax charge comprises:		
Current income tax		
- charge for the year	**319,362**	313,844
- under provision in prior years	**213**	2,024
	319,575	315,868
Deferred tax credit (Note 30)	**(23,777)**	(45,073)
Charge for the year	**295,798**	270,795

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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 both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and the Implementation Regulation, the statutory Enterprise Income Tax rate is changed from 33% to 25%. The Enterprise Income Tax rate of 25% is applied to the group entities for the year ended 31 December 2008 (2007: 33%) except for certain group entities which are entitled to various concessionary tax rates.

Since the Company is a foreign investment enterprise established and operated in China's Coasted Economic Free Zone in Shandong, the income tax rate of 25% is applicable to the Company immediately on 1 January 2008 under the New Law (2007: 24%).

Pursuant to the approval of State Administration of Taxation and according to the related regulations in respect of preferential tax benefit for west development (西部大開發) issued by PRC Ministry of Foreign Trade and Economic Cooperation, for Hailaer Chenming Paper Co., Ltd. and Yanbian Chenming Paper Co., Ltd., subsidiaries of the Company, the applicable income tax rate is 15% from 2001 to 2010.

Pursuant to the approval of the local government in the year of 2002 and according to regulations issued by State of Council and State Administration of Taxation, which is applicable to foreign investment enterprise, the applicable income tax rate of Shandong Chenming Xinli Power Co., Ltd., a subsidiary of the Company, is 15%. On 26 December 2007, the State Council of the PRC issued Circular of the State Council on the Implementation of Transitional Preferential Policies for the New Law and the applicable tax rate for foreign investment enterprise is gradually phased in to the new tax rate of 25% during the five-year transitional period at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively, therefore, the applicable tax rate for 2008 is 18% (2007: 15%).

Pursuant to the approval of the Wuhan State Tax Bureau, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a subsidiary of the Company, was changed to a foreign investment enterprise in April 2005, is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the following three years. The year 2005 is the first profit-making year of the subsidiary. The subsidiary entitles 50% reduction in income tax rate in 2008 and the applicable income tax rate is 9% (2007: 7.5%).

Jiangxi Chenming Paper Co., Ltd. ("Jiangxi Chenming") is a foreign investment enterprise established in the PRC. Pursuant to the enterprise income tax laws applicable to foreign investment enterprise, Jiangxi Chenming is exempted from paying PRC income tax for two years starting from the first profit-making year followed by a 50% reduction in income tax rate in the following three years. The years of 2007 and 2008 are the first and second profit-making year of Jiangxi Chenming under the PRC income tax rule and accordingly, income tax have been exempted.

	2008	2007
	RMB'000	RMB'000
Profit before tax	**1,590,797**	1,523,379
Tax at the applicable income tax rate of 25% (2007: 24%)	**397,699**	365,611
Effect of tax incentives	**(38,357)**	(49,707)
Tax effect of income not taxable	**(9,298)**	(9,599)
Tax effect of expenses not deductible	**18,428**	12,338
Tax effect of tax losses not recognised	**13,066**	14,450
Effect of tax exemptions granted to certain subsidiaries	**(65,397)**	(62,186)
Effect of different tax rates of certain subsidiaries	**(8,887)**	(231)
Tax effect of utilisation of tax losses previously not recognised	**(11,669)**	(1,905)
Underprovision in prior years	**213**	2,024
Income tax expense for the year	**295,798**	270,795

5. DIVIDENDS

	2008	2007
	RMB'000	RMB'000
Dividend declared and paid during the year for:		
- 2007 (RMB0.16 per share)	**273,015**	—
- 2006 (RMB0.12 per share)	**—**	204,760
	273,015	204,760

The final dividend in respect of the year ended 31 December 2008 of RMB0.05 cents (2007: RMB0.16 cents) per share (equivalent to approximately RMB103,102,000 (2007: RMB273,015,000)) on 2,062,046,000 shares (2007: 1,706,346,000 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. EARNINGS PER SHARE

Earnings

	2008	2007
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	**1,102,288**	994,013
Effect of dilutive potential shares:		
Interest on convertible loan notes (net of tax)	**N/A**	35,451
Earnings for the purpose of diluted earnings per share	**N/A**	1,029,464

Number of shares

	2008	2007
	'000	'000
Weighted average number of shares for the purposes of basic earnings per share	**1,897,802**	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

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2007	2,258,498	10,166,586	338,586	118,595	4,032,210	16,914,475
Additions	23,501	57,255	28,080	21,990	1,368,122	1,498,948
Transfers	638,061	4,039,965	8,078	145	(4,686,249)	—
Transfers to investments properties	(37,298)	—	—	—	—	(37,298)
Disaposals/write offs	(10,823)	(22,495)	(2,121)	(19,481)	—	(54,920)
At 31 December 2007	2,871,939	14,241,311	372,623	121,249	714,083	18,321,205
Value-added tax refund on domestically manufactured plant and machinery	—	(13,916)	—	—	—	(13,916)
Acquisition of a business	—	—	10	—	—	10
Additions	80,040	72,451	22,592	18,292	1,463,395	1,656,770
Transfers	410,304	1,388,700	132,346	7,772	(1,939,122)	—
Disposals/write offs	(21,964)	(31,658)	(2,281)	(11,028)	—	(66,931)
At 31 December 2008	**3,340,319**	**15,656,888**	**525,290**	**136,285**	**238,356**	**19,897,138**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	385,650	2,679,423	175,482	46,244	—	3,286,799
Provided for the year	86,998	790,112	32,902	13,297	—	923,309
Transfers to investments properties	(6,696)	—	—	—	—	(6,696)
Eliminated on disposal/write off	(5,489)	(15,242)	(1,221)	(7,473)	—	(29,425)
At 31 December 2007	460,463	3,454,293	207,163	52,068	—	4,173,987
Provided for the year	105,937	984,276	18,985	8,885	—	1,118,083
Impairment for the year	—	7,924	232	407	—	8,563
Eliminated on disposal/write off	(12,280)	(24,719)	(1,959)	(6,012)	—	(44,970)
At 31 December 2008	**554,120**	**4,421,774**	**224,421**	**55,348**	**—**	**5,255,663**
CARRYING AMOUNTS						
At 31 December 2007	2,411,476	10,787,018	165,460	69,181	714,083	14,147,218
At 31 December 2008	**2,786,199**	**11,235,114**	**300,869**	**80,937**	**238,356**	**14,641,475**

At the balance sheet date, the Group has pledged plant and machinery and buildings having a carrying amount of approximately RMB1,144,235,000 (2007: RMB1,205,081,000) to secure the loan facilities granted to the Group by certain banks and IFC.

The Group has certain buildings with carrying amounts of approximately RMB242,268,000 (2007: RMB253,657,000), which have not yet obtained any title certificates as at the date of this report. The directors of the Company are of the opinion that the Group is not required to incur additional cost in obtaining the title certificates for these buildings in the PRC.

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives, after taking into account their estimated residual value, on a straight line basis:

Buildings	20 - 40 years
Plant and machinery	8 - 20 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 - 8 years

According to the No. [2006]111 regulation respect of preferential VAT benefit for foreign-investment entities issued by State Administration of Taxation（國稅發[2006]111號《國家稅務總局國家發展和改革委員會關於印發《外商投資項目採購國產設備退稅管理試行辦法》的通知》）the Group received approximately RMB13,916,000 value-added tax ("VAT") refund for purchasing machinery manufactured in the PRC during the year ended 31 December 2008.

During the year ended 31 December 2008, Xiangfan Chenming Copperplate Paper Co., Ltd., a subsidiary of the Company, was deregistered. The directors of the Company conducted a review of the assets held by this subsidiary and considered that the recoverable amounts of the relevant assets, which have been determined on the basis of their fair value less cost to sell, were estimated to be less than their carrying amounts, impairment losses of approximately RMB6,767,000 was recognised during the year ended 31 December 2008.

During the year ended 31 December 2008, the directors identified that one production line of the Group will not be used in near future as its product quality is not up to standard, an impairment of approximately RMB1,796,000 was recognised for this product line.

8. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	RMB'000
Prepaid lease payments related to		
Land use rights	**1,267,565**	811,560
Production facilities	**—**	14,997
	1,267,565	826,557
Analysed for reporting purposes as:		
Non-current portion	**1,225,356**	791,740
Current portion	**42,209**	34,817
	1,267,565	826,557

At the balance sheet date, the Group has pledged the land use rights having carrying value of approximately RMB74,654,000 (2007: RMB76,256,000) to secure the loan facilities granted to the Group.

The Group have certain land use rights with carrying amount of approximately RMB147,503,000 (2007: RMB92,099,000), which has not yet obtained the land use rights certificates as at the date of this report. The lease payments for land use rights without certificates are amortised over a period from 40 to 50 years from the date of signing the lease agreement. The directors of the Company are of the opinion that the Group is not required to incur additional cost in obtaining the land use rights certificates for these land use rights in the PRC. With reference to the lease term of other land use rights with similar usage, the directors of the Company are of the opinion that the amortisation basis is reasonable.

The lease terms of the land use rights held by the Group are between 40 and 50 years. The payment of production facilities represents prepaid rentals for production facilities leased.

During the year ended 31 December 2008, prepaid lease payment with carrying amount of RMB2,879,000 has been capitalized into biological assets.

9. BIOLOGICAL ASSETS

	2008 RMB'000	2007 RMB'000
CARRYING AMOUNT		
At beginning of the year	**92,160**	19,514
Plantation expenditure incurred	**208,135**	48,231
Gain on change in fair value less estimated point-of-sale cost of biological assets	**918**	24,415
At end of the year	**301,213**	92,160

Biological assets represent immature trees in the plantation forest purchased since end of 2006 to be grown for lumber for own use.

The biological assets are stated at their fair values less estimated point-of-sale costs. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Sallmanns which has appropriate qualifications and recent experiences in the valuation of similar assets. The valuation, which conforms to International Valuation Standards, 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. 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 RMB918,000 (2007: RMB24,415,000) has been recognised and credited to the consolidated income statement for the year ended 31 December 2008.

10. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**1,919,637**	1,879,327
Less: Impairment	**(167,228)**	(219,306)
	1,752,409	1,660,021
Other receivables	**312,341**	255,568
Less: Impairment	**(51,546)**	(59,406)
	260,795	196,162
Bills receivable	**974,010**	1,676,684
Advance to suppliers, deposits and prepayments	**462,526**	574,015
Trade and other receivables	**3,449,740**	4,106,882

Trade receivables

The Group allows an average credit period of 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables net of impairment at the reporting date:

	2008	2007
	RMB'000	RMB'000
0 - 90 days	**1,365,834**	1,295,048
91 - 180 days	**240,387**	265,222
181 - 365 days	**104,987**	54,812
1 - 2 years	**27,306**	40,301
2 - 3 years	**13,895**	4,638
	1,752,409	1,660,021

The following is an aged analysis of bill receivable at the report date:

	2008	2007
	RMB'000	RMB'000
0 - 90 days	**802,843**	1,243,096
91 - 180 days	**171,167**	433,588
	974,010	1,676,684

Before accepting any new customer, the Group goes through internal credit assessment procedure to assess the potential customer's credit quality and defines credit limits by customer.

Aging of amounts past due but not impaired trade receivables:

	2008	2007
	RMB'000	RMB'000
0 - 90 days	**224,355**	63,605
91 - 180 days	**11,627**	15,388
181 - 365 days	**104,987**	54,812
1 - 2 years	**27,306**	40,301
2 - 3 years	**13,895**	4,638
Total	**382,170**	178,744

Included in trade receivables balance of the Group is a debtor with amount of RMB92,563,000 (2007: RMB119,458,000) as at 31 December 2008, which is individually determined to be impaired. As the debtor has delayed payment on several occasions, the Group lodged lawsuit against the debtor and a building with estimated value amounting to RMB15,844,000 was pledged to the Group. The Group has provided impairment of RMB48,799,000 (2007: RMB88,518,000) as at 31 December 2008, after taking into account the subsequent settlement received from this debtors and the fair value of the building pledged to the Group.

The Group has provided full impairment on certain receivables past due over 3 years based on past experience of which receivables that are past due beyond 3 years are generally not recoverable. Other than the recognised impairment losses, no allowance has been made to the remaining past due trade receivables as the Group is satisfied with the subsequent settlement from and the credit quality of these customers and the Group considers that these balances are not impaired. The directors of the Company are of the opinion that the credit quality of the trade receivable balances that are neither past due or impaired at each balance sheet date is of good quality.

Except for the building pledged to the Group as disclosed above, no other collateral was held by the Group as the balance sheet date.

Other receivables

Other receivables are non-trade nature balances due from third parties and they are unsecured, interest-free and repayable on demand.

Included in other receivables balance of the Group is a consideration of RMB86,376,000 which is acquisition of minority interest of Shandong Chenming Power Supply Holdings Co., Ltd. at 31 December 2007.

Movement in the impairment on trade receivables

	2008 **RMB'000**	2007 RMB'000
Balance at beginning of the year	**219,306**	155,979
Impairment losses recognised on receivables	**15,072**	145,118
Amounts recovered during the year	**(56,577)**	(47,779)
Write off	**(10,573)**	(34,012)
Balance at end of the year	**167,228**	219,306

Movement in the impairment on other receivables

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**59,406**	56,877
Impairment losses recognised on receivables	**10,259**	45,649
Amounts recovered during the year	**(12,489)**	(43,120)
Write off	**(5,630)**	—
Balance at end of the year	**51,546**	59,406

11. DERIVATIVE FINANCIAL INSTRUMENTS

	2008	2007
	RMB'000	RMB'000
Foreign currency forward contracts	**(199)**	5,955

At 31 December 2008 and 2007, the outstanding foreign exchange forward contracts committed by the Group are as follows:

2008

Notional amount	**Maturity**	**Exchange rates RMB/USD**	**RMB'000**
Sell USD 3,000,000	22 January 2009	6.7687	20,306

2007

Notional amount	Maturity	Exchange rates RMB/USD	RMB'000
Sell USD 3,000,000	22-25 March 2008	7.2304	21,691
Sell USD 3,000,000	24 April 2008	7.5344	22,603
Sell USD 4,000,000	20-25 August 2008	7.1062	28,425
Sell USD 4,000,000	22-25 September 2008	7.0760	28,304
Sell USD 4,000,000	20-24 October 2008	7.0496	28,198
Sell USD 3,000,000	24 January 2008	7.4296	22,289
Sell USD 2,000,000	17 March 2008	7.2775	14,555
Sell USD 2,000,000	15 April 2008	7.2446	14,489
Sell USD 2,000,000	15 May 2008	7.2106	14,421
Sell USD 3,000,000	23 May 2008	7.1656	21,497
Sell USD 2,000,000	15 July 2008	7.1393	14,279
Sell USD 2,000,000	15 August 2008	7.1031	14,206
			244,957

The total fair value of the Group's currency derivatives financial liabilities as at 31 December 2008 are estimated to be approximately RMB199,000 (2007: derivatives financial assets of RMB5,955,000), 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 RMB1,738,000 (2007: RMB5,955,000) has been credited to the consolidated income statement for the year.

12. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	RMB'000
Trade payables aged:		
0 - 90 days	**2,001,600**	1,078,946
91 - 180 days	**275,863**	235,542
181 - 365 days	**216,240**	218,859
1 - 2 years	**98,420**	88,004
2 - 3 years	**17,648**	19,819
Over 3 years	**32,537**	15,537
Trade payables	**2,642,308**	1,656,707
Bills payable aged:		
0-90 days	**252,629**	127,316
91-180 days	**114,999**	2,740
Bills payable	**367,628**	130,056
Other payables	**506,114**	463,081
Advances received from customers	**101,694**	170,287
Accrued charges	**52,927**	65,476
	3,670,671	2,485,607

The average credit period on purchases of goods is 90 days.

13. BORROWINGS

	2008	2007
	RMB'000	RMB'000
Bank loans		
Secured	**1,356,920**	1,514,813
Unsecured	**4,703,656**	6,266,583
	6,060,576	7,781,396
Other loans		
Secured, from IFC	**214,153**	272,705
Unsecured	**299,592**	263,840
	513,745	536,545
	6,574,321	8,317,941
Bank and other loans are repayable:		
Within one year	**2,555,070**	4,261,746
In the second year	**365,446**	1,617,931
In the third to fifth year inclusive	**3,502,164**	1,864,543
More than five years	**151,641**	573,721
	6,574,321	8,317,941
Less: Amount due within one year shown under current liabilities	**(2,555,070)**	(4,261,746)
Amount due after one year	**4,019,251**	4,056,195

Details of the terms of the Group's borrowings are set out below:

		Effective interest rate per annum		Carrying amount	
	Maturity date	**2008**	2007	**2008**	2007
		%	%	**RMB'000**	RMB'000
Fixed-rate borrowings	2009 to 2013	4.68	6.87	1,662,476	2,641,696
Floating-rate borrowings	2009 to 2023	4.97	6.54	4,911,845	5,676,245
Total borrowings				6,574,321	8,317,941

14. SHORT-TERM DEBENTURES

(a) Pursuant to a circular [2007] No. 289 issued by the People's Bank of China in 2007, Jiangxi Chenming issued a debenture with face value of RMB500,000,000 on 11 September 2007. The debenture is unsecured, interest bearing at 4.03% per annum, and repayable one year after the issue date. The debenture was fully repaid in 2008.

(b) Pursuant to a circular [2007] No. 427 issued by the People's Bank of China in 2007, the Company issued two debentures to third party debenture holders with face value of RMB700,000,000 and RMB1,200,000,000 on 6 June 2008 and 29 August 2008 respectively. The debentures are unsecured, bear interest at 5.2% per annum and will be repayable one year after the issue date.

15. SHARE CAPITAL

		Type of shares				
	Number of shares	Restricted A Shares	A Shares	B Shares	H Shares	Total
	'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 restricted A Shares(note c)	—	177	(177)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note d)	—	(120)	120	—	—	—
At 31 December 2008	2,062,046	303,988	809,291	557,497	391,270	2,062,046

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) During the year ended 31 December 2008, acquired 176,774 A Shares from the public, as the transfer of entity's shares held by the directors and key management of an entity are restricted under the relevant requirement of the Shenzhen Stock Exchange, these shares were reclassified from A Shares to Restricted A shares accordingly.

(d) 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.

(e) All shares rank pari passu in all other material aspects.

10. Purchase, sale and redemption of shares

Save as the listing of H shares of the Company on the main board of the Hong Kong Stock Exchange on 18 June 2008, the Company and its subsidiaries did not purchase, sell or redeem any listed outstanding securities of the Company during the reporting period.

11. In compliance with the Code on Corporate Governance Practices

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

12. Securities transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made adequate enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements as stipulated in this code during the reporting period.

13. Sufficiency of Public Float

During the year ended 31 December 2008, the Company had maintained suffi cient public float.

14. Pre-emptive rights

In accordance with the Articles of Associations of the Company and the PRC laws, there are no rules requiring the Company to grant existing shareholders pre-emptive rights on newly issued shares of the Company in proportion to their shareholdings.

15. Audit committee

The audit committee of the Company discussed with the management of the Company the accounting standards and practices adopted by the Company and discussed and reviewed this report, including the review of the financial statements of the Company for the year ended 31 December 2008 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

16. Closure of register of H share shareholders

The register of members of the Company will be temporarily closed from 24 April 2009 to 26 May 2009 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of H shares shareholders of the Company for attending the AGM and for the final dividend. The last lodgment for the transfer of the H Shares of the Company should be made on 23 April 2009 at Computershare Hong Kong Investor Services Limited by or before 4:00 p.m. The H shares shareholders or their proxies being registered before close of business on 23 April 2009 are entitled to the final dividend and to attend the AGM by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

By order of the Board
Chen Hongguo
Chairman

8 April 2009

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng, 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.