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)

2009 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 2009 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), the Company (www.chenmingpaper.com) and the Stock Exchange of Hong Kong Limited (www.hkex.com.hk). 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 2009 was audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Deloitte Touche Tohmatsu, which issued standard auditors' reports with unqualified opinion.

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

* *For identification purposes only*

§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	Sun Wenke, Fan Yingjie
Correspondence address	No. 595 Shengcheng Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong	No. 595 Shengcheng Road, Shouguang City, Shandong Province
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 prepared in accordance with Accounting Standards for Business Enterprises

Unit: RMB

	2009	2008	Increase/ decrease (%)	2007
Total operating revenue	14,884,629,349.50	15,529,593,435.77	-4.15%	15,164,742,450.26
Total profit	1,172,922,631.23	1,555,339,310.69	-24.59%	1,489,336,202.56
Net profit attributable to the equity holders of the Company	835,947,981.16	1,075,291,741.53	-22.26%	967,636,172.39
Net profit after extraordinary gains or losses attributable to equity holders of the Company	715,103,042.84	854,268,917.39	-16.29%	878,418,573.66
Net cash flows from operating activities	1,639,034,259.99	1,934,140,803.04	-15.26%	1,324,263,125.01
	As at 31 December 2009	As at 31 December 2008	Increase/ decrease (%)	As at 31 December 2007
Total assets	28,213,084,875.02	26,299,495,745.01	7.28%	22,011,108,257.29
Equity attributable to equity holders of the Company	12,991,904,321.68	12,259,078,901.99	5.98%	8,745,035,011.85
Share capital	2,062,045,941.00	2,062,045,941.00		1,706,345,941.00

3.2 Major financial indicators prepared in accordance with Accounting Standards for Business Enterprises

Unit: RMB

	2009	2008	Increase/ decrease (%)	2007
Basic earnings per share (RMB per share)	0.41	0.57	-28.07%	0.60
Diluted earnings per share (RMB per share)	N/A	N/A	N/A	0.59
Basic earnings per share after extraordinary gains or losses (RMB per share)	0.35	0.45	-22.22%	0.54
Rate of return on net assets on weighted average basis (%)	6.63%	10.24%	Decreased by 3.61 percentage points	12.64%
Rate of return on net assets on weighted average basis after extraordinary gains or losses (%)	5.67%	8.13%	Decreased by 2.46 percentage points	11.47%
Net cash flows per share from operating activities (RMB per share)	0.7949	0.9380	-15.26%	0.7761
	As at 31 December 2009	As at 31 December 2008	Increase/ decrease (%)	As at 31 December 2007
Net assets per share attributable to equity holders of the Company (RMB per share)	6.3	5.9451	5.97%	5.1250

Extraordinary gains or losses items

√ Applicable □ Not applicable

Unit: RMB

Extraordinary gains or losses items	Amounts
Gains or losses generated from held for trading financial assets, other than effective hedging activities associated with normal business operations of the Company	8,443,100.00
Reversal of impairment provision on receivables tested for impairment on individual basis	1,085,771.23
Net gain or loss from disposal of non-current assets	1,848,949.50
Government grants received	140,290,327.67
Net gains or losses attributable to debt restructuring	329,236.08
Gains or losses on change in fair value of consumable biological assets	9,868,745.48
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 of the invested entity on acquisition	10,490,441.40
Non-operating net gain or loss other than the above	17,948,671.99
Effect of extraordinary gains or losses on income tax	(53,698,195.03)
Effect of minority interests	(15,762,110.00)
Total	120,844,938.32

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

√ Applicable ☐ Not applicable

Unit: RMB

	Net profit attributable to owners of the Company		Net Assets attributable to shareholders equity of the Company	
	Current period	**Previous period**	**Closing balance**	**Opening balance**
Under International Financial Reporting Standards	862,946,091.62	1,102,287,851.99	12,672,015,333.04	11,912,191,802.89
Under Accounting Standards for Business Enterprises	835,947,981.16	1,075,291,741.53	12,991,904,321.68	12,259,078,901.99
Items and total adjustments under International Financial Reporting Standards:				
Special fund for treasury bonds and special payables received	24,031,194.45	24,029,194.45	-302,998,387.82	-327,029,582.27
Exchange gains or losses from special foreign currency borrowings	2,966,916.01	2,966,916.01	-16,890,600.82	-19,857,516.83
Total differences	26,998,110.46	26,996,110.46	-319,888,988.64	-346,887,099.10
Explanation on differences	In year prior to 2006, according to the principles of the Accounting Standards for Business Enterprises, 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.			

3.4 Financial highlights prepared in accordance with International Financial Reporting Standards

Unit: RMB million

Results items	For the year ended 31 December				
	2009	2008	2007	2006	2005
Revenue	14,815.3	15,430.9	14,878.9	11,714.0	9,625.8
Cost of sales	(11,998.4)	(12,472.9)	(11,845.6)	(9,461.7)	(7,662.5)
Gross profit	2,816.9	2,958.0	3,033.3	2,252.3	1,963.3
Other income	306.6	500.5	462.3	315.2	248.6
Gain on disposal of subsidiaries	—	—	—	35.9	—
Gain on change in fair value of derivative financial instruments	8.4	1.7	6.0	—	—
Gain on change in fair value less estimated point-of-sale cost of biological assets	9.9	0.9	24.4	—	—
Selling and distribution expenses	(774.7)	(705.6)	(783.3)	(677.8)	(534.7)
Administrative expenses	(637.6)	(542.7)	(653.2)	(557.4)	(468.6)
Other expenses	(139.6)	—	—	—	—
Impairment loss on property, plant and equipment	(4.5)	(8.5)	—	—	—
Reversal of allowance for (allowance for) inventory	22.7	(127.7)	(0.9)	—	—
Loss on change in conversion price of convertible loan notes	—	—	—	(229.4)	—
Finance costs	(384.0)	(462.6)	(555.7)	(512.6)	(311.3)
Share of results of associates	(15.7)	(23.2)	(9.5)	(0.5)	0.6
Profit before tax	1,208.4	1,590.8	1,523.4	625.7	897.9
Income tax expense	(219.0)	(295.8)	(270.8)	(100.7)	(175.8)
(Loss) profit from discontinued operation for the year	—	—	—	36.3	(7.8)
Profit for the year before minority interests	989.4	1,295.0	1,252.6	561.3	714.3
Profit attributable to minority interests	126.4	192.7	258.6	160.7	73.5
Profit attributable to owners of the Company	863.0	1,102.3	994.0	400.6	640.8

Assets and liabilities items	As at 31 December				
	2009	2008	2007	2006	2005
Total assets	28,126.1	26,207.3	21,913.7	20,467.5	18,243.4
Total liabilities	13,718.4	12,550.3	11,733.4	13,011.5	11,368.4
Minority interests	1,735.7	1,744.8	1,809.1	1,703.6	1,663.1
Equity attributable to owners of the Company	12,672.0	11,912.2	8,371.2	5,752.4	5,211.9
Financial indicators	**2009**	**2008**	**2007**	**2006**	**2005**
Basic earnings per share	0.42	0.58	0.62	0.29	0.47
Net assets per share	6.15	5.78	4.91	4.21	3.85
Rate of return on net assets	6.81%	9.25%	11.87%	6.96%	12.29%

§4 Changes in Share Capital and Shareholders

4.1 Changes in share capital

Unit: shares

	Before changes in the reporting period		Increase/decrease (+/-) resulting from changes in the reporting period					After changes in the reporting period	
	Number of shares	Percentage	Increase in lock-up shares	Restricted shares	Transfer of state-owned shares	Issue of new shares	Sub-total	Number of shares	Percentage
I. Restricted shares	303,987,126	14.74%	139,275	-827,596	–	–	-688,321	303,298,805	14.71%
of which: State-owned legal person shares	293,003,657	14.21%	–	–	–	–	–	293,003,657	14.21%
Shares held by Senior Management	10,983,469	0.53%	139,275	-827,596	–	–	-688,321	10,295,148	0.5%
II. Non-restricted shares	1,758,058,815	85.26%	-139,275	827,596	–	–	688,321	1,758,747,136	85.29%
of which: Renminbi ordinary shares (A shares)	809,291,330	39.25%	-139,275	827,596	–	–	688,321	809,979,651	39.28%
Domestic listed foreign shares (B shares)	557,497,485	27.04%	–	–	–	–	–	557,497,485	27.04%
Overseas listed foreign shares (H shares)	391,270,000	18.97%	–	–	–	–	–	391,270,000	18.97%
III. Total number of shares	2,062,045,941	100.00%	–	–	–	–	–	2,062,045,941	100.00%

Change in restricted shares

Unit: shares

Names of shareholders	Restricted shares at the beginning of the 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	293,003,657	—	—	293,003,657	Sales restriction due to the reform of conversion	Note 1
Shares held by senior management of the Company	10,983,469	827,596	139,275	10,295,148	Lock-up of shares held by senior management of the Company	Released according to relevant rules of the Shenzhen Stock Exchange
Total	303,987,126	827,596	139,275	303,298,805	—	—

Note 1: The restriction period for the 293,003,657 restricted shares of the Company held by Shouguang Chenming Holdings Company Limited, the controlling shareholder of the Company, expired on 29 March 2010, the relevant procedures for the release from sales restriction will be processed upon confirmation from the controlling shareholder regarding such release from sales restriction.

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 156,835, of which, 124,860 were holders of A shares, 31,282 were holders of B shares and 693 were holders of H shares.

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held	Number of restricted shares held	Number of shares pledged or locked-up
HKSCC Nominees Limited	Overseas non-state-owned legal person (foreign shareholder)	18.91%	390,004,000	0	Unkown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	None
NIHK-CUSTOMERS' SEGREGATED ACCOUNT	Foreign legal person	2.13%	43,822,008	0	Unkown
China Construction Bank – 鵬華價值優勢股票型證券投資基金	Domestic non-state-owned legal person	1.84%	38,031,345	0	Unkown
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	Foreign legal person	1.15%	23,727,609	0	Unkown
Industrial and Commercial Bank of China – 諾安股票證券投資基金	Domestic non-state-owned legal person	0.95%	19,598,414	0	Unkown
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	0.95%	19,514,046	0	Unkown
BILL & MELINDA GATES FOUNDATION TRUST	Domestic non-state-owned legal person	0.80%	16,525,844	0	Unkown
PLATINUM ASIA FUND	Foreign legal person	0.79%	16,234,459	0	Unkown
China Construction Bank – 華寶興業行業精選股票型證券投資基金	Domestic non-state-owned legal person	0.76%	15,767,709	0	Unkown

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	390,004,000	H shares
NIHK-CUSTOMERS' SEGREGATED ACCOUNT	43,822,008	B shares
China Construction Bank – 鵬華價值優勢股票型證券投資基金	38,031,345	A shares
KEYWISE GREATER CHINA OPPORTUNITIES MASTER FUND	23,727,609	B shares
Industrial and Commercial Bank of China – 諾安股票證券投資基金	19,598,414	A shares
Bank of China – 華夏行業精選股票型證券投資基金(LOF)	19,514,046	A shares
BILL & MELINDA GATES FOUNDATION TRUST	16,525,844	A shares
PLATINUM ASIA FUND	16,234,459	B shares
China Construction Bank – 華寶興業行業精選股票型證券投資基金	15,767,709	A shares
KEYWISE GREATER CHINA MASTER FUND	15,666,099	B shares
Connected relationship or concert-party relationship among the above shareholders	Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the other shareholders, among which, Keywise Greater China Opportunities Master Fund and Keywise Greater China Master Fund are the sub-funds of KEYWISE Fund Company. Save for the above, the Company is not aware that any other shareholders of outstanding shares as aforesaid are connected with others.	

4.3 Profile of controlling shareholders and beneficial controllers

4.3.1 Change of controlling shareholders and beneficial controllers

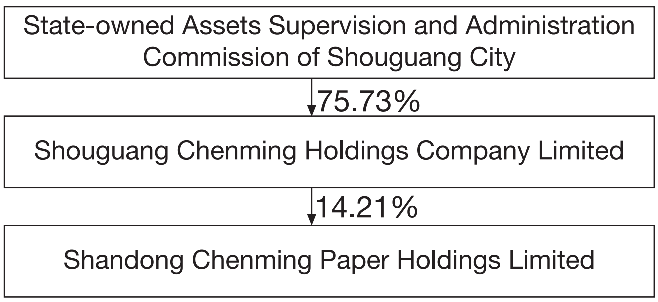
□ Applicable √ Not applicable

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 and its 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.

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.

4.3.3 Chart illustrating the 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	Commencement of terms in office	Termination of terms in office	Shares held at the beginning of the year	Shares held at the end of the year	Reasons for change	Total remuneration received from the Company during the reporting period (in RMB ten thousand)	Any remuneration from shareholder or other related entities?
Chen Hongguo	Chairman	M	45	April 2007	April 2010	6,334,527	6,334,527	—	298	No
Yin Tongyuan	General manager	M	52	April 2007	April 2010	3,231,520	3,231,520	—	200	No
Li Feng	Director	M	37	April 2007	April 2010	471,818	471,818	—	120	No
Geng Guanglin	Director	M	36	May 2009	April 2010	437,433	437,433	—	100	No
Tan Daocheng	Director	M	43	May 2009	April 2010	185,700	185,700	—	120	No
Hou Huancai	Director	M	48	April 2007	April 2010	628,915	628,915	—	110	No
Zhou Shaohua	Director	M	48	April 2007	April 2010	123,007	123,007	—	110	No
Gan Zhihe	Director	M	65	April 2007	April 2010	0	0	—	4.00	No
Zhao Wei	Director	M	50	April 2007	April 2010	0	0	—	4.00	No
Cao Chunyu	Director	M	46	April 2007	April 2010	0	0	—	4.00	No
Diao Yuntao	Independent Director	M	45	April 2007	April 2010	0	0	—	4.00	No
Wang Zhihua	Independent Director	M	51	April 2007	April 2010	0	0	—	4.00	No
Zhou Chengjuan	Independent Director	F	46	April 2007	April 2010	0	0	—	4.00	No
Wang Yumei	Independent Director	F	47	April 2007	April 2010	0	0	—	4.00	No
Lau Ying Kit	Independent Director	M	35	April 2007	April 2010	0	0	—	10.00	No
Gao Junjie	Supervisor	M	39	April 2007	April 2010	39,606	39,606	—	20	No
Wang Ju	Supervisor	F	44	April 2007	April 2010	0	0	—	8.21	No
Yang Hongqin	Supervisor	F	42	April 2007	April 2010	0	0	—	5.63	No
Wang Xiaoqun	Supervisor	M	54	May 2009	April 2010	0	0	—	2	No
Guo Guangyao	Supervisor	M	67	May 2009	April 2010	0	0	—	2	No
Wang Baoliang	Deputy general manager	M	36	April 2007	April 2010	209,200	209,200	—	60	No
Ren Wei	Deputy general manager	M	48	April 2007	April 2010	109,200	109,200	—	30	No
Li Xueqin	Deputy general manager	F	44	April 2007	April 2010	429,348	429,348	—	60	No
Hao Yun	secretary to the Board of Directors	M	47	April 2007	April 2010	708,441	708,441	—	60	No
Wang Zaiguo	Deputy general manager	M	47	April 2007	April 2010	195,600	195,600	—	60	No
Wang Shihong	Deputy general manager	M	46	April 2007	April 2010	0	0	—	40	No
Fang Lijun	Deputy general manager	M	40	April 2007	April 2010	436,851	436,851	—	15.08	No
Meng Feng	Deputy general manager	M	38	April 2008	April 2010	185,700	185,700	—	15.24	No
Han Chunlai	Deputy general manager	M	46	April 2008	April 2010	0	0	—	24.05	No
Wang Chunfang	Financial controller	M	34	April 2009	April 2010	0	0	—	60	No
Poon Shiu Cheong	Company Secertary	M	40	August 2007	April 2010	0	0	—	10.57	No
Total	—	—	—	—	—	13,726,866	13,726,866	—	1,568.78	—

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	Executive director	6	6	0	0	0	No
Yin Tongyuan	Executive director	6	6	0	0	0	No
Li Feng	Executive director	6	6	0	0	0	No
Geng Guanglin	Executive director	4	4	0	0	0	No
Tan Daocheng	Executive director	4	4	0	0	0	No
Hou Huancai	Executive director	6	6	0	0	0	No
Zhou Shaohua	Executive director	6	6	0	0	0	No
Gan Zhihe	Non-executive director	6	6	0	0	0	No
Zhao Wei	Non-executive director	6	6	0	0	0	No
Cao Chunyu	Non-executive director	6	6	0	0	0	No
Diao Yuntao	Independent non-executive director	6	6	0	0	0	No
Wang Zhihua	Independent non-executive director	6	6	0	0	0	No
Zhou Chengjuan	Independent non-executive director	6	6	0	0	0	No
Wang Yumei	Independent non-executive director	6	6	0	0	0	No
Lau Ying Kit	Independent non-executive director	6	6	0	0	0	No

Explanation on two consecutive absences from meetings of the Board

Meetings of the Board held during the year	6
Of which: number of meetings that required attendance in person	6
Number of meetings held by way of conference communication	0
Number of meetings held by combination of attendance in person and by way of conference communication	0

§6 Directors' Report

6.1-6.10 Data prepared in accordance with Accounting Standards for Business Enterprises

6.1 Management discussion and analysis under Accounting Standards for Business Enterprises

6.1.1 Overall operations during the reporting period

2009 is a year of extreme difficulties for the Company since we stepped into the 21th century, while it also marked the Company's success in riding through difficulties and realizing transcendent development with its determined spirit. In 2009, the Company suffered from the trough experienced by the whole paper making industry in the first half of the year, and saw the regain of momentum in the industry in the second half of the year. Amid the challenging operating environment, our staff members continued to fulfill their duties with unwavering dedication and loyalty, thereby enabling the Company to assume the leadership role in the nation's paper making sector.

In the first half of 2009, affected by the global financial crisis and the resulting economic downturn and substantial drop in price index worldwide, confidence of paper product purchasers hit new low, contributing to a temporary slump in both internal and external demand for paper. Against the backdrop of shrinking demand and inventory pile-up, most paper products in China saw a significant drop in price. The above factors have contributed to a drop in the Company's profitability compared with the corresponding period of last year, while a period-on-period improvement was noted. Facing such critical circumstances, the Senior Management had been quickly to take effective measures to cope with the ever-changing economic environment. In respect of raw material procurement, the Senior Management, based on their extensive professional experience and in-depth analysis, had made strategic purchase of wood pulp which was proved to be a precise judgment. On the front of production, capitalizing on the relatively low price level of commodity pulp, the Company called a halt to several of its pulp production lines and upgraded the same during the halt period. As for sales, flexible sales strategies were adopted to lower inventory level and risk-prevention system was established for the Company's operations. The implementation of these effective measures helped the Company get through the most difficult period, and laid a solid foundation for the strong rebound in the second half of 2009.

In the second half of 2009, with the gradual implementation of macro-economic measures by the Central Government, China has witnessed a gradual improvement in its economy. The paper making industry also saw a significant rebound. In line with the robust domestic demand for paper, the Company lifted the price of major paper products including duplex press paper, copperplate paper, white paper board and news press paper successively, thereby significantly raising its profitability. The heightened demand for raw materials for paper making, as a result of the gradual rise in the production capacity of domestic paper making enterprises, had led to a gradual increase in raw materials prices that previously lagged behind paper product prices. Riding on this opportunity, the Senior Management resumed production in the Company's halted pulp production lines, so as to capitalize on its competitive advantage in cost control. In addition, adjustments had been made on the Company's sales and production strategies, with a view to fully capture the market opportunities brought about by the rebound in the second half of 2009.

(I) Overview of production and operation

During the reporting period, the Company completed machine-made paper production of 3.04 million tonnes, representing a drop of 130,000 tonnes compared with 2008, or a drop of 4.1%; revenue realized from principal operations amounted to RMB14,884.6293 million, down by RMB644.9641 million or 4.15% over 2008. Costs of principal operations were RMB12,057.4159 million, decreased by RMB499.3465 million or 3.98% over 2008. Realized operating profit and net profit attributable to equity holders of the Company were RMB982.5658 million and RMB835.948 million respectively, representing respective drops of 24% and 22.26%.

(II) 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 2009, approximately RMB1,189 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) As at the end of 2009, the Group had acquired 2.45 million mu of woodlands for raw materials and obtained legal forestry rights certificates for 2.06 million mu of woodlands; among which, the construction area of the woodlands for paper making materials in Zhanjiang and its peripheral regions reached 740,000 mu already.

(3) The land acquisition work of the site for the pulp project had completed, and the land-use fees paid for the site for the pulp project totaled RMB361 million.

(4) The scope of civil engineering work of the pulp project covers civil works for pulping plant, pulp sheet manufacturing plant and recovery of black liquor and about 35% of total quantity of work was completed.

(5) Procurement of main equipment. In July 2009, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, entered into equipment purchase contract with the suppliers of the equipments to procure the Zhanjiang Chenming Pulp Project. Details of the transaction were covered in the relevant announcements

published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (http://www.cninfo.com.cn) on 7 July 2009, and the website of the Hong Kong Stock Exchange (www.hkex.com) on 6 July 2009. At present, advance payment and progress payment for domestic and overseas equipments totaled RMB854 million.

6.1.2 Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period (Prepared in accordance with Accounting standards for Business Enterprises)

Unit: RMB

	2009		2008		
Item	At the end of the period	As a percentage of total assets in 2009	At the end of the period	As a percentage of total assets in 2008	Difference
Bills receivable	2,704,799,074.02	9.59%	974,009,788.24	3.70%	5.89%
Inventories	2,226,579,492.59	7.89%	3,397,792,930.38	12.92%	-5.03%
Fixed assets	13,529,590,915.63	47.96%	14,213,441,758.08	54.04%	-6.08%
Construction in progress	1,997,961,262.18	7.08%	431,379,272.50	1.64%	5.44%
Other non-current assets	496,724,974.94	1.76%	301,212,691.14	1.15%	0.61%

Explanation on the main reasons leading to the changes

(1) Bills receivable: as the recovery of sales receivables in the fourth quarter of 2008 was unsatisfactory under the repercussion of the financial crisis, the good market conditions in the fourth quarter of 2009 primarily led to a significant increase in sales when compared with the fourth quarter of 2008; in addition, it was also due to satisfactory recovery of receivables.

(2) Inventories: mainly due to the significant reduction in amount of inventories, because sales in the fourth quarter of 2009 greatly improved as compared to the fourth quarter of 2008, which was affected by the financial crisis.

(3) Fixed assets: reduction in net value of fixed assets was mainly due to depreciation of fixed assets.

(4) Construction in progress: mainly due to the investments in the Zhanjiang pulp project, the 800,000-tonne copperplate paper project, the 98,000-tonne tissue paper project, other expansion and modification works, etc.

(5) Other non-current assets: mainly attributable to the purchase, nurturing and fair value change in timber assets of the Company.

6.1.3 **Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period (Prepared in accordance with Accounting standards for Business Enterprises)**

Unit: RMB

Item	Accrued during the year	Accrued during the previous year	Increase (+) Decrease (-)
Tax and levies on operations	16,268,806.81	12,582,354.31	29.30%
Selling and distribution expenses	774,685,975.04	705,595,565.95	9.79%
General and administrative expenses	726,351,661.67	561,194,537.62	29.43%
Finance expenses	312,687,004.02	287,136,504.05	8.90%
Losses on impairment of assets	17,276,975.88	93,125,334.87	-81.45%
Gain on change in fair value	18,311,845.48	2,656,651.60	589.28%
Investment income	-15,689,081.65	-23,081,752.26	32.03%
Non-operating income	201,738,406.80	274,366,224.82	-26.47%

Explanation on major changes

(1) Tax and levies on operations increased by 29.3% compared to the corresponding period of the previous year, mainly because the subsidiaries of the Group, namely Shouguang Chenming Modern Logistic Co., Ltd. and Shandong Grand View Hotel Co., Ltd., recorded higher revenue during the current period, which affected tax and levies on operations.

(2) Selling and distribution expenses increased by 9.79% compared to the corresponding period of the previous year, mainly because the increase in sales led to higher transportation costs.

(3) General and administrative expenses increased by 29.43% compared to the corresponding period of the previous year, mainly because under the impact of the financial crisis in the first half of 2009 certain pulp production lines and panel production lines suspended production and incurred losses from production interruption.

(4) Finance expenses increased by 8.9% compared to the corresponding period of the previous year, mainly because the exchange rate of RMB against USD maintained relatively stable during the current period, which resulted in less exchange gains compared to last year.

(5) Losses on impairment of assets decreased by 81.45% compared to the corresponding period of the previous year, mainly because of the allowance for drop in inventory price provided in the previous year in view of the financial crisis was reversed in the current period, as product price went up and the price of raw materials dropped.

(6) Gain on change in fair value increased by 589.28% compared to the corresponding period of the previous year, mainly due to the change in fair value of financial instruments (including future pooling foreign exchange contracts) and timber assets.

(7) Investment loss decreased by 32.03% compared to the corresponding period of the previous year, mainly because the subsidiaries reduced their extent of losses during the current period.

(8) Non-operating income decreased by 26.47% compared to the corresponding period of the previous year, mainly because revenue-related government grants received during the year decreased.

6.1.4 Cash flow generated from operating activities of the Company during the reporting period (Prepared in accordance with Accounting standards for Business Enterprises)

Unit: RMB

Item	Amount for the current period	Amount for the corresponding period of last year	Increase (+) Decrease (-)
Net cash flow generated from operating activities	1,639,034,259.99	1,934,140,803.04	-15.26%
Net cash flow used in investment activities	-2,134,446,266.63	-1,503,850,542.15	-41.93%
Net cash flow generated from financing activities	177,630,846.52	1,661,066,800.52	-89.31%

Note: In the cash flow statements prepared by the Company, receipt of outstanding bank acceptance bills are not reflected as cash inflow in "cash received from sales of goods, rendering of services"; similarly, payments made using outstanding bank acceptance bills are not reflected as cash outflow in "cash paid for goods and services" nor "cash paid to acquire fixed assets, intangible assets and other long-term assets" with respect to bills paid in the course of investment activities.

Explanation on the main reasons leading to the changes:

(1) Net cash flow generated from operating activities decreased by 15.26% compared with the corresponding period of the previous year, mainly because sales revenue and profit dropped compared with the correspond period of the previous year as affected by the sales price, as well as the increase in unmatured bills receivable.

(2) Net cash flow generated from investment activities decreased by 41.93% compared with the corresponding period of the previous year, mainly due to the investments in the copperplate paper project with annual production capacity of 800,000-tonne and the tissue paper project with annual production capacity of 98,000-tonne of 壽光美倫紙業有限責任公司(Shouggang Meilun Paper Co., Ltd.), a subsidiary of the Company, the Zhanjiang pulp project and the high-end culture paper project during the reporting period.

(3) Net cash flow generated from financing activities decreased by 89.31% compared with the corresponding period of the previous year, mainly because the Company issued H shares in 2008, which increased net cash flow.

6.1.5 Operation and results of major controlling subsidiaries of the Company

Unit: RMB in ten thousands

Name of controlling subsidiary	Nature of activities	Shareholding percentage	Principal products manufactured	Registered capital	Asset size	Net profit
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Papermaking	50.93%	Writing paper, news press paper	21,136.70	232,716.97	5,673.27
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Papermaking	100.00%	Paperboard, corrugated paper	37,620.00	134,772.08	16.56
Shandong Chenming Power Supply Holdings Co., Ltd.	Electricity and steam	86.71%	Generation and sales of electricity and steam	9,955.31	69,376.32	1,448.20
Jilin Chenming Paper Co., Ltd.	Papermaking	100.00%	News press paper, light weight coated paper	150,000.00	244,368.16	2,985.24
Chibi Chenming Paper Co., Ltd.	Papermaking	35.79%	Duplex press paper	17,741.94	54,439.10	1,871.21
Jiangxi Chenming Paper Co., Ltd.	Papermaking	51.00%	Coated paper	USD172 million	323,918.99	10,565.15
Yanbian Chenming Paper Co., Ltd.	Pulp	76.73%	Pulp and chemical product	8,163.30	33,046.65	1,350.63

6.1.6 Explanation on single subsidiaries with net profit (or investment gains) accounting for over 5% of the net profit of the Company (Prepared in accordance with Accounting standards for Business Enterprises)

Unit: RMB in ten thousands

Name of company	Revenue from principal operations	Profit from principal operations	Net profit	Net profit to the Company according to shareholding percentage	As a percentage of net profit attributable to the equity holders of the Company
Jiangxi Chenming Paper Co., Ltd.	163,591.97	24,980.55	10,565.15	5,388.23	6.45%

6.2 Prospect of the future developments of the Company

6.2.1 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. The gradual economic pickup on both the international and domestic fronts, in particular the favourable and stable macro-economic environment in China, creating favourable operating conditions for China's paper making industry. It is expected that production and sales volume of paper products will continue to rise as the industry is at the upturn of cycle. Meanwhile, as a number of projects under construction are near completion, new production capacity released by different production lines will exert pressure on the industry. Also, implementation of new environmental protection standards is likely to trigger withdrawal of certain small and medium-sized paper making enterprises from the market, leading to a concentration of production capacity in large papermaking enterprises. With the increased production volume and new production capacity, it is expected that price of raw materials for paper making will continue its upward trend.

Based the above viewpoints about papermaking industry, 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 pulp project and ancillary raw materials bases as its major development targets. 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) Consolidate existing market share while dedicated to the development and production of advanced paper products

The Company will continue to increase the input in projects and expand production capacity of advanced paper products; focus on the 800,000 tonnes high-end low weight coated paper project and high-end culture paper project with an annual production capacity of 450,000 tonnes; further improve the Company's production scale, product specifications, strive to becoming a frontrunner in the international paper making industry in the future.

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

As the national environmental protection standards have been raised and increased efforts have been put on the State's environmental protection administration, the Company will strive to develop recycling economy and encourage waste exchange, reuse and recycle so as to maximize the resources utilization ratios, and will speed up the construction of environmental protection projects at the same time to ensure the compliance with the relevant standards regulating waste emission.

(4) Reinforce technology innovation and talent cultivation

Compared with international paper making enterprises, there is room for enhancement in the Company's technology and talent pool. The Company will continue its emphasis on internal training and external recruitment to enhance overall staff quality, while pursuing to accelerate the Company's development by strengthening its own innovation capacity.

6.2.2 In line with its strategic plans, the work of the Company will focus on the following areas in 2010:

(1) Speed up the pace of project construction to sharpen competitive advantage

The year 2010 saw the largest scale of investment and amount of projects under construction in the Company's history, including large scale projects such as the Zhanjiang pulp project (with annual production capacity of 700,000 tonnes pulp and ancillary raw materials), the high-end culture paper project (with annual production capacity of 450,000 tonnes) , the high-end low weight coated paper project (with annual production capacity of 800,000 tonnes), and the project of Chenming International Logistics Centre and the ancillary railway special line. The Company will enhance its accountability and co-ordination capacity to accelerate the project construction.

(2) Accelerate market exploration to facilitate future development

Through application of active and reasonable marketing strategies, reinforcing market research and analysis, formulating reasonable pricing strategy, maintaining product inventory and account receivables at reasonable levels to minimize capital locked up; strengthening global marketing and sales network, with emphasis on the Japanese and U.S. markets, increasing points of sales, refining the corporate structure of overseas subsidiaries; formulating effective sales plans for new projects, and completing preparatory work such as organization of sales teams and marketing and promotion in advance.

(3) Standardize corporate management to fully enhance the operating quality

The Company is dedicated to: its brand building goal and achieving quality management; realizing informationization of corporate management to raise the levels of automation, intelligentization and modernization of management; striving to achieve energy saving and reduced emission, develop recycling economy and maximize resource utilization; attaining management excellence to fully explore potentials corporate-wide, reduce overall costs and enhance efficiency.

(4) Achieve quality management in human resources

The Company continues to enhance its management team in line with its emphasis on both ability and integrity; speed up the introduction of new advanced technology and management expertise to raise the management and technical know-how of its staff members; improve training methods and approach to strengthen the education, training, motivation and management of its management team.

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

In view of the numerous new projects undertaken by the Company and their substantial scale, the task of ensuring effective human resources allocation and resource utilization, as well as smooth implementation of these projects thus poses great challenges to the Company. As such, the Company has adopted the following measures: provide clarity on job responsibility and confirm project construction responsibility; upgrade resource allocation by adoption of a project-oriented approach in terms of human resources, funding and resources to create a favourable environment for project construction; raise service standards by creating a sense of urgency in and enhancing accountability of all business units of the Company, so as to promote service awareness company-wide and create a feeling of working together towards a common goal. All these ultimately aim to ensure the projects progress on schedule.

6.2.4 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 of the Company- the Company issued RMB2.3 billion medium-term notes at the end of 2009 and at the beginning of 2010, and issued RMB1.5 billion short-term debentures at the beginning of 2010.

(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.

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

Unit: RMB in ten thousands

Revenue from operations by industry						
By industry or by product	Revenue from operations	Cost of sales	Gross profit margin (%)	Year-on-year increase / decrease in revenue from operations (%)	Year-on-year increase / decrease in cost of sales (%)	Year-on-year increase / decrease in gross profit margin (%)
Sales of machine-made paper	1,408,388.79	1,154,554.09	18.02%	-3.36%	-2.28%	-0.91%
Sales of electricity and steam	23,889.26	14,414.38	39.66%	1.42%	-27.74%	24.35%
Sales of construction materials	34,010.00	26,749.99	21.35%	-33.65%	-39.79%	8.02%
Sales of chemical products	3,139.01	1,502.70	52.13%	-64.59%	-59.35%	-6.16%
Hotel business	4,092.59	1,167.27	71.48%	69.47%	39.69%	6.08%
Others	14,943.28	7,353.16	50.79%	57.73%	39.47%	6.44%
Total	1,488,462.93	1,205,741.59	18.99%	-4.15%	-3.98%	-0.15%
Principal activities by product						
Light weight coated paper	159,960.21	136,096.77	14.92%	-9.04%	-7.16%	-1.73%
Duplex press paper	210,125.64	172,731.69	17.80%	1.98%	9.02%	-5.30%
Writing paper	40,457.93	34,611.75	14.45%	3.92%	12.47%	-6.51%
Copperplate paper	308,703.84	245,716.13	20.40%	18.22%	24.31%	-3.90%
News press paper	178,197.37	144,961.75	18.65%	-16.45%	-15.98%	-0.45%
Paperboard	59,449.14	51,583.11	13.23%	-28.67%	-35.37%	8.99%
White paper board	187,953.51	152,908.91	18.65%	-12.93%	-12.56%	-0.34%

6.4 Breakdown of revenue 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	Revenue from operations	Year-on-year increase / decrease in revenue from operations (%)
PRC	1,229,718.61	-2.66%
United States	15,711.76	216.40%
Hong Kong	37,447.82	80.79%
Japan	30,829.85	110.20%
South Africa	12,811.54	-45.82%
Other overseas areas	81,869.21	-37.08%
Total	1,408,388.79	-3.36%

6.5 Items measured at fair value

√ Applicable ☐ Not applicable Unit: RMB

Items	Opening balance	Profit or loss from change of fair value	Accumulated change of fair value accounted for equity	Provision of impairment in this period	Closing balance
Financial assets					
of which:1.Financial assets measured at fair value and its change accounted for profit or loss in the current period	0.00	14,900,000.00	—	—	14,900,000.00
of which: Derivative financial assets	0.00	14,900,000.00	—	—	14,900,000.00
2. Available-for-sale financial assets			—	—	
Sub-total of financial assets	0.00	14,900,000.00	—	—	14,900,000.00
Financial liabilities	198,900.00	6,456,900.00	—	—	6,450,000.00
Investment properties	—	—	—	—	
Productive biological assets	—	—	—	—	
Other current assets	301,212,691.14	9,868,745.48	—	—	496,724,974.94
Total	301,013,791.14	18,311,845.48	—	—	505,174,974.94

6.6 Use of proceeds

√ Applicable ☐ Not applicable

Unit: RMB in ten thousands

Total proceeds		272,825	Use of total proceeds during the reporting period			68,878.37
			Accumulated use of total proceeds			143,443.37
Project undertaken	**Proposed investment**	**Project change**	**Actual investment**	**Benefits realized**	**Progressing as scheduled**	**Progressing as scheduled with estimated benefits**
Zhanjiang 700,000-tonne per annum pulp project	248,271	No	118,933.37	—	Yes	—
Supplement to working capital	24,554	No	24,510.00	—	Yes	—
Total	272,825	—	143,443.37	—	—	—
Explanation on failure to progress as scheduled and realize benefits (by project)		Nil				
Reasons for modification and modification procedures (by project)		Nil				
Use of unutilized proceeds and their status		The entire unused portion of the proceeds to be utilized in the Zhanjiang pulp project as set out in the prospectus was deposited at special deposit bank accounts.				

Project change

☐ Applicable √ Not applicable

6.7 Non-financing projects

√Applicable ☐ Not applicable

(1) The high-end low weight coated paper project of an annual production capacity of 800,000 tonnes

The high-end low weight coated paper project of an annual production capacity of 800,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The total investment amount for this project was RMB5.2 billion. The Company had entered into the main equipment purchase contract in respect to this project. Details of the transaction were covered in the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (http://www.cninfo.com.cn) on 9 June 2009 and 7 August 2009, and the website of the Hong Kong Stock Exchange (www.hkex.com) on 7 June 2009 and 6 August 2009. Currently, the civil works of the project are being carried out and the advance payment for main equipment is being paid. It is expected that the project will formally commence operation by May 2011.

(2) The high-end culture paper project of an annual production capacity of 450,000 tonnes

The high-end culture paper project of an annual production capacity of 450,000 tonnes in Zhanjiang, Guangdong was considered and approved by the 2008 Annual General Meeting of the Company. The total investment amount for this project was RMB1.668 billion. The Company had entered into the main equipment purchase contract in respect to this project. Details of the transaction were covered in the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (http://www.cninfo.com.cn) on 29 April 2009 and 7 July 2009, and the website of the Hong Kong Stock Exchange (www.hkex.com) on 28 April 2009 and 6 July 2009. Currently, the civil works of the project are being carried out and the advance payment for main equipment is being paid. It is expected that the project will formally commence operation by April 2011.

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

Based on the total share capital of 2,062,045,941 shares as at the end of 2009, a cash bonus of RMB3.0 (tax included) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB618,613,782.30 (tax included), which accounted for approximately 84.39% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2009 after deducting appropriation to statutory reserves. The undistributed profit would be rolled over for distribution in subsequent years.

The cash bonus of the Company in the last three years

Unit: RMB

Cash bonus year	Amount for profit for cash bonus (tax included)	Net profit attributable to equity holders of the Company for the cash bonus year	Ratio of cash bonus to net profit attributable to equity holders of the Company	Distributable profit of the year
2008	103,102,297.05	1,075,291,741.53	9.59%	973,557,811.58
2007	273,015,350.56	967,636,172.39	28.21%	886,584,820.49
2006	204,761,512.92	356,907,182.90	57.37%	295,247,286.24
The accumulated amounts for cash bonus in the last three years as a percentage of distributable profit (%)				80.85%

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

□ Applicable √ Not applicable

6.11 Management discussion and analysis under International Financial Reporting Standards

Revenue from operations

Unit: RMB'000

	2009		2008	
By industry or by product	Revenue from principal operations	As a percentage of revenue from operations (%)	Revenue from principal operations	As a percentage of revenue from operations (%)
Machine-made paper	14,155,084.00	95.54	14,561,339.00	94.37
Electricity and steam	237,925.00	1.61	235,552.00	1.53
Construction materials	337,518.00	2.28	512,594.00	3.32
Chemicals products	31,390.00	0.21	88,640.00	0.57
Others	53,336.00	0.36	32,785.00	0.21
Total	14,815,253.00	100.00	15,430,910.00	100.00

Unit: RMB'000

	2009		2008	
Geographical segment	**Revenue from operations**	**As a percentage of revenue from operations (%)**	**Revenue from operations**	**As a percentage of revenue from operations (%)**
PRC	13,028,552	87.94	13,502,030.00	87.50
United States	157,118	1.06	49,658.00	0.32
Hong Kong	374,478	2.53	207,130.00	1.34
Japan	308,298	2.08	146,670.00	0.95
South Africa	128,115	0.86	236,460.00	1.54
Other overseas areas	818,692	5.53	1,288,962.00	8.35
Total	14,815,253	100.00	15,430,910.00	100.00

Revenue from operations amounted to approximately RMB14,815 million in 2009, decreased by approximately RMB616 million or 3.99% over 2008.

Revenue from machine-made paper operations amounted to approximately RMB14,155 million, decreased by approximately 2.79% over 2008 mainly due to: the selling price of the paper products in the current period being lower than that of the corresponding period of last year resulting from the financial crisis.

Revenue from electricity and steam operations amounted to approximately RMB238 million, increased by approximately 1.01% over 2008 mainly due to: the higher steam price in the current period.

Revenue from construction materials operations amounted to approximately RMB338 million, decreased by approximately 34.15% over 2008 mainly due to: the sales volume of fiberboard in the current period being lower than that of the corresponding period of last year resulting from the financial crisis.

Revenue from chemicals products operations amounted to approximately RMB31.4 million, decreased by approximately 64.59% over 2008 mainly due to: the sales volume of chemicals products in the current period being lower than that of the corresponding period of last year resulting from the financial crisis and the market change.

Cost of sales and gross profit

Cost of sales as a percentage of revenue from operations

Unit: RMB'000

	2009		2008	
By industry or by product	**Cost of sales**	**As a percentage of product segment revenue**	**Cost of sales**	**As a percentage of product segment revenue**
Machine-made paper	11,554,422.00	81.63%	11,780,147.00	80.90%
Electricity and steam	144,144.00	60.58%	199,485.00	84.69%
Construction materials	267,500.00	79.26%	444,273.00	86.67%
Chemicals products	15,027.00	47.87%	36,971.00	41.71%
Others	17,299.00	32.43%	12,035.00	36.71%
Total	11,998,392.00	80.99%	12,472,911.00	80.83%

Gross Profit and Gross Profit Margin

	2009		2008	
By industry or by product	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
Machine-made paper	2,600,662.00	18.37%	2,781,192.00	19.10%
Electricity and steam	93,781.00	39.42%	36,067.00	15.31%
Construction materials	70,018.00	20.74%	68,321.00	13.33%
Chemicals products	16,363.00	52.13%	51,669.00	58.29%
Others	36,037.00	67.57%	20,750.00	63.29%
Total	2,816,861.00	19.01%	2,957,999.00	19.17%

Cost of sales of the Company in 2009 was approximately RMB11,998 million, decreased by approximately 3.8% over 2008. Gross profit was approximately RMB2,817 million, decreased by approximately 4.77% over 2008 mainly due to: the lower cost of sales resulting from the raw materials cost during the current period being lower than that of the corresponding period of last year. The gross profit margin decreased mainly due to: the product price being lower than that of the corresponding period of last year resulting from the financial crisis and the decrease in product price being larger than the decrease in product cost.

Cost of sales of machine-made paper was approximately RMB11,554 million, decreased by approximately 1.92% over 2008 mainly due to: the raw materials cost being lower than that of the corresponding period of last year.

Cost of sales of electricity and steam was approximately RMB144 million, decreased by approximately 27.74% over 2008 mainly due to: the raw materials cost being lower than that of the corresponding period of last year.

Cost of sales of the construction materials was approximately RMB267 million, decreased by approximately 39.79% over 2008 mainly due to: the sales volume of fiberboard in the current period being lower than that of the corresponding period of last year resulting from the financial crisis and the market change.

Cost of sales of the chemical products was approximately RMB15.0 million, decreased by approximately 59.35% over 2008 mainly due to: the sales volume of chemicals products in the current period being lower than that of the corresponding period of last year resulting from the market change.

Other income

Other income of the Group amounted to approximately RMB307 million in 2009, decreased by approximately 38.73% over 2008 mainly due to (1) the government grants recognized in profit or loss and received in the current period being lower than that of the corresponding period of last year, and (2) the exchange gains or losses being lower than that of the corresponding period of last year resulting from the fluctuation of exchange rate.

Distribution expenses

Distribution expenses were approximately RMB775 million in 2009, increased by approximately 9.79% mainly due to: the transportation costs for the current period being higher than that of the corresponding period of last year.

Administrative expenses

Administrative expenses of the Company were approximately RMB638 million in 2009, increased by approximately 17.49% mainly due to the asset impairment losses in the current period being higher than that of the corresponding period of last year resulting from the change in accounts receivable balance and aging.

Other expenses

Other expenses of the Company were approximately RMB140 million in 2009, mainly because the Group suspended production in certain pulp and panel production lines to limit losses under the repercussion of the financial crisis in the second half of 2008. Loss from suspension of production mainly included depreciation of production equipment of RMB90.22 million and staff cost of RMB20.71 million. Except for Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd., the Group resumed production of pulp and panel production lines in 2009.

Gain on change in fair value of derivative financial instruments

Gain on derivative financial instruments of the Group was approximately RMB8.443 million, decreased by approximately RMB6.705 million over 2008 mainly due to: the change in the fair value of the future pooling foreign exchange contracts entered into between the Company and China Construction Bank.

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

Gain on change in fair value less estimated point-of-sale cost of biological assets of the Company was approximately RMB9.869 million in 2009, increased by approximately RMB8.951 million over 2008 mainly due to the change in fair value of timber assets of the Company.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment of the Company was approximately RMB4.51 million in 2009, decreased by RMB4.05 million compared with RMB8.56 million in 2008, mainly because: (1) in 2009, the Company made allowance for impairment of RMB4.51 million on the difference between carrying amount and cost value of the fixed assets of Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd.; (2) in 2008, the Company made allowance for impairment of RMB8.56 million on the fixed assets of subsidiaries Wuhan Chenming Hanyang Paper Co., Ltd. and 襄樊晨鳴銅版紙有限責任公司(Xiangfan Chenming Copperplate Pater Co., Ltd), of which the disposal of 襄樊晨鳴銅版紙有限責任公司(Xiangfan Chenming Copperplate Pater Co., Ltd) was completed in April 2008.

Reversal of allowance for (allowance for) inventories

Allowance for inventories in 2009 decreased by approximately RMB150 million over 2008 mainly due to: reversal of the impairment provision for unsold inventories in view of the rally in product prices in 2009 and the decrease in raw materials price.

Finance costs

Finance costs of the Company were approximately RMB384 million, decreased by approximately 16.99% over 2008 mainly due to: the finance costs in the current period being lower than that of the corresponding period of last year resulting from the change in lending rate and the long term and short term borrowings.

Share of results of associates

In 2009, the Group's share of results of associates was –RMB16 million, representing an increase of 32.28% compared with 2008, mainly due to the decrease in the losses of associates in 2009 when compared to 2008.

Income tax expense

Income tax expense of the Group was approximately RMB219 million in 2009, decreased by approximately 25.96% over 2008 mainly due to: the lower income tax expense resulting from the profit realized in the current period being lower than that of the corresponding period of last year because of the decrease in the gross profit margin of the products and the change in costs and expenses.

Profit attributable to minority interests

Profit attributable to minority interests was approximately RMB126 million in 2009, decreased by approximately 34.4% over 2008 mainly due to the lower profit attributable to minority interests resulting from the net profit realized in the current period being lower than that of the corresponding period of last year.

Net profit and net profit margin

Net profit of the Group was approximately RMB863 million in 2009 (excluding profit attributable to minority interests), decreased by approximately 21.71% over 2008. The net profit margin was approximately 5.82%, decreased by approximately 1.34 percentage points as compared with 7.14% in the corresponding period of 2008 mainly due to the gross profit margin of pulp being lower than that of the corresponding period of last year resulting from the financial crisis.

Liquidity

In 2009, the cash flows from operating activities, the cash flows from investment activities and the cash flows from financing activities of the Company were approximately RMB1,639 million, -RMB2,494 million and RMB537 million respectively, decreased by approximately 15.26%, 61.66% and 68.39% over 2008 respectively. The main reasons were respectively as follows:

(1) The decrease in the net cash flows from operating activities was mainly due to the revenue and profit in the current period being lower than that of the corresponding period of last year resulting from the effect of the sales price, as well as the increase in unmatured bills receivable.

(2) The decrease in the net cash flows from investment activities as compared to the corresponding period of last year was mainly due to the investments in the 800,000-tonne copperplate paper project and the 98,000-tonne tissue paper project of 壽光美倫紙業有限責任公司 (Shouguang Meilun Paper Co,, Ltd.), a subsidiary of the Company, and the Zhanjiang pulp project during the reporting period.

(3) The decrease in the net cash flows from financing activities was mainly due to the increase in net cash flows from H shares issue in 2008.

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

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

Principal sources of funding

In 2009, the principal sources of funding of the Company derived from the revenue from production operations, bank loans and issues of long term and medium bonds.

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

As at 31 December 2009, the Group's bank borrowings increased by approximately RMB11,232 million, repayment of loans amounted to RMB9,335 million. Such borrowings bore interest rates ranging from 1.09% to 5.47%.

Gearing ratio of the Company

As at 31 December 2009, the gearing ratio (including minority interests) of the Group was 34.58%, increased by 2.08 percentage points as compared with 32.5% in 2008 mainly due to the increase in borrowings (unmatured discounted notes) of the Company in the current period.

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

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

As at 31 December 2009, the secured assets of the Group included: International Finance Corporation ("IFC"), Deutsche Bank AG ("DEG") and China Construction Bank Nanchang Changbei Branch entered into an loan agreement with Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. The collateral was the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. As at 31 December 2009, repayment in the amount of USD23,479,318.23 was paid for the above borrowing. As at 31 December 2009, the net value of the collateral with regard to fixed assets was RMB1,083,389,675.50 and that with regard to the land use rights (intangible assets) was RMB73,051,016.90.

Contingent liabilities of the Company

As at 31 December 2009, there were no contingent liabilities of the Group.

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

Risk of fluctuations in foreign exchange rate and any relevant hedging

As at 31 December 2009, the exchange gains of the Company was RMB2.037 million mainly due to:

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

During the year end 31 December 2009 under review, the Group had not used any financial instruments denominated in US dollars for hedging purposes. However, the Group will continue to monitor the exposure of proceeds from global offering to foreign exchange fluctuations.

Property, plant and equipment

The change in property, plant and equipment for the year ended 31 December 2009 is set out in the Note 15 to the financial statements prepared in accordance with International Financial Reporting Standards in 2009 Annual Report.

Contracts of significance

In the reporting period, the Company and its any subsidiaries did not enter into any contracts of significance with its controlling shareholder or its subsidiaries.

Reserve

According to the relevant requirements imposed by the State Ministry of Finance and Articles of Association, the distributable profit shall be based on the lower of the net profit attributable to the equity holders of the Company as calculated in accordance with Accounting Standards for Business Enterprises and that calculated in accordance with International Financial Repor ting Standards. The net profit attributable to equity holders of the Company in 2009 according to the Accounting Standards for Business Enterprises was RMB835,947,981.16, and net profit attributable to equity holders of the Company in 2009 according the International Financial Reporting Standards was RMB862,946,091.62; accordingly, the Company will distribute profit based on the after-tax profit realized according to the Accounting Standards for Business Enterprises for 2009.

The reserve of the year and the distributable reserves as at 31 December 2009 are set out in the Statement of Changes in Equity of and the Note 13 to the financial statements prepared in accordance with International Financial Reporting Standards in 2009 Annual Report.

§7 Material matters

7.1 Assets acquisition

√ Applicable □ Not applicable

During the reporting period, a the wholly-owned subsidiary of the Company, 壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.), acquired equity interests in 壽光虹宜包裝裝飾有限公司(Shouguang Hongyi Decorative Packaging Co., Ltd.), 壽光維遠物流有限公司 (Shouguang Wei Yuan Logistics Company Limited) and 壽光新源煤炭有限公司 (Shouguang Xinyuan Coal Co., Ltd.). As a result, the above three companies became wholly-owned subsidiaries of 壽光晨鳴現代物流有限公司 (Shouguang Chenming Modern Logistic Co., Ltd.). 山東晨鳴板材有限責任公司 (Shandong Chenming Panels Co., Ltd.) acquired 67% equity interests in 山東晨鳴板材有限責任公司(Shandong Lin Dun Wood Industry Co., Ltd.), which was included in the scope of the Company's consolidated financial statements. For the details of the above asset acquisitions, please refer to the financial statements prepared in accordance with Accounting Standards for Business Enterprises and Note IV and Note V.55.

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 provide 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 (A)		0				
Guarantees provided by the Company for subsidiaries						
Total guarantee provided for subsidiaries during the reporting period		111,553				
Total remaining guarantee provided for subsidiaries at the end of the reporting period (B)		147,406.44				
Total amount of guarantee provided by the Company (including guarantees provided for subsidiaries)						
Total amount of guarantee provided (A+B)		147,406.44				
Total amount of guarantee provided as a percentage of the net assets of the Company		11.35%				
Of which:						
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)		—				
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)		73,235.73				
Amount of guarantee exceeding 50% of net assets (E)		—				
Sum of the above three amounts of guarantee (C+D+E)		73,235.73				
Explanation on possible joint obligation on outstanding guarantees provided		—				

7.4 Material connected transactions

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 Repayment and non-operational use of capital by major shareholder and its subsidiaries

□ 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, the Company granted entrusted loans from banks of RMB1.826 billion to controlling subsidiaries of the Company, including Jiangxi Chenming Paper Co., Ltd., Wuhan Chenming Hanyang Paper Co., Ltd. and Heze Chenming Panels Co., Ltd., etc., for their use; as at 31 December 2009, the balance of entrusted loans the Company provided to its controlling subsidaries amounted to RMB2.083 billion. For the details of the entrusted loans, please refer to Note VI to the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

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

7.6 Performance of commitments

√ Applicable □ Not applicable

Shouguang Chenming Holdings Co., Ltd., the controlling shareholders of the Company, committed that shares held by Shouguang Chenming Holdings Co., Ltd. shall not be listed and traded within 48 months from the date of reform of Conversion. During the reporting period, Shouguang Chenming Holdings Co., Ltd. strictly performed its commitments.

The following undertakings by the Company, its directors, supervisors and senior management, shareholders interested in 5% or more of the shares of the Company and its beneficial controllers in the reporting period or subsisting to the reporting period

□ Applicable √ Not applicable

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

7.8.5 Future pooling foreign exchange portfolio products

√Applicable ☐ Not applicable

Risk analysis of positions in derivatives during the reporting period and explanation on risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)	The Company had three transactions in future pooling foreign exchange portfolio products amounting to USD200 million during the reporting period. The Company made forward exchange settlement contracts in China and Chenming (HK) Limited made forward exchange sale contracts in Hong Kong. The product transactions were handled by the Shouguang branch of China Construction Bank Corporation and the Hong Kong branch of China Construction Bank Corporation at the same time. The currency risk was jointly locked up by the Company and Chenming (HK) Limited. The risk in the products had been assessed by the related departments of the Company and the risk was under control.
Change in market price or fair value of derivatives invested during the reporting period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of the fair value of derivatives	Based on the exchange rate on 31 December 2009 as confirmed by China Construction Bank, the Company recognized the change in the fair value of the derivatives in the reporting period. The recognized gain on change in fair value amounted to RMB8,443,100 during the reporting period.
Explanation on any significant changes in the Company's accounting policies and specific accounting principles on derivatives between the reporting period and the last reporting period	The investment in derivatives was subsequently measured at fair value by the Company. The gain or loss on change in fair value was recognized through profit or loss for the current period.

Specific opinions of independent directors, the sponsor or financial advisor on the investment in derivatives and risk control of the Company	Opinion from the Audit Committee of the Board and the independent Directors of the Company: During the reporting period, the future pooling foreign exchange portfolio products of the Company were operated in accordance with the "Rules on the Administration of Financial Derivatives" (《關於金融衍生品管理辦法》) of Shenzhen Stock Exchange and in strict compliance with the "internal management policy for future pooling foreign exchange portfolio products" (《遠期結售匯內控管理制度》) established by the Company. The currency risk of the transactions was jointly locked up by the Company and Chenming (HK) Limited and the transaction risk was under control. The pricing of the transactions were objective and fair at arm's length, thus safeguarding the interest of the shareholders of the Company.

Positions in future pooling foreign exchange portfolio products at the end of the reporting period

√ Applicable ☐ Not applicable

Unit: RMB

Type of contract	Opening contract amount	Closing contract amount	Gain or loss in the reporting period	Closing contract amount as a percentage of the net assets of the Company as at the end of the reporting period (%)
Buy USD50.00 million	—	(328,900,000.00)	7,900,000.00	-2.53
Buy USD100.00 million	—	(669,900,000.00)	7,000,000.00	-5.16
Sell USD50.00 million	—	332,200,000.00	(5,050,000.00)	2.56
Sell USD100.00 million	—	676,400,000.00	(1,400,000.00)	5.21
Sell USD3.00 million	20,306,100.00	—	(6,900.00)	0
Total	20,306,100.00	9,800,000.00	8,443,100.00	0.08

7.8.5 Other comprehensive income items

Unit: RMB

Item	Amount for the current period	Amount for the pervious period
1. Gains (losses) from available-for-sale financial assets	— —	— —
Less: Income tax effect from available-for-sale financial assets	—	—
Transfer to profit or loss of other comprehensive income recognized previously in the current period, net	—	—
Sub-total	—	—
2. Share of the comprehensive income of the investees accounted for using the equity method	—	—
Less: Income tax effect from share of the comprehensive income of the investees accounted for using the equity method	—	—
Transfer to profit or loss of other comprehensive income recognized previously in the current period, net Sub-total	—	—
3. Gains or (losses) from cash flow hedging instruments	—	—
Less: Income tax effect from cash flow hedging instruments	—	—
Transfer to profit or loss of other comprehensive income recognized previously in the current period, net	—	—
Adjustment on initial recognition of itemsq transferred to hedged items	—	—
Sub-total	—	—
4. Translation difference of financial statements denominated in foreign currency	-20,264.42	575,603.46
Less: Transfer to profit or loss on disposal of foreign operations in the period, net	—	—
Sub-total	-20,264.42	576,603.46
5. Others	—	—
Less: Income tax effect from others recognized in other comprehensive income	—	—
Transfer to profit or loss of others recognized in other comprehensive income previously in the current period, net	—	—
Sub-to	—	—
Total	-20,264.42	576,603.46

§8 Supervisory committee's report

√ Applicable ☐ Not applicable

I. Performance of duties

During 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. During 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 ninth meeting of the fifth session of the Supervisory Committee was held on 8 April 2009. Resolutions, inter alia, the six resolutions regarding the work report of the Supervisory Committee of the Company for 2008, final financial budget of the Company for 2008, the full text and summary of the 2008 annual report of the Company, were considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (http://www.cninfo.com.cn) on 9 April 2009 and the website of the Hong Kong Stock Exchange (www.hkex.com) on 8 April 2009.

2. The tenth meeting of the fifth session of the Supervisory Committee was held on 28 April 2009. The full text and the summary of the first quarterly report 2009 of the Company were considered at the meeting.

3. The eleventh meeting of the fifth session of the Supervisory Committee was held on 27 August 2009. The full text and the summary of the 2009 interim report of the Company were considered and passed at the meeting.

4. The twelfth meeting of the fifth session of the Supervisory Committee was held on 29 October 2009. The full text and the summary of the third quarterly report 2009 of the Company were considered at the meeting.

III. Independent opinion of the Supervisory Committee

1. Operation According to the law

   (1) During 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 under the direction of "lawfulness, supervision, self-discipline and regulation" applied in a consistent manner. 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 general 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 more comprehensive internal control system was established to ensure healthy and continued 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 identified.

2. Financial position inspection

   The financial statements of the Company were audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. and Deloitte Touche Tohmatsu, who issued standard auditors' reports with 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. Use of proceeds

   The actual use of the proceeds from the latest fund raising activity was consistent with their intended use without any changes.

4. Material purchase or sales of assets

   The consideration for the material 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 of the Company 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

Audited or not?	Yes
Opinion	Standard unqualified opinion
Auditors' report no.	De Shi Bao (Shen) Zi (10) No. P0644
Auditors' report title	Auditors' report
Recipients	Shareholders of Shandong Chenming Paper Holdings Limited
Introduction	We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (collectively referred to as the "Group"), which comprise the company and consolidated balance sheets as at 31 December 2009, the company and consolidated income statements, the company and consolidated statements of changes in equity and the company and consolidated cash flow statements for 2009 and notes to the financial statements.
Management's responsibility for the financial statements	The 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.

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.
Opinion	In our opinion, the 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 Group as at 31 December 2009 and the results of their operations and their cash flows for 2009.
Non-standard opinion	—
Name of auditors	Deloitte Touche Tohmatsu CPA Ltd.,
Address of auditors	Shanghai, China
Date of auditors' report	12 April 2010
Name of Certified Public Accountant	Tong Chuanjiang and Zhang Koudi

Meanwhile, Deloitte Touche Tohmatsu audited and issued standard auditors' reports without qualified opinion on the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for 2009 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 2009

Unit: RMB

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
CURRENT ASSETS:				
Monetary assets	2,892,923,245.93	2,037,930,262.40	2,853,418,128.07	2,142,439,739.51
Settlement reserves	–	–	–	–
Lendings to banks	–	–	–	–
Marketable financial assets	14,900,000.00	–	–	–
Bills receivable	2,704,799,074.02	1,915,645,987.88	974,009,788.24	465,681,067.32
Accounts receivable	1,528,991,497.69	1,387,208,451.92	1,752,409,349.17	1,937,280,312.86
Advance to suppliers	1,000,772,875.85	826,816,984.44	462,526,338.87	438,759,362.48
Premiums receivable	–	–	–	–
Reinsurance accounts receivable	–	–	–	–
Reinsurance reserve receivable	–	–	–	–
Interest receivable	–	–	–	–
Dividend receivable	–	188,362,997.10	–	164,874,997.10
Other receivables	81,210,643.94	2,045,123,389.13	135,889,612.93	936,468,514.72
Financial assets purchased under repurchase agreements	–	–	–	–
Inventory	2,226,579,492.59	901,471,663.46	3,397,792,930.38	1,682,657,074.51
Entrusted loans due within one year	–	1,688,000,000.00	–	982,000,000.00
Non-current assets due within on year	–	–	–	–
Other current assets	90,756,205.60	35,927,902.98	151,993,045.95	52,747,204.98
TOTAL CURRENT ASSETS	10,540,933,035.62	11,026,487,639.31	9,728,039,193.61	8,802,908,273.48

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
NON-CURRENT ASSETS:				
Entrusted loans	–	395,000,000.00	–	965,000,000.00
Loans and advances provided	–	–	–	–
Available-for-sale financial assets	–	–	–	–
Held-to-maturity investments	–	–	–	–
Long-term receivables	–	–	–	–
Long-term equity investments	80,984,687.49	4,091,670,495.37	92,673,769.14	4,081,859,577.02
Investment properties	26,426,468.11	26,426,468.11	28,164,724.15	28,164,724.15
Fixed assets	13,529,590,915.63	5,741,048,494.95	14,213,441,758.08	6,258,618,550.53
Construction in progress	1,997,961,262.18	139,440,285.68	431,379,272.50	59,788,891.26
Construction materials	42,912,962.27	6,592,106.05	42,079,864.21	1,981,408.48
Disposal of fixed assets	–	–	–	–
Productive biological assets	–	–	–	–
Oil and gas assets	–	–	–	–
Intangible assets	1,313,428,867.12	349,130,281.02	1,277,076,588.53	364,509,396.99
Development costs	–	–	–	–
Goodwill	20,283,787.17	–	20,283,787.17	–
Long term amortisation charges	32,411,932.85	–	37,227,730.36	–
Deferred income tax assets	131,425,981.64	73,479,449.99	127,916,366.12	78,605,721.73
Other non-current assets	496,724,974.94	–	301,212,691.14	–
Total non-current assets	17,672,151,839.40	10,822,787,581.17	16,571,456,551.40	11,838,528,270.16
TOTAL ASSETS	28,213,084,875.02	21,849,275,220.48	26,299,495,745.01	20,641,436,543.64

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
CURRENT LIABILITIES:				
Short-term borrowings	3,103,153,828.18	2,637,914,967.54	1,516,945,042.67	1,144,068,305.68
Borrowings from the central bank	—	—	—	—
Deposits taken and balances with other banks	—	—	—	—
Borrowings from banks	—	—	—	—
Marketable financial liabilities	6,450,000.00	6,450,000.00	198,900.00	—
Notes payable	544,532,508.19	456,914,277.59	367,627,562.14	210,151,045.59
Accounts payable	2,122,860,892.58	1,349,629,055.79	2,642,308,185.90	1,716,031,795.17
Advances from customers	233,123,691.11	168,878,896.38	101,693,578.57	66,019,457.87
Financial assets sold under repurchase agreements	—	—	—	—
Fees and commissions payable	—	—	—	—
Employee benefits payable	245,501,281.04	133,530,934.62	190,209,067.13	98,888,359.60
Taxes payable	137,491,104.68	70,066,082.73	49,965,982.34	16,156,180.51
Interest payable	5,050,000.00	5,050,000.00	—	—
Dividend payable	78,807.70	78,807.71	36,089.31	36,089.31
Other payables	321,220,579.61	225,959,345.59	346,226,242.06	283,099,241.86
Reinsurance accounts payable	—	—	—	—
Insurance reserve	—	—	—	—
Trading securities on a commissioned basis	—	—	—	—
Underwriting securities on a commissioned basis	—	—	—	—
Non-current liabilities due within one year	345,353,527.87	252,423,000.00	1,038,125,240.62	883,602,600.00
Other current liabilities	—	—	1,941,874,444.43	1,941,874,444.43
TOTAL CURRENT LIABILITIES	7,064,816,220.96	5,306,895,367.95	8,195,210,335.17	6,359,927,520.02

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
NON-CURRENT LIABILITIES:				
Long-term borrowings	5,087,424,182.26	3,418,358,035.94	4,019,250,823.86	3,064,076,035.94
Deferred gains	121,890,615.92	11,222,282.74	56,828,375.23	5,537,541.95
Bonds payable	—	—	—	—
Long-term payables	—	—	—	—
Special payables	—	—	—	—
Anticipated liabilities	—	—	—	—
Deferred income tax liabilities	12,408,618.13	—	6,431,545.79	—
Other non-current liabilities	1,189,484,415.60	1,189,484,415.60	—	—
TOTAL NON-CURRENT LIABILITIES	6,411,207,831.91	4,619,064,734.28	4,082,510,744.88	3,069,613,577.89
TOTAL LIABILITIES	13,476,024,052.87	9,925,960,102.23	12,277,721,080.05	9,429,541,097.91
OWNERS' EQUITY (or SHAREHOLDERS' EQUITY):				
Paid-up captial (or Share capital)	2,062,045,941.00	2,062,045,941.00	2,062,045,941.00	2,062,045,941.00
Capital surplus	6,093,483,801.92	6,184,215,988.77	6,093,483,801.92	6,184,215,988.77
Less: treasury shares	—	—	—	—
Special reserve	—	—	—	—
Surplus reserve	906,929,047.49	894,739,465.58	825,476,850.53	813,287,268.62
General risk reserve	—	—	—	—
Undistributed profits	3,928,586,297.55	2,782,313,722.90	3,277,192,810.40	2,152,346,247.34
Difference on translation	859,233.72	—	879,498.14	—
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12,991,904,321.68	11,923,315,118.25	12,259,078,901.99	11,211,895,445.73
Minority interests	1,745,156,500.47	—	1,762,695,762.97	—
TOTAL OWNERS' EQUITY	14,737,060,822.15	11,923,315,118.25	14,021,774,664.96	11,211,895,445.73
TOTAL LIABILITIES AND OWNERS' EQUITY	28,213,084,875.02	21,849,275,220.48	26,299,495,745.01	20,641,436,543.64

9.2.2 Income statements

Prepared by: Shandong Chenming Paper Holdings Limited — January -December 2009

Unit: RMB

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
I. Total operating revenue	14,884,629,349.50	13,357,978,212.60	15,529,593,435.77	13,557,782,274.40
Including: Operating revenue	14,884,629,349.50	13,357,978,212.60	15,529,593,435.77	13,557,782,274.40
Interest income	–	–	–	–
Premiums earned	–	–	–	–
Fees and commission income	–	–	–	–
II. Total costs of operations	13,904,686,284.84	12,652,042,625.24	14,216,396,637.60	12,708,741,616.05
Including: Costs of operations	12,057,415,861.42	11,619,734,565.81	12,556,762,340.80	11,949,922,698.03
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	16,268,806.81	452,585.56	12,582,354.31	306,581.16
Selling and distribution expenses	774,685,975.04	458,289,660.08	705,595,565.95	340,787,921.65
General and administrative expenses	726,351,661.67	285,897,374.67	561,194,537.62	207,830,251.32
Finance expenses	312,687,004.02	266,064,829.79	287,136,504.05	197,961,693.30
Loss on impairment of assets	17,276,975.88	21,603,609.33	93,125,334.87	11,932,470.59

Items	Closing balance Combined	Closing balance Parent Company	Opening balance Combined	Opening balance Parent Company
Add: Gain on change in fair value ("-" denotes loss)	18,311,845.48	-6,450,000.00	2,656,651.60	—
Investment income ("-" denotes loss)	-15,689,081.65	192,819,672.62	-23,081,752.26	302,967,881.91
Including:Investment income from associates and joint ventures	-15,689,081.65	-15,689,081.65	-23,167,629.22	-23,167,629.22
Gain on translation ("-" denotes loss)	—	—	—	—
III. Operating profit ("-" denotes loss)	982,565,828.49	892,305,259.98	1,292,771,697.51	1,152,008,540.26
Add: Non-operating income	201,738,406.80	98,945,831.63	274,366,224.82	142,693,393.66
Less: Non-operating expenses	11,381,604.06	5,194,358.17	11,798,611.64	5,983,889.34
Including: Loss on disposal of non-current assets	10,496,542.97	4,933,009.36	5,007,364.04	1,388,338.83
IV. Total profit ("-" denotes total loss)	1,172,922,631.23	986,056,733.44	1,555,339,310.69	1,288,718,044.58
Less: Income tax expenses	219,011,201.01	171,534,763.87	295,797,856.42	271,378,745.12
V. Net profit ("-" denotes net loss)	953,911,430.22	814,521,969.57	1,259,541,454.27	1,017,339,299.46
Net profit attributable to equity holders of the Company	835,947,981.16	814,521,969.57	1,075,291,741.53	1,017,339,299.46
Profit and loss of minority interests	117,963,449.06	—	184,249,712.74	—
VI. Earnings per share:				
(I) Basic earnings per share	0.41	0.40	0.57	0.54
(II) Diluted earnings per share	N/A	N/A	N/A	N/A

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
VII. Other comprehensive income	-20,264.42	—	575,603.46	—
VIII. Total comprehensive income	953,891,165.80	814,521,969.57	1,260,117,057.73	1,017,339,299.46
Total comprehensive income attributable to equity holders of the Company	835,927,716.74	814,521,969.57	1,075,867,344.99	1,017,339,299.46
Total comprehensive income attributable to minority interests	117,963,449.06	—	184,249,712.74	—

9.2.3 Cash Flow Statements

Prepared by: Shandong Chenming Paper Holdings Limited January - December 2009

Unit: RMB

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	14,686,482,966.63	11,809,013,520.46	16,583,978,475.35	12,816,080,559.54
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	—	—	—	—

	Closing balance		Opening balance	
Items	Combined	Parent Company	Combined	Parent Company
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	19,523,996.24	—	33,851,926.78	—
Cash received relating to other operating activities	272,854,550.68	232,946,975.55	237,097,779.40	163,421,906.83
Subtotal of cash inflows from operating activities	14,978,861,513.55	12,041,960,496.01	16,854,928,181.53	12,979,502,466.37
Cash paid for goods and services	10,961,732,381.79	9,449,618,442.91	12,123,175,577.65	10,851,617,699.47
Net increase in customer loans and advances	—	—	—	—
Net increase in funds placed with the central bank and other banks	—	—	—	—
Cash paid for claims under original policies	—	—	—	—
Cash paid as interest, fees and commissions	—	—	—	—
Cash paid as policy dividends	—	—	—	—
Cash paid to and on behalf of employees	583,867,848.84	231,873,630.40	696,574,804.91	272,735,589.72
Payments of taxes and levies	909,030,328.05	524,174,298.79	1,312,935,590.68	782,472,375.13
Cash paid relating to other operating activities	885,196,694.88	1,667,936,417.73	788,101,405.25	511,205,605.42

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
Subtotal of cash outflows from operating activities	13,339,827,253.56	11,873,602,789.83	14,920,787,378.49	12,418,031,269.74
Net cash flows from operating activities	1,639,034,259.99	168,357,706.18	1,934,140,803.04	561,471,196.63
II. Cash flows from investing activities				
Cash received from investments	2,000,000.00	1,692,000,000.00		2,332,000,000.00
Cash received from investment income	—	145,020,754.27	85,876.96	187,328,257.66
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	40,417,685.21	27,464,258.74	603,818.56	1,193,105.59
Net cash received from disposal of subsidiaries and other operating entities	—	—	—	—
Cash received relating to other investing activities	68,939,100.00	6,123,100.00	57,823,238.62	5,643,238.62
Subtotal of cash inflows from investing activities	111,356,785.21	1,870,608,113.01	58,512,934.14	2,526,164,601.87
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,232,671,227.37	258,719,440.41	1,542,798,830.74	108,944,870.20
Cash paid on investments	6,000,000.00	1,853,500,000.00	19,564,645.55	3,618,100,000.00
Net increase in secured loans				
Net cash received from subsidiaries and other operating entities	7,131,824.47	—	—	—
Other cash paid in relation to investing activities	—	—	—	—
Subtotal of cash outflows from investing activities	2,245,803,051.84	2,112,219,440.41	1,562,363,476.29	3,727,044,870.20
Net cash flows from investing activities	-2,134,446,266.63	-241,611,327.40	-1,503,850,542.15	-1,200,880,268.33

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
III. Cash flows from financing activities				
Cash received from investment	—	—	2,711,191,895.71	2,711,191,895.71
Including: cash received from capital contribution from minority shareholders in subsidiaries	—	—	—	—
Cash received from borrowings	11,232,280,052.31	9,215,114,498.23	6,002,051,512.02	5,332,258,412.74
Cash received from issuance of short-term debentures	—	—	1,892,400,000.00	1,892,400,000.00
Cash received from issuance of medium-term notes	1,200,000,000.00	1,200,000,000.00	—	—
Cash received from issuance of bonds	—	—	—	—
Cash received relating to other financing activities	—	—	—	50,557,068.28
Subtotal of cash inflows from financing activities	12,432,280,052.31	10,415,114,498.23	10,605,643,407.73	9,986,407,376.73
Cash repayments of amounts borrowed	9,275,173,488.99	7,997,261,208.41	7,546,630,384.92	6,890,979,853.42
Cash payments for interest expenses, and dividend or profit distribution	648,925,641.59	476,168,469.39	858,902,641.36	596,770,954.15
Cash payments for repayment of short-term debentures	1,900,000,000.00	1,900,000,000.00	500,000,000.00	—
Including: dividend and profit distribution paid by subsidiaries to their minority shareholders	—	—	—	—
Cash payments relating to other financing activities	430,550,075.21	460,250,158.46	39,043,580.93	—
Subtotal of cash outflows from financing activities	12,254,649,205.79	10,833,679,836.26	8,944,576,607.21	7,487,750,807.57
Net cash flows from financing activities	177,630,846.52	-418,565,338.03	1,661,066,800.52	2,498,656,569.16

Items	Closing balance		Opening balance	
	Combined	Parent Company	Combined	Parent Company
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-2,463,797.23	-2,140,676.32	-17,604,358.18	-15,199,414.35
V. Net increase in cash and cash equivalents	-320,244,957.35	-493,959,635.57	2,073,752,703.23	1,844,048,083.11
Add: Balance of cash and cash equivalents at the beginning of the period	2,687,579,159.85	2,080,005,634.40	613,826,456.62	235,957,551.29
VI. Balance of cash and cash equivalents at the end of the period	2,367,334,202.50	1,586,045,998.83	2,687,579,159.85	2,080,005,634.40

9.2.4 Combined statement of Change in Owners' Equity

Prepared by: Shandong Chenming Paper Holdings Limited 2009 Unit: RMB

Current period

Items	Paid-up capital (or share capital)	Minority interests	Less: Treasury shares	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority Others	owners' interests	Total equity
	Equity attributable to equity holders of the Company									
I.Balance at prior year 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
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–	–
Corrections of prior-year errors	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of the current year	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
III. Changes in the current year ("-" denotes decrease)	–	–	–	–	81,452,196.96	–	651,393,487.15	(20,264.42)	(17,539,262.50)	715,286,157.19
(I) Net profit	–	–	–	–	–	–	835,947,981.16	–	117,963,449.06	953,911,430.22
(II) Other comprehensive income	–	–	–	–	–	–	–	(20,264.42)	–	(20,264.42)
Sub-total of (I) and (II)	–	–	–	–	–	–	835,947,981.16	(20,264.42)	117,963,449.06	953,891,165.80
(III) Owners' contributions and decrease in capital	–	–	–	–	–	–	–	–	–	–
1. Owners' contributions in capital	–	–	–	–	–	–	–	–	–	–
2. Share-based payments accounted for in owners' equity	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	–
(IV) Profit distribution	–	–	–	–	81,452,196.96		(184,554,494.01)	–	(141,001,534.16)	(244,103,831.21)
1. Transfer to surplus reserves	–	–	–	–	81,452,196.96		(81,452,196.96)	–	–	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–	–
3. Distribution to owners (or shareholders)	–	–	–	–	–	–	(103,102,297.05)		(141,001,534.16)	(244,103,831.21)
4. Others	–	–	–	–	–	–	–	–	–	–
(V) Transfer within owners' equity	–	–	–	–	–	–	–	–	5,498,822.60	5,498,822.60
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									5,498,822.60	5,498,822.60
(VI) Special reserve	–	–	–	–	–	–	–	–	–	–
1. Appropriated in the period	–	–	–	–	–	–	–	–	–	–
2. Used in the period	–	–	–	–	–	–	–	–	–	–
IV Balance at current period end	2,062,045,941.00	6,093,483,801.92	–	–	906,929,047.49	–	3,928,586,297.55	859,233.72	1,745,156,500.47	14,737,060,822.15

Last year

Items	Paid-up capital (or share capital)	Minority interests	Less: Treasury shares	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interest	Total owners' equity
	Equity attributable to equity holders of the Company									
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) Other comprehensive income	–	–	–	–	–	–	–	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	–	–	–	–	–	–	–	–
1. Owners' contributions in capital	355,700,000.00	–	–	–	–	–	–	–	–	355,700,000.00
2. Share-based payments accounted for in owners' equity	–	–	–	–	–	–	–	–	–	–
3. Others	–	2,355,491,895.71	–	–	–	–	–	–	–	2,355,491,895.71
(IV) Profit distribution	–	–	–	–	101,733,929.95	–	(374,749,280.51)	–	(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) Transfer within owners' equity	–	–	–	–	–	–	–	–	(114,594,939.10)	(114,594,939.10)
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									(114,594,939.10)	(114,594,939.10)
(VI) Special reserve	–	–	–	–	–	–	–	–	–	–
1. Appropriated in the period	–	–	–	–	–	–	–	–	–	–
2. Used in the period	–	–	–	–	–	–	–	–	–	–
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

9.2.5 Statement of Change in Owners' Equity of the Company

Prepared by: Shandong Chenming Paper Holdings Limited 2009 Unit: RMB

Items	Current Period								Last year							
	Paid-up capital (or share capital)	Minority interests	Less :Treasury shares	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total owners' equity	Paid-up capital (or share capital)	Minority interests	Less: Treasury shares	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total owners' equity
I.Balance at prior year end	2,062,045,941.00	6,184,215,988.77	–	–	813,287,268.62	–	2,152,346,247.34	11,211,895,445.73	1,706,345,941.00	3,827,378,359.74	–	–	711,553,338.67	–	1,509,756,228.39	7,755,033,867.80
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Corrections of prior-year errors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of the current year	2,062,045,941.00	6,184,215,988.77	–	–	813,287,268.62	–	2,152,346,247.34	11,211,895,445.73	1,706,345,941.00	3,827,378,359.74	–	–	711,553,338.67	–	1,509,756,228.39	7,755,033,867.80
III. Changes in the current year ("-" denotes decrease)	–	–	–	–	81,452,196.96	–	629,967,475.56	711,419,672.52	355,700,000.00	2,356,837,629.03	–	–	101,733,929.95	–	642,590,018.95	3,456,861,577.93
(I) Net profit	–	–	–	–	–	–	814,521,969.57	814,521,969.57	–	–	–	–	–	–	1,017,339,299.46	1,017,339,299.46
(II) Other comprehensive income	–	–	–	–	–	–	–	–	–	1,345,733.32	–	–	–	–	–	1,345,733.32
Sub-total of (I) and (II)	–	–	–	–	–	–	814,521,969.57	814,521,969.57	–	1,345,733.32	–	–	–	–	1,017,339,299.46	1,018,685,032.78
(III) Owners' contributions and decrease in capital	–	–	–	–	–	–	–	–	355,700,000.00	2,355,491,895.71	–	–	–	–	–	2,711,191,895.71
1. Owners' contributions in capital	–	–	–	–	–	–	–	–	355,700,000.00	–	–	–	–	–	–	355,700,000.00
2. Share-based payments accounted for in owners' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	2,355,491,895.71	–	–	–	–	–	2,355,491,895.71
(IV) Profit distribution	–	–	–	–	81,452,196.96	–	(184,554,494.01)	(103,102,297.05)	–	–	–	–	101,733,929.95	–	(374,749,280.51)	(273,015,350.56)
1. Transfer to surplus reserves	–	–	–	–	81,452,196.96	–	(81,452,196.96)	–	–	–	–	–	101,733,929.95	–	(101,733,929.95)	–
2. Transfer to general risk reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Distribution to owners (or shareholders)	–	–	–	–	–	–	(103,102,297.05)	(103,102,297.05)	–	–	–	–	–	–	(273,015,350.56)	(273,015,350.56)
4. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(V) Transfer within owners' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Transfer from capital reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Transfer from surplus reserve to equity (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Transfer from surplus reserve to make up for loss	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(VI) Special reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Appropriated in the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Used in the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at current period end	2,062,045,941.00	6,184,215,988.77	–	–	894,739,465.58	–	2,782,313,722.90	11,923,315,118.25	2,062,045,941.00	6,184,215,988.77	–	–	813,287,268.62	–	2,152,346,247.34	11,211,895,445.73

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) 壽光美倫紙業有限責任公司(Shouguang Meilun Paper Co., Ltd.)

壽光美倫紙業有限責任公司(Shouguang Meilun Paper Co., Ltd.) was established by the Company on 30 June 2009 by way of capital contribution, its registered capital is RMB20 million and is 100% held by the Company.

(2) 壽光順達報關有限責任公司(Shouguang Shun Da Customs Declaration Co., Ltd.)

壽光順達報關有限責任公司(Shouguang Shun Da Customs Declaration Co., Ltd.) was established by the Company on 17 November 2009 by way of capital contribution, its registered capital is RMB1.5 million and is 100% held by the Company.

(3) 武漢晨鳴萬興置業有限公司(Wuhan Chenming Wan Xing Real Estate Co., Ltd.)

武漢晨鳴漢陽紙業股份有限公司(Wuhan Chenming Wan Xing Real Estate Co., Ltd.) was established by Wuhan Chenming Hanyang Paper Co., Ltd., a controlling subsidiary of the Company, on 17 November 2009 by way of capital contribution, its registered capital is RMB20 million and 100% of its equity interest is held by Wuhan Chenming Hanyang Paper Co., Ltd.

(4) 壽光虹宜包裝裝飾有限公司(Shouguang Hongyi Decorative Packaging Co., Ltd.)

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company , entered into an equity transfer agreement with the shareholder of 壽光虹宜包裝裝飾有限公司(Shouguang Hongyi Decorative Packaging Co., Ltd.) on 31 May 2009 to acquire 100% equity interest in 壽光虹宜包裝裝飾有限公司(Shouguang Hongyi Decorative Packaging Co., Ltd.) held by such shareholder for a consideration of RMB1.70 million.

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

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company , entered into an equity transfer agreement with the shareholder of 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited) on 31 May 2009 to acquire 100% equity interest in 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited) held by such shareholder for a consideration of RMB4.00 million.

(6) 壽光新源煤炭有限公司(Shouguang Xinyuan Coal Co., Ltd.)

壽光晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), a controlling subsidiary of the Company , entered into an equity transfer agreement with the shareholder of 壽光新源煤炭有限公司(Shouguang Xinyuan Coal Co., Ltd.) on 31 May 2009 to acquire 50% equity interest in 壽光新源煤炭有限公司(Shouguang Xinyuan Coal Co., Ltd.) held by such shareholder for a consideration of RMB1.20 million. Since 壽光維遠物流有限公司(Shouguang Wei Yuan Logistics Company Limited), a wholly-owned subsidiary of 晨鳴現代物流有限公司(Shouguang Chenming Modern Logistic Co., Ltd.), holds 50% equity interest in 壽光新源煤炭有限公司(Shouguang Xinyuan Coal Co., Ltd.), therefore, upon completion of the acquisition, Shandong Chenming Paper Holdings Limited holds 100% interests in 壽光新源煤炭有限公司(Shouguang Xinyuan Coal Co., Ltd.).

(7) 山東林盾木業股份有限公司(Shandong Lin Dun Wood Industry Co., Ltd.)

山東晨鳴板材有限責任公司(Shandong Chenming Panels Co., Ltd.), a controlling subsidiary of the Company, entered into an equity transfer agreement with the shareholder of 山東林盾木業股份有限公司 (Shandong Lin Dun Wood Industry Co., Ltd.) on 10 July 2009 to acquire 67% equity interest in 山東林盾木業股份有限公司(Shandong Lin Dun Wood Industry Co., Ltd.) held by such shareholder for a consideration of RMB3.70 million.

9.6 Financial statements prepared in accordance with International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	**2009**	**2008**
		RMB'000	*RMB'000*
Revenue	1	14,815,253	15,430,910
Cost of sales		(11,998,392)	(12,472,911)
Gross profit		2,816,861	2,957,999
Other income	2	306,642	500,511
Share of results of associates		(15,689)	(23,168)
Distribution expenses		(774,686)	(705,596)
Administrative expenses		(637,615)	(542,680)
Other expenses	3	(139,591)	—
Gain on change in fair value of derivative financial instruments		8,443	1,738
Gain on change in fair value less estimated point-of-sale cost of biological assets		9,869	918
Impairment loss on property, plant and equipment	8	(4,506)	(8,563)
Reversal of allowance for (allowance for)inventories		22,677	(127,749)
Finance costs	4	(384,023)	(462,613)
Profit before tax	5	1,208,382	1,590,797
Income tax expense	6	(219,011)	(295,798)
Profit for the year		989,371	1,294,999
Other comprehensive income, representing exchange differences arising on translation of foreign operations		(21)	576
Total comprehensive income for the year		989,350	1,295,575
Profit for the year attributable to:			
Owners of the Company		862,946	1,102,288
Minority interests		126,425	192,711
		989,371	1,294,999
Total comprehensive income for the year attributable to:			
Owners of the Company		862,925	1,102,864
Minority interests		126,425	192,711
		989,350	1,295,575
Earnings per share	7		
– Basic		RMB0.42	RMB0.58

Consolidated Statement of Financial Position
At 31 December 2009

	NOTES	**2009**	**2008**
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment	8	15,514,870	14,641,475
Prepaid lease payments			
- non-current portion	9	1,275,915	1,225,356
Investment properties		26,427	28,165
Interests in associates		57,133	66,822
Available-for-sale investments		23,851	25,851
Goodwill		20,284	20,284
Biological assets		496,725	301,213
Deferred tax assets		131,426	127,916
		17,546,631	16,437,082
Current assets			
Inventories		2,226,579	3,397,793
Trade and other receivables	10	5,380,105	3,449,740
Prepaid lease payments			
- current portion	9	38,571	42,209
Derivative financial instruments	11	14,900	—
Income tax recoverable		26,425	27,088
Restricted bank deposits		525,589	165,839
Bank balances and cash		2,367,334	2,687,579
		10,579,503	9,770,248
Current liabilities			
Trade and other payables	12	3,570,370	3,670,671
Borrowings - amount due			
within one year	13	3,448,507	2,555,070
Debentures	14	—	1,941,874
Provision		—	17,987
Income tax payable		39,410	9,374
Dividend payable		79	36
Deferred income - current portion		24,349	21,598
Derivative financial instruments	11	6,450	199
		7,089,165	8,216,809

	NOTES	2009	2008
		RMB'000	RMB'000
Net current assets		3,490,338	1,553,439
Total assets less current liabilities		21,036,969	17,990,521
Non-current liabilities			
Borrowings - amount due after one year	13	5,087,424	4,019,251
Deferred income - non-current portion		339,938	307,869
Deferred tax liabilities		12,409	6,432
Debenture	14	1,189,484	—
		6,629,255	4,333,552
Net assets		14,407,714	13,656,969
Capital and reserves			
Share capital	15	2,062,046	2,062,046
Reserves		10,609,969	9,850,146
Equity attributable to owners of the Company		12,672,015	11,912,192
Minority interests		1,735,699	1,744,777
Total equity		14,407,714	13,656,969

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2009

	Attributable to equity holders of the Company								
	Share capital *RMB'000*	Capital reserve *RMB'000* *(note a)*	Statutory surplus reserve *RMB'000* *(note b)*	Discretionary surplus reserve *RMB'000*	Translation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January 2008	1,706,346	3,392,242	723,626	117	304	2,548,516	8,371,151	1,809,145	10,180,296
Other comprehensive income, representing exchange differences arising on translation of foreign operation	—	—	—	—	576	—	576	—	576
Profit for the year	—	—	—	—	—	1,102,288	1,102,288	192,711	1,294,999
Total comprehensive income 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 interests	—	—	—	—	—	—	—	(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

	Attributable to equity holders of the Company								
	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note a)	*(note b)*						
Other comprehensive income, representing exchange differences arising on translation of foreign operation	—	—	—	—	(21)	—	(21)	—	(21)
Profit for the year	—	—	—	—	—	862,946	862,946	126,425	989,371
Total comprehensive income for the year	—	—	—	—	(21)	862,946	862,925	126,425	989,350
Dividends recognised as distribution	—	—	—	—	—	(103,102)	(103,102)	—	(103,102)
Transfer of reserves	—	—	81,452	—	—	(81,452)	—	—	—
Transfer of reserve upon recognition of deferred income (note c)	—	18,061	—	—	—	(18,061)	—	—	—
Distributions made by subsidiaries to minority interests	—	—	—	—	—	—	—	(141,002)	(141,002)
Acquisition of subsidiaries (note 36)	—	—	—	—	—	—	—	5,499	5,499
At 31 December 2009	2,062,046	5,783,856	906,812	117	859	3,918,325	12,672,015	1,735,699	14,407,714

Notes:

a. Capital reserve mainly includes 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, transfers from accumulated profits for those government grants recognised in the statement of comprehensive income 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 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.

   Both surplus reserves can be used to make up prior year losses, if any, and can be applied for 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 statement of financial position and credited to the consolidated statement of comprehensive income 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 Statements of Cash Flows
For the Year ended 31 December 2009

	NOTES	2009	2008
		RMB'000	*RMB'000*
Operating activities			
Profit before tax		1,208,382	1,590,797
Adjustments for:			
Share of results of associates		15,689	23,168
Interest income		(85,355)	(37,758)
Finance costs		384,023	462,613
Depreciation of property, plant and equipment		1,212,428	1,118,083
Depreciation of investment properties		1,738	1,738
Release of lease payment charge		29,657	20,379
Release of government grants		(34,119)	(32,068)
(Gain) loss on disposal of property, plant and equipment		(1,848)	1,219
Impairment loss on property, plant and equipment		4,506	8,563
Allowances for (Reversal of allowance for) bad and doubtful debts		35,448	(43,735)
(Reversal of) allowances for inventories		(22,677)	127,749
Impairment of available-for-sale investments		—	549
Dividend income from available-for-sale investment		—	(86)
Gain on change in fair value of derivative financial instruments		(8,443)	(1,738)
Gain on change in fair value less estimated point-of-sale cost of biological assets		(9,869)	(918)
Net exchange loss (gain)		791	(172,969)
Discount on acquisition of additional interests in subsidiaries		—	(28,209)
Discount on acquisition of interests in subsidiaries		(10,490)	(61)
Operating cash flows before movements in working capital		2,719,861	3,037,316
Decrease (increase) in inventories		1,120,253	(1,971,611)
Increase in biological assets		(168,077)	(205,256)
Increase (decrease) in trade and other receivables		(1,941,563)	631,972
(Decrease) increase in trade and other payables		10,434	837,080
Cash generated from operations		1,740,908	2,329,501
Income tax paid		(187,231)	(433,118)
Interest received		85,355	37,758
Net cash from operating activities		1,639,032	1,934,141

	NOTES	2009	2008
		RMB'000	RMB'000
Investing activities			
Purchase of property, plant and equipment		(1,993,032)	(1,064,904)
Increase in prepaid lease payments		(239,637)	(477,895)
Acquisition of additional interests in subsidiaries from minority shareholders of subsidiaries		—	(10)
Investment in associates		(6,000)	(20,100)
Proceeds on disposal of available-for-sale investments		2,000	—
Increase in restricted bank deposits		(359,750)	(39,044)
Proceeds on disposal of property, plant and equipment		34,083	604
Proceeds on disposal of prepaid lease payment		6,335	—
Government grants received		68,939	57,823
Dividend income received from available-for-sale investments		—	86
Net cash (outflow) inflow arising from acquisition of subsidiaries		(7,132)	546
Net cash used in investing activities		(2,494,194)	(1,542,894)
Financing activities			
Net proceeds on issuance of new shares		—	2,711,192
New borrowings raised		11,232,280	6,002,052
Borrowings repaid		(9,335,174)	(7,546,631)
Proceeds from issuance of debentures		1,200,000	1,900,000
Expense incurred in connection with the issuance of debentures		(10,800)	(7,600)
Repayment of debentures		(1,900,000)	(500,000)
Interest paid		(440,086)	(443,404)
Dividends paid		(103,059)	(273,015)
Dividends paid to minority interests of subsidiaries		(105,780)	(142,484)
Net cash from financing activities		537,381	1,700,110
Net (decrease) increase in cash and cash equivalents		(317,781)	2,091,357
Cash and cash equivalents at 1 January		2,687,579	613,826
Effect of exchange rate changes on cash and cash equivalents		(2,464)	(17,604)
Cash and cash equivalents at 31 December, represented by		2,367,334	2,687,579
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		2,367,334	2,687,579

Notes:

1. REVENUE

	2009	2008
	RMB'000	*RMB'000*
Sale of paper products	14,155,084	14,561,339
Sale of construction materials	337,518	512,594
Sale of electricity and steam	237,925	235,552
Sale of chemical products	31,390	88,640
Others	53,336	32,785
	14,815,253	15,430,910

2. OTHER INCOME

	2009	2008
	RMB'000	*RMB'000*
Government grants:		
Expansion grants (note a)	140,290	178,084
Value-added tax refund (note b)	19,524	33,852
	159,814	211,936
Interest income	85,355	37,758
Net exchange gain	2,037	157,412
Net gain from sales of scrap	13,995	21,798
Insurance compensation	4,734	12,889
Discount on acquisition of additional interests in subsidiaries (note c)	—	28,209
Discount on acquisition of subsidiaries (note 36)	10,490	61
Payable write off	11,627	7,188
Penalty income	17	8,733
Others	18,573	14,527
	306,642	500,511

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 among 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.

3. OTHER EXPENSES

As a result of the financial crisis in the second half of 2008, the Group's pulp production and construction business have been adversely affected and the Group has temporarily suspended certain production units during that year to reduce losses. The loss on suspension of production mainly includes depreciation of production facilities of RMB90,218,000 and staff cost of RMB20,710,000. The Group has resumed pulp production lines in 2009. Subsequent to end of the year of 2009, the Group has resumed the construction business production units, except Qihe Chenming Panels Co. Ltd and Heze Chenming Panels Co. Ltd.

4. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on:		
Bank loans		
– wholly repayable within five years	301,683	307,780
– not wholly repayable within five years	9,286	74,334
Debentures	61,976	55,812
Other borrowings		
– wholly repayable within five years	30,601	33,806
– not wholly repayable within five years	—	14,933
	403,546	486,665
Less: Amount capitalised under construction in progress	(8,583)	(24,052)
Amount capitalised under biological assets	(10,940)	—
	384,023	462,613

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and specific borrowings. A capitalization rate of 6.00% (2008: 6.72%) for general borrowing pool is used in calculating the capitalized borrowing costs.

5. PROFIT BEFORE TAX

	2009 *RMB'000*	2008 *RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Wages and salaries	445,933	474,186
Staff welfare	120,702	119,450
Retirement benefit scheme contribution	72,376	58,229
Discretionary performance bonus	149	39
Total staff costs (including directors' emoluments)	639,160	651,904
Gross rental income from investment properties	(2,484)	(2,484)
Less: Direct operating expenses from investment properties that generated rental income during the year	446	446
Net rental income from investment properties	(2,038)	(2,038)
Allowance (reversal of allowance) for bad and doubtful debts	35,448	(43,735)
(Reversal of) allowance for inventories (note)	(22,677)	127,749
Auditors' remuneration	4,896	5,608
Cost of inventories recognised as an expenses	11,981,093	12,460,877
Release of lease payment charge	29,657	20,379
Depreciation of property, plant and equipment	1,212,428	1,118,083
Depreciation of investment properties	1,738	1,738
Impairment loss on property, plant and equipmentl	4,506	8,563
Impairment of available-for-sale investment	—	549
(Gain) loss on disposal/write off of property, plant and equipment	(1,848)	1,219
Minimum operating lease payment in respect of property, plant and equipment	19,653	14,446
Repairs and maintenance expenditure on property, plant and equipment	285,611	256,701
Research and development costs	73,062	11,830
Dividend income from available-for-sale investments	—	(86)

Note: The selling price of paper products has increased during the year, so the company reversed the write-down of inventories.

6. INCOME TAX EXPENSE

	2009	2008
	RMB'000	*RMB'000*
Income tax charge comprises:		
Current income tax		
– charge for the year	224,133	319,362
– (over) underprovision in prior years	(6,203)	213
	217,930	319,575
Deferred tax charge (credit) (note 30)	1,081	(23,777)
Charge for the year	219,011	295,798

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.

Pursuant to the notification document from the relevant government authorities in Shandong Province issued on 6 July 2009, the Company has been recognised as one of the advanced techology enterprises in Shandong Province in 2009 for a period of three years. According to the applicable laws and regulations in the PRC, the Company will be entitled to pay the enterprise income tax at a reduced tax rate of 15% for three years from 2009.

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, was 15% prior to 1 January 2008. 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 2009 is 20% (2008: 18%).

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, and 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. 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.The subsidiary entitles 50% reduction in income tax rate in 2009 and the applicable income tax rate is 10% (2008: 9%).

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 2008 and 2009 are the second and third profit-making year of Jiangxi Chenming under the PRC income tax rule and accordingly, 50% of the income tax has been exempted for 2009, and the applicable income tax rate is 12.5% (2008: 100% exemption).

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% for both years.

	2009	**2008**
	RMB'000	*RMB'000*
Profit before tax	1,208,382	1,590,797
Tax at the applicable income tax rate of 15% (2008: 25%)	181,257	397,699
Effect of tax incentives	(14,871)	(38,357)
Tax effect of income not taxable	(7,637)	(9,298)
Tax effect of expenses not deductible	21,482	18,428
Tax effect of tax losses not recognised	16,964	13,066
Effect of tax exemptions granted to certain subsidiaries	(10,215)	(65,397)
Effect of different tax rates of certain subsidiaries	36,691	(8,887)
Tax effect of utilisation of tax losses previously not recognised	(8,528)	(11,669)
(Over) underprovision in prior years	(6,203)	213
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	9,395	—
Tax effect of deductible temporary differences not recognised	676	—
Income tax expense for the year	219,011	295,798

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2009	**2008**
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	862,946	1,102,288

Number of shares

	2009	**2008**
	'000	*'000*
Weighted average number of shares for the purposes of basic earnings per share	2,062,046	1,897,802

The basic earnings per share is computed by dividing the profit for the year attributable to the owner of the Company by the number/weighted average number of shares in issue during the year.

No diluted earnings per share is presented as there was no potential ordinary shares outstanding during the current or prior year.

8. 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 2008	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 (note a)	—	(13,916)	—	—	—	(13,916)
Acquisition of a business (note 36)	—	—	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
Value-added tax refund on domestically manufactured plant and machinery (note a)	—	(17,544)	—	—	—	(17,544)
Acquisition of a business (note 36)	10,401	11,281	199	5,594	611	28,086
Additions	12,511	63,350	8,882	20,814	2,006,465	2,112,022
Transfers from construction in progress/ to property, plant and equipment	96,225	410,183	10,407	462	(517,277)	—
Transfers (note b)	—	(96,963)	(60)	—	77,616	(19,407)
Disposals/write offs	(20,084)	(24,229)	(7,804)	(9,450)	—	(61,567)
At 31 December 2009	3,439,372	16,002,966	536,914	153,705	1,805,771	21,938,728
DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	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 (note c)	—	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
Provided for the year	112,181	1,028,766	55,960	15,521	—	1,212,428
Transfers (note b)	—	(19,398)	(9)	—	—	(19,407)
Eliminated on disposal /write off	(8,870)	(11,373)	(4,073)	(5,016)	—	(29,332)
Impairment for the year (note c)	—	4,506	—	—	—	4,506

	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*
At 31 December 2009	657,431	5,424,275	276,299	65,853	—	6,423,858
CARRYING AMOUNTS						
At 31 December 2008	2,786,199	11,235,114	300,869	80,937	238,356	14,641,475
At 31 December 2009	2,781,941	10,578,691	260,615	87,852	1,805,771	15,514,870

Notes:

a. According to the No. [2006] 111 Regulation in 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 RMB17,544,000 (2008: RMB13,916,000) value-added tax ("VAT") refund for purchasing machinery manufactured in the PRC during the year ended 31 December 2009.

b. During the year ended 31 December 2009, certain paper production lines are transferred to construction in progress for alternation of production purpose, the depreciation of the relevant production lines is suspended since the date of transfer.

c. During the year ended 31 December 2009, the directors identified that certain production lines of the Group will not be used in coming future as its product quality is not up to standard, an impairment of approximately RMB4,506,000 (2008: RMB 8,563,000) was recognised for this product line based on recoverable amount determined using fair value less cost to sell.

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

At the end of the reporting period, the Group has pledged plant and machinery and buildings having a carrying amount of approximately RMB1,083,390,000 (2008: RMB1,144,235,000) to secure the loan facilities granted to the Group by certain banks and IFC.

The Group has certain buildings with carrying amounts of approximately RMB321,504,000 (2008: RMB290,972,000), 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.

9. PREPAID LEASE PAYMENTS

	2009	**2008**
	RMB'000	*RMB'000*
Prepaid lease payments related to land use rights	1,314,486	1,267,565
Analysed for reporting purposes as:		
Non-current portion	1,275,915	1,225,356
Current portion	38,571	42,209
	1,314,486	1,267,565

At the end of the reporting period, the Group has pledged land use rights having carrying value of approximately RMB73,051,000 (2008: RMB74,654,000) to secure the loan facilities granted to the Group.

The Group have certain land use rights with carrying amount of approximately RMB152,021,000 (2008: RMB147,503,000), 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 relevant 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.

During the year ended 31 December 2009, prepaid lease payment with carrying amount of RMB6,626,000 (2008: RMB2,879,000) has been capitalized into biological assets.

10. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	1,718,798	1,919,637
Less: Impairment	(189,807)	(167,228)
	1,528,991	1,752,409
Other receivables	209,070	312,341
Less: Impairment	(63,527)	(51,546)
	145,543	260,795
Bills receivable	2,704,799	974,010
Advance to prepayments	730,494	348,401
Deposits and prepayments	270,278	114,125
Trade trade and other receivables	5,380,105	3,449,740

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 based on invoice date, net of impairment at the reporting date:

	2009	2008
	RMB'000	*RMB'000*
0 - 90 days	1,172,891	1,365,834
91 - 180 days	224,042	240,387
181 - 365 days	37,598	104,987
1 - 2 years	87,634	27,306
2 - 3 years	6,826	13,895
	1,528,991	1,752,409

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

	2009	2008
	RMB'000	*RMB'000*
0 - 90 days	1,658,656	802,843
91 - 180 days	1,046,143	171,167
	2,704,799	974,010

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:

	2009	2008
	RMB'000	*RMB'000*
0 - 90 days	202,525	224,355
91 - 180 days	3,846	11,627
181 - 365 days	37,598	104,987
1 - 2 years	87,634	27,306
2 - 3 years	6,826	13,895
Total	338,429	382,170

During the reporting period, the Group has provided full impairment on certain debtors with amounts of RMB14,130,000 (2008: RMB1,907,000), which are individually determined to be impaired. As the debtors have delayed payment on several occasions, the Group has provided full impairment of the amounts.

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 the end of the reporting period is of good quality.

Other receivables

Other receivables are non-trade nature balances due from the independent third parties and they are unsecured, interest-free and repayable on demand. In the opinion of the directors of the company, the amounts are recoverable in the next twelve months from the reporting date.

Movement in the impairment on trade receivables

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of the year	167,228	219,306
Impairment losses recognised on receivablesl	55,115	15,072
Amounts recovered during the year	(31,819)	(56,577)
Write off	(717)	(10,573)
Balance at end of the year	189,807	167,228

Movement in the impairment on other receivables

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of the year	51,546	59,406
Impairment losses recognised on receivables	26,639	10,259
Amounts recovered during the year	(14,487)	(12,489)
Write off	(171)	(5,630)
Balance at end of the year	63,527	51,546

Bills receivable

At 31 December 2009, the Group has discounted bills with recourse with an aggregate amount of RMB2,091,068,000 (2008: RMB401,110,000). The Group retains all the risks and rewards of discounted bills receivable and accordingly, the Group continues to recognise the full carrying amount of such bills receivable and has recognised the cash received on such discount as secured borrowings in note 27.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments - foreign currency forward contracts

	2009	**2008**
	RMB'000	*RMB'000*
Assets	14,900	—
Liabilities	(6,450)	(199)

At 31 December 2008 and 2009, the Group has entered into certain forward exchange contracts with financial institutions and the total notional amounts and details of these contracts committed by the Group are as follows:

Notional amount	**Maturity date**	**Exchange rates**	**RMB'000**
		RMB/USD	
2009			
Buy US$50,000,000	20 October 2010	6.5780	328,900
Buy US$100,000,000	26 May 2010	6.6990	669,900
Sell US$50,000,000	20 October 2010	6.6440	(332,200)
Sell US$100,000,000	26 May 2010	6.7640	(676,400)
2008			
Sell USD3,000,000	22 January 2009	6.7687	20,306

The total fair value of the Group's currency derivatives financial assets and liabilities as at 31 December 2009 are estimated to be approximately RMB 14,900,000 (2008: nil) and RMB 6,450,000 (2008: RMB199,000), which are based on fair value provided by counter parties which are financial institutions. The currency derivatives are not designated as cash flow hedges and the change in fair values amounting to RMB8,443,000(2008: RMB1,738,000) has been credited to the consolidated statement of comprehensive income for the year.

The above forward contracts are required to be settled net in cash on maturity date and were measured at fair value at each reporting date.

12. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables aged:		
0 - 90 days	1,206,281	2,001,600
91 - 180 days	574,416	275,863
181 - 365 days	104,682	216,240
1 - 2 years	155,634	98,420
2 - 3 years	52,666	17,648
Over 3 years	29,182	32,537
Trade payables	2,122,861	2,642,308
Bills payable aged:		
0 - 90 days	428,218	252,629
91 - 180 days	116,314	114,999
Bills payable	544,532	367,628
Other payables	618,649	506,114
Advances received from customers	233,124	101,694
Accrued charges	51,204	52,927
	3,570,370	3,670,671

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

13. BORROWINGS

	2009 *RMB'000*	2008 *RMB'000*
Bank loans		
Secured	3,742,349	1,356,920
Unsecured	4,516,320	4,703,656
	8,258,669	6,060,576
Other loans		
Secured, from IFC	178,442	214,153
Unsecured	98,820	299,592
	277,262	513,745
	8,535,931	6,574,321
Bank and other loans are repayable:		
Within one year	3,448,507	2,555,070
In the second year	1,969,032	365,446
In the third to fifth year inclusive	2,435,124	3,502,164
More than five years	683,268	151,641
	8,535,931	6,574,321
Less: Amount due within one year shown under current liabilities	(3,448,507)	(2,555,070)
Amount due after one year	5,087,424	4,019,251

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

	Maturity date	Effective interest rate per annum 2009	2008	Carrying amount 2009	2008
		%	%	RMB'000	RMB'000
Fixed-rate borrowings	2010 to 2013	4.35	4.68	2,899,151	1,662,476
Floating-rate borrowings (note)	2010 to 2023	3.57	4.97	5,636,780	4,911,845
Total borrowings				8,535,931	6,574,321

Note: The interest rate of floating-rate borrowings are linked to the interest rate announced by the People's Bank of China or London Inter Bank Offer Rate and the average interest rates ranges from 1.08% to 5.47% (2008: 2.32% to 7.05%).

14. DEBENTURES

Pursuant to a circular [2007] No. 427 issued by the People's Bank of China in 2007, the Company issued two debentures to the independent 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 were unsecured, interest bearing at 5.2% per annum and repayable one year after the issue date. The debentures were fully repaid in 2009.

Pursuant to a "Notice of acceptance of registration" [2009] No. MTN102 issued by the National Association of Financial Market Institutional Investors, the Company issued a debenture to the independent third party debenture holders with face value of RMB1,200,000,000 on 2 December 2009. The debenture is unsecured, repayable three years after the issue date and interest bearing at 5.05% per annum.

15. SHARE CAPITAL

Type of shares

	Number of shares '000	Restricted A Shares '000	A Shares '000	B Shares '000	H Shares '000	Total RMB'000
At 1 January 2008	1,706,346	339,501	809,348	557,497	—	1,706,346
Issue of H Shares (note a)	355,700	—	—	—	355,700	355,700
Transfer of A Shares to H shares (note b)	—	(35,570)	—	—	35,570	—
Transfer of A shares held by directors supervisors and senior management to restricted A Shares (note c)	—	177	(177)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note d)	—	(120)	120	—	—	—
At 31 December 2008	2,062,046	303,988	809,291	557,497	391,270	2,062,046
Transfer of A shares held by directors,supervisors and senior management to restricted A Shares (note c)	—	139	(139)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note d)	—	(827)	827	—	—	—
At 31 December 2009	2,062,046	303,300	809,979	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 and 2009, the directors acquired 176,774 and 139,275 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 year, 120,000 and 827,596 Restricted A Shares were reclassified from Restricted A Shares to A Shares during 2008 and 2009 respectively.

(e) Except for the difference in reporting obligations as set out in the Articles of Association of the Company, A, B and H Shares rank pari passu with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared or paid.

16. DIVIDENDS

	2009	**2008**
	RMB'000	*RMB'000*
Dividend declared and paid during the year for:		
- 2008 (RMB0.05 per share)	103,102	—
- 2007 (RMB0.16 per share)	—	273,015
	103,102	273,015

The final dividend in respect of the year ended 31 December 2009 of RMB0.30 (2008: RMB0.05) per share (equivalent to approximately RMB618,614,000 (2008: RMB103,102,000)) on 2,062,046,000 shares (2008: 2,062,046,000 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. Purchase, sale and redemption of shares

During the reporting period, the Company and any of 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 2009, the Company had maintained sufficient 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 the annual results, including the review of the financial statements of the Company for the year ended 31 December 2009 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 30 April 2010 to 31 May 2010 (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 29 April 2010 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 29 April 2010 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

12 April 2010

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng, Mr. Geng Guanglin, Mr. Tan Daocheng, Mr. Hou Huancai and Mr. Zhou Shaohua, the non-executive Directors are Mr. Cui Youping, Mr. Wang Fengrong and Mr. Wang Xiaoqun and the independent non-executive Directors are Mr. Wang Aiguo, Mr. Zhang Zhiyuan, Mr. Wang Xiangfei, Ms. Wang Yumei and Ms. Zhang Hong.