



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

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Important:

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

Chen Hongguo, the chairman of the Company, Wang Chunfang, the financial controller of the Company, and Li Dong, the head of the financial department, declare that they guarantee the truthfulness and completeness of the financial statements for the six months ended 30 June 2010.

This interim report was considered and approved by the third meeting of the sixth session of the Board of the Company with all directors present.

The interim financial statements for the six months ended 30 June 2010 of the Company and its subsidiaries (collectively referred to as the “Group”) prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards have not been audited.

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I. Company Information

1. Legal Chinese name of the Company: 山東晨鳴紙業集團股份有限公司
Legal English name of the Company: SHANDONG CHENMING PAPER HOLDINGS LIMITED
Abbreviation of the English name: SCPH
2. Legal Representative of the Company: Chen Hongguo
3. Secretary to the Board of the Company: Hao Yun
Company Secretary (Hong Kong): Poon Shiu Cheong
Securities Affairs Representatives: Fan Yingjie, Sun Wenke
Correspondence Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Telephone: (86)-0536-2158011, (86)-0536-2156488
Facsimile: (86)-0536-2158640
Email address: chenmmingpaper@163.com
4. Registered Address and Office: No. 595 Shengcheng Road, Shouguang City, Shandong Province, People's Republic of China
Address of the Company: Shandong Province, People's Republic of China
Postal Code: 262700
International Website of the Company: <http://www.chenmingpaper.com>
5. Designated Local Newspapers for Information Disclosure: *China Securities Journal and Hong Kong Commercial Daily*
Designated Website for Publication of Interim Report: <http://www.cninfo.com.cn>
Places for Inspection of the Company's Interim Report: <http://www.hkex.com.hk>
Capital operation department of the Company
6. Stock Information:
- A shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鳴紙業
Stock Code: 000488
- B shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鳴 B
Stock Code: 200488
- H shares
The Stock Exchange of Hong Kong Limited
Stock Abbreviation: Chenming Paper
Stock Code: 1812
7. Other Relevant Information:
- Date of Change in Registration of the Company: 27 September 2008
Registered Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province
Legal Person Business License Registration Number: 370000400001170
Taxation Registration Number: 370783613588986

II. Summary of Financial and Operating Results

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

Unit: RMB'000

Items	As at the end of	As at the end	Increase / decrease
	the reporting period	of last year	as at the end of the reporting period compared with the end of last year (%)
Total assets	29,031,656	28,213,085	2.90%
Equity attributable to equity holders of the Company	12,981,045	12,991,904	-0.08%
Net assets per share (RMB/share)	6.295	6.30	-0.08%
	The reporting period	The	Increase/decrease
	(January to June)	corresponding	for the
		period of	reporting period
		last year	compared with
			the corresponding
			period of
			last year (%)
Operating profit	777,353	175,177	343.75%
Total profit	838,558	238,240	251.98%
Net profit attributable to equity holders of the Company	607,869	157,487	285.98%
Net profits after extraordinary gains or losses attributable to the equity holders of the Company	571,505	112,231	409.22%
Basic earnings per share (RMB)	0.29	0.076	281.58%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Weighted average return on net assets	4.57%	1.28%	Increased by 3.29 percentage points
Net cash flows from operating activities	1,189,723	-526,102	326.14%
Net cash flows per share from operating activities (RMB)	0.58	-0.26	323.08%

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II. Summary of Financial and Operating Results

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

NOTE: EXTRAORDINARY GAINS OR LOSSES ITEMS

Unit: RMB'000

Extraordinary gains or losses items	Amount
Net gains or losses from disposal of non-current assets	-1,431
Government grants received	49,350
Net gains or losses attributable to debt restructuring	-545
Gains or losses arising from acquisition of subsidiaries	0
Gains or losses arising from financial instruments held for trading	-3,130
Non-operating net gains or losses other than the above	4,267
Effect of extraordinary gains or losses on minority shareholders	-5,771
Effect of extraordinary gains or losses on income tax	-6,375
Total	36,364

II. Summary of Financial and Operating Results

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

Unit: RMB'000

Items	As at the end of	As at the end	Increase / decrease
	the reporting period	of last year	as at the end of the reporting period compared with the end of period of last year (%)
Total assets	28,947,316	28,126,134	2.92%
Equity attributable to equity holders of the Company	12,674,653	12,672,015	0.02%
Net assets per share (RMB/share)	6.15	6.15	—
	The reporting period	The	Increase/decrease
	(January to June)	corresponding	for the
		period of	reporting period
		last year	compared with
			the corresponding
			period of
			last year (%)
Total profit before tax	856,287	255,971	234.53%
Net profit attributable to equity holders of the Company	621,367	170,987	263.40%
Basic earnings per share (RMB)	0.30	0.08	275.00%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Weighted average return on net assets	4.79%	1.43%	Increased by 3.36 percentage points
Net cash flows from operating activities	1,189,723	-526,102	326.14%
Net cash flows per share from operating activities (RMB)	0.58	-0.26	323.08%

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II. Summary of Financial and Operating Results

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

Unit: RMB'000

Items	Accounting Standards For Business Enterprises	International Financial Accounting Standards
Net profit	696,079	713,808
Net assets	14,692,282	14,380,664

Reason for difference

In years prior to 2006, according to the principles of the Accounting Standards for Business Enterprises, the Group accounted for special fund for treasury bond received and special accounts payable related to construction of relevant fixed assets into capital reserve. However, according to the International Financial Reporting Standards, the Group accounted for such special fund for treasury bond received and special accounts payable into deferred income and such deferred income were amortized by installments over the useful lives of the fixed assets.

III. Changes in Share Capital and Shareholders

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

(Unit: shares)

	Opening balance		Increase/decrease (+/-) resulting from changes in the reporting period			Closing balance	
	Number of shares	Percentage	Increase in lock-up shares	Release of restricted Shares	Sub-total	Number of shares	Percentage
I. Restricted shares	303,298,805	14.71%	368,123	—	368,123	303,666,928	14.73%
1. State-owned legal person shares	293,003,657	14.21%	—	—	—	293,003,657	14.21%
2. Shares held by Senior Management	10,295,148	0.5%	368,123	—	368,123	10,663,271	0.52%
II. Non-restricted shares	1,758,747,136	85.29%	-368,123	—	-368,123	1,758,379,013	85.27%
1. Renminbi ordinary shares	809,979,651	39.28%	-368,123	—	-368,123	809,611,528	39.26%
2. Domestic listed foreign shares	557,497,485	27.04%	—	—	—	557,497,485	27.04%
3. Overseas listed foreign shares	391,270,000	18.97%	—	—	—	391,270,000	18.97%
III. Total number of shares	2,062,045,941	100.00%	—	—	—	2,062,045,941	100.00%

Note: During the reporting period, the restricted shares held by Senior Management changed by 368,123 shares from 10,295,148 shares to 10,663,271 shares. The reasons for such change were as follows:

- (1) During the reporting period, the shares held by three resigned Senior Management members of the Company remained restricted. As a result, 25% of the non-restricted RMB ordinary shares (A shares) held by the resigned Senior Management changed to restricted shares and amounted to 182,938 shares;
- (2) During the reporting period, the nature of 185,185 shares held by two newly appointed Senior Management members changed from non-restricted RMB ordinary shares (A shares) to restricted shares held by Senior Management.

As a result, the restricted shares held by Senior Management increased by a total of 368,123 shares as compared with the end of last year.

III. Changes in Share Capital and Shareholders

II. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD

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

Total number of shareholders The total number of shareholders was 157,638, of which 126,799 were holders of A shares, 30,171 were holders of B shares and 668 were holders of H shares

Shareholdings of the top ten shareholders

Name of shareholders	Type of shareholder	Percentage of shareholding	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledged or locked-up
HKSCC NOMINEES LIMITED	Overseas non-state-owned legal person (foreign shareholder)	18.91%	389,895,000	0	Unknown
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	14.21%	293,003,657	293,003,657	0
PLATINUM ASIA FUND	Overseas legal person	2.10%	43,328,636	0	Unknown
CHINA CONSTRUCTION BANK — 騰華價值優勢股票型 證券投資基金	Domestic non-state-owned legal person	1.62%	33,500,000	0	Unknown
MANULIFE GLOBAL FUND	Overseas legal person	0.99%	20,324,321	0	Unknown
HTHK-MANULIFE CHINA VALUE FUND	Overseas legal person	0.96%	19,807,483	0	Unknown
BILL & MELINDA GATES FOUNDATION TRUST	Domestic non-state-owned legal person	0.95%	19,495,444	0	Unknown
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Overseas legal person	0.88%	18,138,126	0	Unknown
BANK OF CHINA — 易方達深證 100 交易型 開放式指數證券投資基金	Domestic non-state-owned legal person	0.77%	15,932,254	0	Unknown
INDUSTRIAL AND COMMERCIAL BANK OF CHINA — 諾安股票證券 投資基金	Domestic non-state-owned legal person	0.74%	15,259,170	0	Unknown

III. Changes in Share Capital and Shareholders

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

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

Shareholding of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held (shares)	Classes of shares
HKSCC NOMINEES LIMITED	389,895,000	H shares
PLATINUM ASIA FUND	43,328,636	B shares
CHINA CONSTRUCTION BANK — 鵬華價值優勢股票型證券投資基金	33,500,000	A shares
MANULIFE GLOBAL FUND	20,324,321	B shares
HTHK-MANULIFE CHINA VALUE FUND	19,807,483	B shares
BILL & MELINDA GATES FOUNDATION TRUST	19,495,444	A shares
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	18,138,126	B shares
BANK OF CHINA – 易方達深證100交易型 開放式指數證券投資基金	15,932,254	A shares
INDUSTRIAL AND COMMERCIAL BANK OF CHINA – 諾安股票證券投資基金	15,259,170	A shares
DRAGON BILLION CHINA MASTER FUND	13,853,877	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. Save for the above, the Company is not aware of any other shareholders of outstanding shares as aforesaid are connected with each other.

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

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

III. Changes in Share Capital and Shareholders

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

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

As at 30 June 2010, the following shareholders (other than Directors, Supervisors or chief executives of the Company) had an interest or short position in the Company's shares or underlying shares as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong):

Name	Number of shares held	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
Shouguang Chenming Holdings Company Limited	293,003,657 A shares (L)	14.21	26.32
JPMorgan Chase & Co.	55,144,500 H shares (L)	2.67	14.09
	54,966,000 H shares (P)	2.67	14.05
Cheah Capital Management Limited	39,841,000 H shares (L)	1.93	10.18
Cheah Cheng Hye	39,841,000 H shares (L)	1.93	10.18
Cheah Company Limited	39,841,000 H shares (L)	1.93	10.18
Hang Seng Bank Trustee International Limited	39,841,000 H shares (L)	1.93	10.18
To Hau Yin	39,841,000 H shares (L)	1.93	10.18
Value Partners Group Limited	39,841,000 H shares (L)	1.93	10.18
Value Partners Limited	39,841,000 H shares (L)	1.93	10.18
Schroder Investment Management (Hong Kong) Limited	39,469,500 H shares (L)	1.91	10.08
NSSF Council	35,570,000 H shares (L)	1.73	9.09
FIL Limited	31,968,500 H shares (L)	1.55	8.17
Keywise Capital Management (HK) Limited	27,330,000 H shares (L)	1.33	6.98

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

Save as disclosed above, as at 30 June 2010, no other person had an interest or short position in the Company's shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO.

4. Purchase, sale and redemption of shares

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

IV. Directors, Supervisors and Senior Management

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

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

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 12 April 2010, the Board of the Company held an election of directors. After the consideration of the first extraordinary general meeting of the Company in 2010, Chen Hongguo, Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai, Zhou Shaohua, Cui Youping, Wang Fengrong and Wang Xiaoqun were appointed as non-independent Directors of the sixth session of the Board of the Company for three years; and Wang Aiguo, Zhang Zhiyuan, Wang Xiangfei, Wang Yumei and Zhang Hong were appointed as independent non-executive Directors of the sixth session of the Board of the Company for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkex.com.hk) on 12 April 2010.

2. On 12 April 2010, the Supervisory Committee of the Company held an election of Supervisors. After the consideration of the first extraordinary general meeting of the Company in 2010, Gao Junjie, Guo Guangyao and Yin Qixiang were appointed as Supervisors representing shareholders of the sixth session of the Supervisory Committee for three years, and Wang Ju and Yang Hongqin were appointed as Supervisors representing the employees of the sixth session of the Supervisory Committee for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 12 April 2010.

3. On 12 April 2010, after the consideration of the first meeting of the sixth session of the Board, Mr. Chen Chunfu was appointed as the general manager of the Company, Mr. Hao Yun as the secretary to the Board of the Company, Mr. Poon Shiu Cheong as the qualified accountant and company secretary (Hong Kong), Mr. Li Feng as the standing deputy general manager and sales controller of the Company, Mr. Hu Changqing, Mr. Wang Baoliang, Mr. Geng Guanglin, Ms. Li Xueqin, Mr. Hao Yun, Mr. Wang Zaiguo, Mr. Zhang Chunlin, Mr. Hong Zhuxiong, and Mr. Wang Shihong as deputy general managers of the Company, and Mr. Wang Chunfang as the financial controller of the Company.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 12 April 2010.

IV. Directors, Supervisors and Senior Management

III. EQUITY INTERESTS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FILED IN COMPLIANCE WITH SFO

As at 30 June 2010, the interests held by each of the Directors, Supervisors and Chief Executives of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, are set out as follows:

The Company

Name	Position	Number of shares (A shares) held as at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Executive Director	6,334,527
Yin Tongyuan	Executive Director	3,231,520
Li Feng	Executive Director	471,818
Geng Guanglin	Executive Director	437,433
Tan Daocheng	Executive Director	185,700
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Cui Youping	Non-Executive Director	0
Wang Xiaoqun	Non-Executive Director	0
Wang Fengrong	Non-Executive Director	0
Wang Yumei	Independent Non-Executive Director	0
Zhang Hong	Independent Non-Executive Director	0
Wang Aiguo	Independent Non-Executive Director	0
Wang Xiangfei	Independent Non-Executive Director	0
Zhang Zhiyuan	Independent Non-Executive Director	0
Supervisors		
Gao Junjie	Supervisor representing shareholders	39,606
Guo Guangyao	Supervisor representing shareholders	0
Yin Qixiang	Supervisor representing shareholders	0
Wang Ju	Supervisor representing the employees	0
Yang Hongqin	Supervisor representing the employees	0

IV. Directors, Supervisors and Senior Management

III. EQUITY INTERESTS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT FILED IN COMPLIANCE WITH SFO (continued)

Associated corporations

Name	Position	Name of associated corporation	Number of shares held as at the beginning of the reporting period (shares)	Change during the reporting period(+/-)	Number of shares held as at the end of the reporting period (shares)
Chen Hongguo (Note 2)	Chairman	Shouguang Chenming Holdings Company Limited	231,000,000	—	231,000,000
		Shouguang Chenming Guangyuan Real Property Company Limited	1,371,000	—	1,371,000

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

Note 2: Chen Hongguo and his spouse, Li Xueqin, collectively hold 43% equity interests in Shouguang Henglian Enterprise Investment Co. Ltd., (hereinafter referred to as "Shouguang Henglian"), as a result, Shouguang Henglian is deemed to be controlled by Chen Hongguo. As such, the 231,000,000 shares in Chenming Holdings (approximately 13.71% of the total share capital of Chenming Holdings) held by Shouguang Henglian is also deemed to be held by Chen Hongguo. Chen Hongguo is also deemed to be interested in approximately 13.71% equity interests in Shouguang Chenming Guangyuan Real Property Company Limited which is a wholly owned subsidiary of Shouguang Chenming Holdings Limited.

Save as disclosed above, as at 30 June 2010, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be filed in the register of the Company required to be maintained pursuant to section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (hereinafter referred to as the "Hong Kong Listing Rules").

As at 30 June 2010, none of each of the Directors, Supervisors or chief executives or their respective spouses or children under the age of 18 held or exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

V. Directors' Report

FINANCIAL RESULTS

Please refer to sections VII and VIII of this report for the results of the Company for the six months ended 30 June 2010 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

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

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

1. Operations of the Company during the reporting period

The paper making industry turned around due to the greater economic recovery. Product prices rose with greater gross profit margin as the pulp and paper prices went up. The rising tendency extended in the first and second quarters of 2010. During the reporting period, the capacity of the pulp production lines of the Company was fully utilised against the backdrop of a continuous soaring rise in the pulp market price, highlighting the competitive advantage of the Company in the time of rising costs. Compared with the corresponding period of last year, the profitability of the principal operations became higher during the reporting period and the gross profit margin of the paper products was relatively stable. During the reporting period, various works of the Company were orderly implemented in accordance with the operating plan formulated at the beginning of the year with continuous improvement in various operating indicators under the leadership of the Board.

During the reporting period, the Company achieved machine-made paper production and sales of 1.6838 million tonnes and 1.55 million tonnes respectively, representing a growth of 16% and 2.02% respectively compared with the corresponding period of last year. Revenue realised increased by RMB1,501 million or 22.49% compared with the corresponding period of last year. Operating profit increased by RMB602 million or 343.75% compared with the corresponding period of last year. Profit attributable to equity holders of the Company increased by RMB450 million or 285.98% compared with the corresponding period of last year. These were primarily due to a significant improvement of the results, which benefited from a rise in the sales price of the products of the Company with higher gross profit margins as a result of a turnaround in the paper making industry in the first half of 2010, as compared with the corresponding period of last year being affected by the financial crisis.

Item	Unit: RMB'000		
	January to June 2010	January to June 2009	Increase compared with the corresponding period of last year (%)
Revenue from operations	8,176,642	6,675,367	22.49
Operating profit	777,353	175,177	343.75
Net profit attributable to equity holders of the Company	607,869	157,487	285.98

The Company operates in the paper making industry, which is a light industry, and its principal activities are the production and sale of machine-made paper and paperboard, paper making raw materials and machinery; and generation and sale of electricity and steam. During the reporting period, machine made paper realised operating revenue of RMB7,753 million, accounting for 94.81% of the total operating revenue of the Company.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

2. Revenue from operations by industry and product

Unit: RMB'000

Revenue from operations by industry						
By industry or by product	Revenue from operations	Cost of sale	Gross profit margin	Increase/ decrease in revenue from operations compared with the corresponding period of last year (%)	Increase/ decrease in cost of sale compared with the corresponding period of last year (%)	Increase/ decrease in gross profit margin compared with the corresponding period of last year (percentage points)
Sales of machine-made paper	7,752,519	6,074,850	21.64	21.64	12.20	6.59
Sales of electricity and steam	175,867	143,026	18.67	61.73	92.65	-13.05
Sales of construction materials	173,872	144,211	17.06	21.14	22.90	-1.19
Sales of chemical products	32,447	21,361	34.17	774.82	1049.68	-15.74
Others	41,937	12,952	69.12	-8.88	-39.74	15.81
Total	8,176,642	6,396,400	21.77	22.49	13.63	6.10
Principal activities by product						
Light weight coated paper	686,620	573,899	16.42	-13.26	-15.67	2.39
Duplex press paper	974,927	790,918	18.87	1.48	-1.35	2.32
Writing paper	285,119	237,342	16.76	67.62	61.93	2.93
Copperplate paper	2,082,892	1,566,974	24.77	59.91	42.78	9.02
News press paper	728,507	630,522	13.45	-17.41	-15.49	-1.97
Paperboard	408,825	359,162	12.15	57.47	57.17	0.17
White paper board	1,054,039	746,770	29.15	15.56	-6.96	17.15

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V. Directors' Report

FINANCIAL RESULTS (continued)

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

3. Breakdown of revenue from operations by geographical segment

Unit: RMB'000

Geographical segment	Revenue from operations	Increase/ decrease in revenue from operations compared with the corresponding period of last year (%)
PRC	7,137,698	19.94
United States	43,638	-18.95
Hong Kong	102,065	43.18
Japan	112,422	-38.60
South Africa	44,048	13.82
Other overseas areas	736,771	95.18
Total	8,176,642	22.49

V. Directors' Report

FINANCIAL RESULTS (continued)

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

4. Problems emerged in operations and measures to resolve them

During the reporting period, the market demand saw a rapid growth with the economic recovery after the global financial crisis. The prices of major raw materials and products rapidly increased in the first and second quarter of this year. However, the pickup was so rapid in a short period combined with the non-solid basis for the recovery, that the industrial demand began to fall as at the end of the second quarter. The raw material prices went down but their level was limited. In the long run, raw material prices would come under pressure to rise again. Meanwhile, the demand in the paper product market began to go down. The purchasing intention in the downstream market tended to be cautious after a sharp price rise in the first half of year. As the raw material prices went down, the prices of paper products decreased correspondingly. The new capacity brought forth by the new projects in the industry upon operation may also affect the market in the second half of the year.

The above changes made things difficult for the management to make decision for product sale strategy, purchasing strategy and inventory management of the Company. The corresponding measures adopted by the Company include:

- (1) Taking full advantage of the own low pulp production cost of the Company by effectively controlling the production cost with flexible corresponding measures in response to the change in pulp market price;
- (2) Timely adjusting its product mix and actively developing the new products with marketability in response to the change in market demand and seeking to keep the inventory level low;
- (3) Enhancing the survey and studies of the market for the new projects which were going to commence operation; formulating the marketing plan of the products in detail, thus putting the marketing of the new products in place;
- (4) Strengthening the marketing management: strengthening the management of the sales system, including risk management, delivery management and contract management, etc.; and monitoring the customers financed by foreign investment, joint investment, private investment and individuals' investment with greater efforts and requiring pledge or guarantee from such types of customers with a view to reducing business risk; reinforcing personnel training and building of sales teams, establishing a comprehensive appraisal system for sales personnel to bring out the proactive work attitude of business personnel, and enhancing the efforts in market development.

V. Directors' Report

FINANCIAL RESULTS (continued)

II. Investments during the reporting period

1. Use of proceeds during the reporting period

The Company issued 355.70 million H shares on 18 June 2008. The total proceeds from the issue were translated into approximately RMB 2,831 million. The net proceeds less the expenses of RMB 103 million were RMB 2,728 million. As of the end of the reporting period, the proceeds of RMB 2.182 billion were utilised, in which approximately RMB245 million was used as a supplement to working capital and approximately RMB1.937 billion was used for the Zhanjiang project, and the remaining proceeds were deposited at special deposit bank accounts. The status of the projects relating to the proceeds during the reporting period is as follows:

Unit: RMB in ten thousands

Project undertaken	Proposed investment	Project changes	Actual investment	Benefits realised	Use of total proceeds	
					during the reporting period	Accumulated use of total proceeds
					Whether progressing as scheduled	Whether progressing with estimated benefits
Total proceeds			272,825		74,733.37	218,176.74
Zhanjiang 700,000-tonne per annum pulp project	248,271	No	193,666.74	—	—	Net yet in production
Supplement to working capital	24,554	No	24,510	—	—	—
Total	272,825	—	218,176.74	—	—	—
Explanation on failure to progress as scheduled and realise benefits (by specific projects)	Nil					
Explanation on reason of change and change procedure (by specific projects)	Nil					
Use of unused proceeds and their status	The unused remaining proceeds were deposited at special deposit bank accounts.					

As of the date of this report, the majority of the equipment purchased for the Zhanjiang Pulp Project was delivered. The equipment installation of the power plant and the plant was approximately 60% completed on the whole. The civil works was 70% completed on the whole. The project was expected to commence production by April 2011.

V. Directors' Report

FINANCIAL RESULTS (continued)

II. Investments during the reporting period (continued)

2. Highlights of the other major investments during the reporting period

During the reporting period, the Company and its controlling subsidiaries injected a total of RMB443.83 million mainly for the following five projects:

(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 planned total investment amount for this project was approximately RMB5.2 billion. The construction of the project will last for 18 months. Upon completion, the project will realise an annual production capacity of 800,000 tonnes high-end low weight coated paper and a profit of approximately RMB850 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the advance payment for main equipment of the project had been paid and the civil works of the project was 80% completed. RMB186 million was invested during the reporting period. It is expected that the project will commence operation by April 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 planned total investment amount for this project was approximately RMB1.668 billion. The construction of the project will last for 18 months. Upon completion, the project will realise an annual production capacity of 450,000 tonnes high-end culture paper and a profit of approximately RMB189 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the advance payment for main equipment had been paid and the civil works of the project was 70% completed. RMB36 million was invested during the reporting period. It is expected that the project will commence operation by April 2011.

(3) The high-end white coated linerboard project of an annual production capacity of 600,000 tonnes

The high-end white coated linerboard project of an annual production capacity of 600,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB2.6 billion. The construction of the project will last for 18 months. Upon completion, the project will realise an annual production capacity of 600,000 tonnes high-end white coated linerboard paper and a profit of approximately RMB430 million. Upon operation, the project will increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the project was holding equipment tenders and equipment purchase was around 50% completed. RMB152 million was invested during the reporting period. It is expected that the project will commence operation by May 2012.

V. Directors' Report

FINANCIAL RESULTS (continued)

II. Investments during the reporting period (continued)

2. Highlights of the other major investments during the reporting period (continued)

- (4) The high-end tissue paper project of an annual production capacity of 60,000 tonnes

The high-end tissue paper project of an annual production capacity of 60,000 tonnes was considered and approved by the twelveth meeting of the fifth session of the Board. The planned total investment amount for this project was approximately RMB618 million. The construction of the project will last for one year. Upon completion, the project will realise a profit of approximately RMB78 million. Upon completion and operation, the project will diversify the paper product mix of the Company by expanding into a brand new category of paper product.

Currently, the civil works of the project was 80% completed and the equipment was being installed. RMB50 million was invested during the reporting period. It is expected that the project will commence operation by November 2010.

- (5) Research and development centre project

The construction project of a research and development centre was approved by the Thirteenth Meeting of the Fifth Session of the Board of Directors. The project's planned investment amounted to approximately RMB120 million and it will be completed in 17 months. Upon completion, the centre will be mainly used for development of new projects and includes technical research institutes, technical laboratories, product testing rooms, workstations for post-doctoral technicians, offices, etc.

The main structure of the centre has been topped out and the secondary structure is under construction while interior installation has also commenced. RMB19.83 million was injected during the reporting period and it is estimated that the whole project will complete and commence operation by end of December 2010.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Unit: RMB'000

Item	As at 30 June 2010	As at 31 December 2009	Change (%)	Reason for change
Monetary funds	2,082,977	2,892,923	-28.00	(1)
Held-for-trading financial assets	7,900	14,900	-46.98	(2)
Bills receivable	2,062,185	2,704,799	-23.76	(3)
Accounts receivable	1,809,492	1,528,991	18.35	(4)
Other receivables	101,213	81,211	24.63	(5)
Inventory	3,137,539	2,226,579	40.91	(6)
Other current assets	150,067	90,756	65.35	(7)
Construction in progress	3,229,907	1,997,961	61.66	(8)
Other non-current assets	581,642	496,725	17.10	(9)
Short-term borrowings	1,577,824	3,103,154	-49.15	(10)
Held-for-trading financial liabilities	2,580	6,450	-60.00	(11)
Bills payable	349,608	544,533	-35.80	(12)
Accounts payable	2,783,532	2,122,861	31.12	(13)
Advance receipts	167,354	233,124	-28.21	(14)
Staff remuneration payables	183,493	245,501	-25.26	(15)
Taxes payable	95,468	137,491	-30.56	(16)
Interest payable	50,104	5,050	892.17	(17)
Other payables	459,242	321,221	42.97	(18)
Non-current liabilities				
due within one year	498,174	345,354	44.25	(19)
Deferred income tax liabilities	15,265	12,409	23.02	(20)
Other non-current liabilities	2,282,198	1,189,484	91.86	(21)

Explanation on the main reasons leading to the changes:

- (1) Monetary funds decreased by 28% as compared with the beginning of the year, mainly due to repayment of a portion of borrowings by the Company during the period.
- (2) Held-for-trading financial assets decreased by 46.98% due to the future polling foreign exchange of Chenming (HK) Limited, a subsidiary of the Company.
- (3) Bills receivable decreased by 23.76%, mainly due to the decrease in discounted bills not yet due of the Company.
- (4) Accounts receivable increased by 18.35%, mainly due to the increase in revenue resulting from the increases in sales prices of the Company.
- (5) Other receivables increased by 24.63%, mainly due to the increase in security deposits for equipment.
- (6) Inventories increased by 40.91%, mainly due to the increase in inventory balance under the market conditions.
- (7) Other current assets increased by 65.35%, mainly due to the increase in the input tax of non-credited value-added tax.
- (8) Construction in progress increased by 61.66%, mainly due to the increase in investments in construction projects during the current period.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

- (9) Other non-current assets increased by 17.1%, mainly due to purchase and growing of timber assets and change in their fair value.
- (10) Short-term borrowings decreased by 49.15%, mainly due to the decrease in discounted bills not yet due of the Company and repayment of a portion of borrowings.
- (11) Held-for-trading financial liabilities decreased by 60%, mainly due to the future polling foreign exchange of the Company.
- (12) Bills payable decreased by 35.8%, mainly due to the effect of a decrease in the bills issued by the Company during the current period.
- (13) Accounts payable increased by 31.12%, mainly due to the increase in accounts payables in respect of raw materials of the Company during the period.
- (14) Advance receipts decreased by 28.21%, mainly because less customers adopted the prepayment method due to market changes, resulting in a decrease in our balance of advances from customers.
- (15) Staff remuneration payables decreased by 25.26%, mainly due to the payment of prior year's annual salary by the Company during the period.
- (16) Taxes payables decreased by 30.56%, mainly due to the decrease in value-added tax and income tax payables of the Company.
- (17) Interest payable increased by 892.17%, mainly due to the appropriation of the interests of the medium-term notes by the Company.
- (18) Other payables increased by 42.97%, mainly due to the increase in security deposits of the Company during the current period.
- (19) Non-current liabilities due within one year increased by 44.25%, mainly because a portion of borrowings were transferred from long-term borrowings to borrowings due within one year during the current period.
- (20) Deferred income tax liabilities increased by 23.02%, mainly due to provision for deferred income tax liabilities on surplus of revaluation of timer assets.
- (21) Other non-current liabilities increased by 91.86%, mainly due to issuance of medium term notes during the current period.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Unit: RMB'000

Items	For the six months ended 30 June 2010	For the six months ended 30 June 2009	Change (%)	Reason for change
Operating revenue	8,176,642	6,675,367	22.49	(1)
Operating costs	6,396,400	5,629,255	13.63	(2)
Business taxes and surcharges	10,398	7,109	46.26	(3)
Selling and distribution expenses	441,502	339,929	29.88	(4)
General and administrative expenses	417,135	335,899	24.18	(5)
Finance expenses	125,740	176,847	-28.9	(6)
Loss on impairment of assets	20,796	10,603	96.14	(7)
Investment income	4,324	-9,532	145.37	(8)
Income tax expenses	142,479	52,125	173.34	(9)

Explanation on the main reasons leading to the changes:

- (1) Operating revenue increased by 22.49% as compared to the corresponding period of last year, mainly due to the substantial increase in sales prices as compared to the corresponding period of last year.
- (2) Operating costs increased by 13.63% as compared to the corresponding period of last year, mainly due to the increase in sales costs of products as compared to the corresponding period of last year.
- (3) Business taxes and surcharges increased by 46.26% as compared to the corresponding period of last year, mainly due to significant increase in value-added tax recorded in the current period as compared to the corresponding period last year.
- (4) Selling and distribution expenses increased by 29.88% as compared to the corresponding period of last year, mainly because of rise in fuel prices and transportation cost per tonne kilometre as compared to the corresponding period of last year.
- (5) General and administrative expenses increased by 24.18% as compared to the corresponding period of last year, mainly due to the increase in the research and development costs as we put more efforts in research and development, and the increase in wages as compared to the corresponding period last year.
- (6) Finance expenses decreased by 28.9% as compared to the corresponding period of last year, mainly due to the adoption of active financing methods by the Company such as issuance of medium-term notes and short-term debentures.
- (7) Loss on impairment of assets increased by 96.14% as compared to the corresponding period of last year, mainly due to reversal of the allowance for inventories in 2008 during the corresponding period of last year.
- (8) Investment income increased by 145.37% as compared to the corresponding period of last year, mainly due to the higher profits of associated corporations for the period as compared to the corresponding period of last year.
- (9) Income tax expenses increased by 173.34% as compared to the corresponding period of last year, mainly because gross profit margin and profit increased during the current period, resulting in an increase in the income tax expenses as compared to the corresponding period of last year.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Unit: RMB'000

Items	The reporting period	The corresponding period of last year	Change (%)
Net cash flows from operating activities	1,189,723	-526,102	326.14%
Net cash flows from investment activities	-1,502,481	-352,023	-326.81%
Net cash flows from financing activities	-170,160	679,032	-125.06%

Explanation on the main reasons leading to the changes:

- (1) The increase in the cash flows from operating activities as compared to the corresponding period of last year was mainly due to higher revenue resulting from significantly higher sale prices in the current period as compared to the corresponding period of last year under the impact of the financial crisis.
- (2) The decrease in the cash flows from investment activities as compared to the corresponding period of last year was mainly due to the decrease in net cash flows from investment activities resulting from the investments on the Company's projects of copperplate paper of production capacity of 800,000 tonnes, tissue paper of production capacity of 60,000 tonnes, high-end white coated linerboard of production capacity of 600,000 tonnes and the Zhanjiang pulp project.
- (3) The decrease in the cash flows from financing activities as compared to the corresponding period of last year was mainly due to the higher dividend of the current period than the same period of last year as well as less bank borrowings (including medium-term notes) of the period than the same period of last year mainly attributable to less discounted notes not yet due of the current period

V. Directors' Report

FINANCIAL RESULTS (continued)

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

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

Revenue from operations

Unit: RMB'000

By industry or by product	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Revenue from principal operations	As a percentage of revenue from operations (%)	Revenue from principal operations	As a percentage of revenue from operations (%)
Paper products	7,746,143	95.01	6,366,257	95.84
Construction materials	172,994	2.12	143,530	2.16
Chemicals products	32,447	0.40	3,709	0.06
Electricity and steam	175,788	2.16	108,740	1.64
Others	25,500	0.31	20,655	0.30
Total	8,152,872	100.00	6,642,891	100.00

Unit: RMB'000

Geographical segment	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Revenue from operations	As a percentage of revenue from operations (%)	Revenue from operations	As a percentage of revenue from operations (%)
PRC	7,113,928	87.26	5,918,486	89.10
United States	43,638	0.54	53,841	0.81
Hong Kong	102,065	1.25	71,282	1.07
Japan	112,422	1.38	183,108	2.76
South Africa	44,048	0.54	38,699	0.58
Other overseas areas	736,771	9.03	377,475	5.68
Total	8,152,872	100.00	6,642,891	100.00

Operating revenue for the reporting period amounted to RMB8,153 million, representing an increase of 22.73% as compared with RMB6,643 million for the corresponding period of last year;

Operating revenue of machine-made paper amounted to RMB7,746 million, representing an increase of 21.67% over the corresponding period of last year, mainly due to: higher sales prices of the current period over the corresponding period of last year under the impact of the financial crisis.

Operating revenue of electricity and steam amounted to RMB176 million, representing an increase of 61.66% over the corresponding period of last year, mainly due to: higher sales prices of the current period over the corresponding period of last year under the impact of the financial crisis.

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V. Directors' Report

FINANCIAL RESULTS (continued)

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

Operating revenue of building materials amounted to RMB173 million, representing an increase of 20.53% over the corresponding period of last year, mainly due to: higher sales volume of fiberboard in the current period than the corresponding period of last year because of market conditions and the higher revenue brought about by the newly added Shandong Lin Dun Wood Industry Co., Ltd. in the second half of last year.

Operating revenue of chemical products amounted to RMB30 million, representing an increase of 774.82% over the corresponding period of last year, mainly due to: the significant increase in sales of chemical products by the Company during the current period over the corresponding period of last year under the impact of the financial crisis.

Cost of sales and gross profit

Cost of sales as a percentage of revenue from operations

Unit: RMB'000

By industry or by product	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Cost of sales	As a percentage of product segment revenue (%)	Cost of sales	As a percentage of product segment revenue (%)
Paper products	6,057,446	78.20	5,396,915	84.77
Construction materials	144,211	83.36	117,342	81.75
Chemicals products	21,361	65.83	1,858	50.09
Electricity and steam	143,026	81.36	74,243	68.28
Others	10,773	42.25	6,541	31.67
Total	6,376,817	78.22	5,596,899	84.25

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Cost of sales and gross profit (continued)

Gross Profit and Gross Profit Margin

Unit: RMB'000

By industry or by product	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)
Paper products	1,688,697	21.80	969,342	15.23
Construction materials	28,783	16.64	26,188	18.25
Chemicals products	11,086	34.17	1,851	49.91
Electricity and steam	32,762	18.64	34,497	31.72
Others	14,727	57.75	14,114	68.33
Total	1,776,055	21.78	1,045,992	15.75

Cost of sales of the Company in the first half of 2010 was RMB6,377 million, representing an increase of 13.93% over the corresponding period of last year. Gross profit was RMB1,776 million, representing an increase of 69.8% over the corresponding period of last year mainly due to: the bigger impact of price rise in raw materials on cost of sales than that of the corresponding period of last year. The gross profit margin increased mainly due to: the impact of financial crisis on the gross profit margin for the corresponding period of last year and significantly higher sales price for the reporting period.

Cost of sales of machine-made paper was RMB6,057 million, representing an increase of 12.24% over the corresponding period of last year mainly due to: the raw materials cost being higher than that of the corresponding period of last year under the impact of the financial crisis.

Cost of sales of electricity and steam was RMB143 million, representing an increase of 92.65% over the corresponding period of last year mainly due to: the raw materials cost being higher than that of the corresponding period of last year under the impact of the financial crisis.

Cost of sales of construction materials was RMB144 million, representing an increase of 22.9% over the corresponding period of last year mainly due to: the sales volume of fiberboard in the current period being higher than that of the corresponding period of last year because of the market conditions.

Cost of sales of chemical products was RMB21 million, representing an increase of 1,049.68% over the corresponding period of last year mainly due to: the sales volume of chemicals products in the current period being higher than that of the corresponding period of last year under the impact of the financial crisis.



V. Directors' Report

FINANCIAL RESULTS (continued)

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

Other income

Other income for the first half of 2010 amounted to RMB99 million, representing a decrease of 15.73% over the corresponding period of last year mainly due to the RMB3.03 million recognised by the acquisition of an enterprise not under common control during the same period last year.

Distribution expenses

Distribution expenses were RMB442 million for the first half of 2010, representing an increase of 29.88% over the corresponding period of last year mainly due to rise in fuel prices and transportation costs per tonne kilometre as compared to the corresponding period of last year.

Expenses

Administrative expenses of the Group for the first six months of the year were RMB429 million, representing an increase of 56.94% over the corresponding period of last year mainly due to: the wages for the period being higher than that of the corresponding period of last year under the impact of the financial crisis and higher investments on research and development by the Company and increased management fees.

Other expenses

Other expenses of the Group were RMB24 million for the first six months of 2010, representing a decrease of 69.86% over the same period of last year mainly due to: loss incurred by suspension of production of some production lines under the impact of the financial crisis in the same period of last year.

Gain on change in derivative financial instruments

Gain on change in derivative financial instrument of the Group was -RMB3.13 million for the first six months of 2010, representing a decrease of RMB10.12 million over the corresponding period of last year mainly due to: the expiration of a forward exchange sales contract between the Company and its subsidiary Chenming (HK) Limited and the Shouguang branch and Hong Kong branch of China Construction Bank Corporation during the period. The gain on change in derivative financial instruments arising from the financial asset due in last period has been reversed in the current period, which decreases the gain on change in derivative financial instruments.

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

Gain on change in fair value less estimated sale cost of biological assets of the Group for the first six months of 2010 was RMB11.49 million and was mainly due to change in the fair value of the timber assets of the Group.

Finance costs

Finance costs of the Company for the first six months of 2010 were RMB137 million, representing a decrease of 29.93% over the corresponding period of last year mainly due to: the adoption of active financing methods by the Company such as issuance of medium-term notes, short-term debentures.

Income tax expense

Income tax expense for the first half of 2010 was RMB142 million, representing an increase of 173.34% over the corresponding period of last year mainly due to: significantly larger impacts on profits by factors such as higher sales than that of the corresponding period of last year

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Profit attributable to minority interests

Profit attributable to minority interests was RMB92 million for the first six months of 2010, representing an increase of 181.33% over the corresponding period of last year mainly due to: the net profit realised for the period being significantly higher than that of the same period of last year under the impact of the financial crisis.

Net profit and net profit margin

Net profit for the first six months of 2010 was RMB621 million (excluding profit attributable to minority interests), representing an increase of 263.4% over the corresponding period of last year. The net profit margin was 7.62% (excluding profit attributable to minority interests), representing an increase of 5.05 percentage points as compared with 2.57% in the corresponding period of last year mainly due to higher profit margin resulting from significantly higher sales price in the current period than that of the period of last year.

Liquidity

In the first half year of 2010, the cash flows from operating activities, the cash flows from investment activities and the cash flows from financing activities of the Group were RMB1,190 million, -RMB1,187 million and -RMB485 million respectively, representing increases of 326.14%, 29.83% and -124.04% over the same period of last year. Among which:

- (1) The increase in the cash flows from operating activities was mainly due to: higher revenue resulting from significantly higher sale prices in the current period compared with the same period of last year under the impact of the financial crisis.
- (2) The increase in the cash flows from investment activities was mainly due to: (1) the decrease of RMB1,100 million in net cash flows from investment activities resulting from the investments on the Company's projects of copperplate paper of production capacity of 800,000 tonnes, tissue paper of production capacity of 60,000 tonnes, high-end white coated linerboard of production capacity of 600,000 tonnes and the Zhanjiang pulp project; (2) the increase of RMB1,655 million in cash flows from investment activities over the same period last year resulting from the change in restricted bank deposits such as letter of credit and acceptance deposit;
- (3) The decrease in the cash flows from financing activities was mainly due to: higher dividend of the current period than the same period last year as well as less bank borrowings (including medium-term notes) of the period than the same period last year mainly attributable to less discounted notes not yet due of the current period.



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

In the first half year of 2010, there was no significant seasonal effect on the capital requirements of the Company.

Principal sources of funding

In the first half year of 2010, the principal sources of funding of the Group mainly derived from the revenue from production operations and bank loans.

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

As at 30 June 2010, the Group's bank borrowings increased by RMB2,476 million (excluding short-term debentures and medium-term notes), repayment of loans amounted to RMB4,714 million. Such borrowings bore interest rates ranging from 1.29% to 5.35%.

V. Directors' Report

FINANCIAL RESULTS (continued)

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

Gearing ratio of the Company

As at 30 June 2010, the gearing ratio of the Group was 34.88%, representing an increase of 0.3% compared with the ratio of 34.58% in 2009, mainly due to the increase of borrowings of the Company during the period.

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

As at 30 June 2010, the secured assets of the Group included the collateral of the fixed assets and land use rights of Jiangxi Chenming Paper Co., Ltd. made under the loan agreement entered into between International Finance Corporation (“IFC”), Deutsche Bank AG (“DEG”) and China Construction Bank Nanchang Changbei Branch and Jiangxi Chenming Paper Co., Ltd, a subsidiary of the Company, pursuant to which, secured loans of USD 40,000,000.00, USD 9,411,765.00 and USD 17,500,000.00 were provided to Jiangxi Chenming Paper Co., Ltd respectively. As at 30 June 2010, repayment in the amount of USD 29,617,647.00 was paid for the above borrowings. As at 30 June 2010, the net book value of the collateral with regard to fixed assets was RMB 1,052,966,876.50 and that with regard to the land use rights (intangible assets) was RMB 72,249,726.02.

Contingent liabilities of the Company

As at 30 June 2010, there were no contingent liabilities of the Group.

Risk of fluctuations in foreign exchange rate and any relevant hedging

As at 30 June 2010, the exchange gains of the Group was RMB 9,320,000, mainly due to: the exchange gain on foreign currency borrowings and accounts payable due to changes in exchange rate of RMB.

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

During the period under review of the six months period ended 30 June 2010, the Group did not use derivative financial instruments for hedging purposes. However, the Group will continue to monitor the exposure of proceeds from global offering to foreign exchange fluctuations.

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

Due to a turnaround in the market landscape, the Company recorded higher average product price in the first three quarters of 2010 as compared with that of last year, which led to higher gross profit margin of the paper products of the Company and improved results of the Company. It is expected that the Company's accumulated net profit will increase by 50%-100% in January-September 2010 as compared with the corresponding period of last year.

V. Directors' Report

FINANCIAL RESULTS (continued)

VI. Focus of work for the second half of 2010

In the second half, the Company will be committed to achieving the goals as set at the beginning of the year. With a view to improving economic efficiency, the Company will continue to focus on new project construction, strengthened efforts in market exploration and greater energy saving and emission reduction:

- (1) Project construction: To ensure the construction of the Zhanjiang Pulp Project, and the high-end low weight coated paper project and the tissue paper project to be implemented as planned, guarantee the construction quality and progress and be prepared for the staff deployment and training and operation of new production lines;
- (2) To accelerate the construction of raw material bases on the basis of the forestry bases in Zhanjiang, Huizhou and Huanggang as the planned objective;
- (3) Strengthened efforts in market exploration for greater and further development: To actively implement reasonable marketing measures with a view to optimizing its international marketing network and excel its project sale planning to increase sales channel;
- (4) To strengthen internal control and system establishment and improve corporate governance with a view to enhancing its management strength;
- (5) To continuously take resources saving and environmental protection as strategic objectives in the course of corporate development with a view to strengthening energy saving and emission reduction for the purpose of sustainable development.

VI. Material Matters

I. PERSONNEL INFORMATION

1. Change of personnel

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

2. Personnel of the Company

As at 30 June 2010, the Group had 16,504 employees in aggregate, including 10,463 production staff, 495 sales staff, 1,920 technical staff, 68 Computer staff, 274 financial staff, 2,115 administrative staff and 1,169 other staff. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company determines different rates of remuneration for different employees based on their performance, qualifications, duties and other factors in compliance with the relevant PRC laws and regulations.

II. CORPORATE GOVERNANCE STRUCTURE DURING THE REPORTING PERIOD

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

Strictly in compliance with the requirements of the relevant laws and regulations of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) and the Articles of Association, the Company continued to optimise its legal person governance structure, and established an modern enterprise policy to regulate the operations of the Company.

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

2. Corporate governance

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

3. Securities transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules regarding securities transactions by Directors and Supervisors. Having made specific enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements and the Code of Conduct in the Model Code regarding the securities transactions by the Directors and Supervisors during the reporting period.

4. Audit committee

The Audit Committee of the Company had discussed with the management the accounting standards and practices adopted by the Company, and had also discussed and reviewed this report, including the financial statements of the Company as at 30 June 2010 prepared in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively.

VI. Material Matters

III. 2009 PROFIT DISTRIBUTION PLAN AND 2010 INTERIM PROFIT DISTRIBUTION PLAN

1. The 2009 profit distribution plan of the Company was considered and approved by the 2009 Annual General Meeting. Based on 2,062,045,941 shares in the total share capital of the Company, cash bonus of RMB 3.0 was to be paid to all shareholders for every 10 shares held (tax included, RMB 2.70 for every 10 shares held to be actually paid to individual shareholders, investment funds and Qualified Foreign Institutional Investors holding A shares, as well as non-resident enterprises holding B shares after tax deduction, and in respect of other B Share shareholders, no income tax to be deducted for tax payment). Distribution of cash bonuses under such distribution amounted to RMB 0.619 billion (RMB618,613,782.30) (tax included).

For A Shares, the record date was 18 June 2010. For B Shares, the record date was 23 June 2010. The ex-rights date was 21 June 2010.

2. The 2010 interim profit distribution plan: no profit distribution was proposed to be implemented for the interim period of 2010, also, no share capital increase by way of transfer from capital reserves will be carried out.

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

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

V. MATERIAL LITIGATION AND ARBITRATION

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

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

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

It was undertaken that shares held by Shouguang Chenming Holdings Co., Ltd., the controlling shareholder of the Company, shall not be listed and traded within 48 months from the date of implementation of the reform of conversion. During the reporting period, Shouguang Chenming Holdings Co., Ltd. had strictly adhered to such undertakings. The undertakings of the controlling shareholder expired on 29 March 2010. The undertakings of the holders of non-tradable shares were fully fulfilled.

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

VII. CONNECTED TRANSACTIONS

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

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

On 17 May 2010, Shouguang Meilun Paper, a wholly owned subsidiary of the Company, entered into equipment purchase contracts with Voith Paper GmbH, Voith Paper (China) Co. Ltd, Metso Paper Inc and Metso Paper Technology (Shanghai) Co. Ltd, respectively for the White Coated Linerboard Project with an annual production capacity of 600,000 tonnes. The advance payment in respect of the contracts had been paid and the subsequent work will be strictly implemented. For the details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 18 May 2010, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 17 May 2010.

VI. Material Matters

IX. EXTERNAL GUARANTEES

During the reporting period, the Company did not provide any external guarantees or illegal guarantees, except for the guarantees for its controlling subsidiaries.

As at 30 June 2010, the balance of guarantee provided by the Company for its controlling subsidiaries amounted to RMB 1,780.35 million, representing 13.71% of the net assets of the Company attributable to the shareholders of the parent company.

Unit: RMB'0000

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

Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not?	Guarantee to related parties or not
Total amount of external guarantee approved during the reporting period (A1)			0.00	Total amount of external guarantee provided during the reporting period (A2)				0.00
Total amount of external guarantee approved as at the end of the reporting period (A3)			0.00	Total balance of external guarantee provided as at the end of the reporting period (A4)				0.00

Guarantees provided by the Company for subsidiaries

Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Guarantee	Type of Term	Fulfilled or not?	Guarantee to related parties or not
Zhanjiang Chenming Paper Pulp Co., Ltd.	2006-07-27 (2006-042)	564,020.00	25 March 2008	109,035.00	Credit	15 years	No	No
Jiangxi Chenming Paper Co., Ltd.	2009-12-16 (2009-034)	45,000.00	10 December 2009	45,000.00	Credit	3 years	No	No
Jiangxi Chenming Paper Co., Ltd.	2003-03-17 (2003-002)	103,600.00	11 December 2003	5,000.00	Credit	9 years	No	No
Huanggang Chemical Arboriculture Co., Ltd.	2010-02-25 (2010-003)	16,000.00	20 April 2010	2,000.00	Credit	1 years	No	No
Wuhan Chenming Hanyang Paper Holdings Co. Ltd.	2009-05-27 (2009-012)	30,000.00	1 September 2009	4,000.00	Credit	1 year	No	No
Huanggang Chemical Arboriculture Co., Ltd.	2009-05-27 (2009-012)	10,000.00	2 June 2009	5,000.00	Credit	3 years	No	No
Shouguang Meilun Paper Co., Ltd.	2009-06-09 (2009-015)	8,000.00	1 January 2010	8,000.00	Credit	6 years	No	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2009-05-27 (2009-012)	28,000.00	21 September 2009	0.00	Credit	1 year	No	No
Shouguang Chenming Art Paper Co., Ltd.	2009-05-27 (2009-012)	10,000.00	6 May 2009	0.00	Credit	1 year	No	No
Jilin Chenming Paper Co., Ltd.	2009-05-27 (2009-012)	70,000.00	19 May 2009	0.00	Credit	1 year	No	No
Heze Chenming Panels Co., Ltd.	2009-05-27 (2009-012)	10,000.00	—	—	Credit	—	non-performing	No
Chenming (HK) Limited	2009-05-27 (2009-012)	47,915.00	—	—	Credit	—	non-performing	No

VI. Material Matters

IX. EXTERNAL GUARANTEES (continued)

Unit: RMB'0000

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

Name of obligor	Date and number of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not?	Guarantee to related parties or not
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	2010-02-25 (2010-003)	30,000.00	6 April 2010	0.00	Credit	1 year	No	No
Shouguang Chenming Art Paper Co., Ltd.	2010-02-25 (2010-003)	10,000.00	5 May 2010	0.00	Credit	1 year	No	No
Jilin Chenming Paper Co., Ltd.	2010-02-25 (2010-003)	30,000.00	18 May 2010	0.00	Credit	1 year	No	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2010-02-25 (2010-003)	20,000.00	—	—	Credit	—	Contract has not been signed	No
Chenming (HK) Limited	2010-02-25 (2010-003)	102,423.00	—	—	Credit	—	Contract has not been signed	No
Xianning Chenming Arboriculture Co., Ltd.	2010-02-25 (2010-003)	10,000.00	—	—	Credit	—	Contract has not been signed	No
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)			218,423.00				Total amount of guarantee provided for subsidiaries during the reporting period (B2)	30,629.00
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)			1,144,958.00				Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)	178,035.00
Total amount of guarantee provided by the Company (the sum of the above two main categories)								
Total amount of guarantee approved during the reporting period (A1+B1)			218,423.00				Total amount of guarantee provided during the reporting period (A2+B2)	30,629.00
Total amount of guarantee approved as at the end of the reporting period (A3+B3)			1,144,958.00				Total balance of guarantee provided as at the end of the reporting period (A4+B4)	178,035.00
Total amount of guarantee provided (A4+B4) as a percentage of the net assets of the Company								13.71%
Of which:								
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)								0.00
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)								124,035.00
Total amount of guarantee provided in excess of 50% of net assets (E)								0.00
Sum of the above three amount of guarantee (C+D+E)								124,035.00
Explanation on possible joint obligation on outstanding guarantees provided								Nil

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VI. Material Matters

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

1. During the reporting period, the Company did not invest in any securities, and the Company did not hold any equity interests in other listed companies, unlisted financial institutions or prospective listed companies.
2. During the reporting period, except for provision of entrusted loans to subsidiaries of the Company (for details, please refer to Note 8 in the financial statements and notes prepared in accordance with Accounting Standards for Business Enterprises), the Company did not appoint any person to manage the Company's funds during the reporting period or in the preceding reporting period which had been carried over to this reporting period. Also, there was no significant custody, subcontracting or lease of the assets between the Company and other companies during the reporting period or in the preceding reporting period which had been carried over to this reporting period.
3. Independent opinion from Independent Directors of the Company concerning utilisation of funds by related parties and external guarantees.

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

After inspection, the external guarantees of the Company during the current period in the first half year of 2010 and accumulated amount are both nil, except for the guarantees provided to subsidiaries during the reporting period (for details, please refer to Note 8 in the financial statements and notes prepared in accordance with Accounting Standards for Business Enterprises). The Company strictly complied with the related requirements of "Notice on Regulating External Guarantees made by Listed Companies" (Zheng Jian Fa [2005] No. 120) and the Articles of Associations, the Company has been in strict compliance with the obligation of disclose of the information about external guarantees, and truly provide the information of all the external guarantees to the qualified accountant according to the rule. During the reporting period, the guarantees provided to subsidiaries by the Company conformed to the requirements of the normal production and operation and reasonable utilisation of the funds of the Company, its decision-making procedure was legitimate, and did not impair the interests of the Company and other shareholders, especially the interests of medium and minority shareholders.

VI. Material Matters

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

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
2010.1.19	Shouguang, Shandong	On-site research and investigation	CSC Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
2010.1.25	Shouguang, Shandong	On-site research and investigation	GF Securities	
2010.1.27	Shouguang, Shandong	On-site research and investigation	Penghua Fund, Galaxy Securities	
2010.2.2	Shouguang, Shandong	On-site research and investigation	Sinolink Securities	
2010.3.3	Shouguang, Shandong	On-site research and investigation	Value Partners Limited	
2010.3.8	Shouguang, Shandong	On-site research and investigation	Macquarie Securities	
2010.3.9	Shouguang, Shandong	On-site research and investigation	西班牙貝斯因特股份有限公司	
2010.3.16	Shouguang, Shandong	On-site research and investigation	CITIC Securities	
2010.3.17	Shouguang, Shandong	On-site research and investigation	Daiwa Securities, Japan and 貝利林紙	
2010.3.26	Shouguang, Shandong	On-site research and investigation	Industrial Securities	
2010.3.31	Shouguang, Shandong	On-site research and investigation	Morgan Stanley	
2010.5.12	Shouguang, Shandong	On-site research and investigation	BOCI Research Limited, Morgan Stanley	
2010.5.18	Shouguang, Shandong	On-site research and investigation	Nomura Securities	
2010.6.1	Shouguang, Shandong	On-site research and investigation	Zeal Asset Management Limited	

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2010

Date of announcement	Subject matter	Medium of publication and website address
2010-02-25	Notice of 2010 First extraordinary general meeting	C08 of China Securities Journal, A14 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-02-25	Announcement in respect of resolutions of the seventeenth meeting of the fifth session of the board of directors	C08 of China Securities Journal, A14 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-02-25	Declaration by the candidates for independent directors	http://www.cninfo.com.cn
2010-02-25	Internal management policy for future pooling foreign exchange portfolio products	http://www.cninfo.com.cn
2010-02-25	Declaration by the nominator of independent directors	http://www.cninfo.com.cn
2010-02-25	Announcement in respect of provision of guarantee for the banking facilities being applied by controlling subsidiaries	C08 of China Securities Journal, A14 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-02-25	Independent opinion on the related matters by independent directors	http://www.cninfo.com.cn
2010-02-25	Announcement in respect of resolution of the thirteenth meeting of the fifth session of the Supervisory Committee	C08 of China Securities Journal, A14 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-3-25	Indicative announcement in respect of 2010 first extraordinary general meeting	D004 of China Securities Journal, A15 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-3-27	Notice of Board meeting	C005 of China Securities Journal, A5 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Announcement on resolution of 2010 first extraordinary general meeting	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Legal opinions as witnessed by lawyers on the announcement on resolution of the 2010 first extraordinary general meeting	http://www.cninfo.com.cn

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2010 (continued)

Date of announcement	Subject matter	Medium of publication and website address
2010-04-13	Announcement in respect of the resolutions passed at the first meeting of the sixth session of the Board	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Announcement in respect of the resolutions passed at the first meeting of the sixth session of the Supervisory Committee	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Announcement in respect of the resolutions passed at the fourteenth meeting of the fifth session of the Supervisory Committee	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Announcement in respect of the resolutions passed at the eighteenth meeting of the fifth session of the Board	D023 of China Securities Journal, A19 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Notice of 2009 annual general meeting	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	2009 annual report summary	D024 of China Securities Journal, A18 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Special explanation on utilization of funds by substantial shareholders and other related parties	http://www.cninfo.com.cn
2010-04-13	2009 social responsibility report	http://www.cninfo.com.cn
2010-04-13	Self-evaluation report on internal control	http://www.cninfo.com.cn
2010-04-13	Registration policy on personnel with insider information	http://www.cninfo.com.cn
2010-04-13	Management policy on external information users	http://www.cninfo.com.cn
2010-04-13	Accountability system for major errors in information disclosure in annual reports	http://www.cninfo.com.cn
2010-04-13	Independent directors' report for 2009	http://www.cninfo.com.cn
2010-04-13	2009 auditors' report	http://www.cninfo.com.cn

VI. Material Matters

XII. INDEX OF INFORMATION DISCLOSURE IN THE FIRST HALF YEAR OF 2010 (continued)

Date of announcement	Subject matter	Medium of publication and website address
2010-04-13	Announcement in respect of provision of entrusted loans to relevant controlling subsidiaries	D023 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-13	Independent opinion of independent directors on the self-evaluation report of internal control of the Company	http://www.cninfo.com.cn
2010-04-13	Special explanation on provision of external guarantee by the Company by independent directors and their independent opinion	http://www.cninfo.com.cn
2010-04-13	2009 annual report	http://www.cninfo.com.cn
2010-04-23	The main body of 2010 first quarterly report	D008 of China Securities Journal, A23 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-04-23	The full text of 2010 first quarterly report	http://www.cninfo.com.cn
2010-05-14	Indicative announcement in respect of 2009 annual general meeting	B008 of China Securities Journal, A20 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-05-18	Indicative announcement in respect of entering on an agreement to purchase equipment	A44 of China Securities Journal, A3 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-05-28	Indicative announcement in respect of the inspection report on environmental protection review of a controlling subsidiary	B004 of China Securities Journal, A5 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-06-01	2009 annual general meeting resolutions announcement	B005 of China Securities Journal, A8 of Hong Kong Commercial Daily, http://www.cninfo.com.cn
2010-06-01	Legal opinions as witnessed by lawyers on the announcement on resolution of the 2009 annual general meeting	http://www.cninfo.com.cn
2010-06-09	Announcement of dividend payment for H shares for 2009	B005 of China Securities Journal, A18 of Hong Kong Commercial Daily, http://www.cninfo.com.cn

Note: A total of 38 announcements were issued by the Company in the first half year of 2010.

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

Consolidated Balance Sheet

As at 30 June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds		2,082,976,768.06	2,892,923,245.93
Balances with clearing companies		—	—
Loans to banks and other financial institutions		—	—
Held-for-trading financial assets		7,900,000.00	14,900,000.00
Bills receivable		2,062,185,271.00	2,704,799,074.02
Accounts receivable		1,809,491,956.21	1,528,991,497.69
Prepayments		954,805,038.46	1,000,772,875.85
Premium receivable		—	—
Receivables from reinsurers		—	—
Reinsurance contract reserves receivable		—	—
Interest receivable		—	—
Dividend receivable		—	—
Other receivables		101,213,190.67	81,210,643.94
Financial assets purchased under agreements to resell		—	—
Inventory		3,137,538,934.48	2,226,579,492.59
Entrusted loans due within one year		—	—
Other current assets		150,066,661.76	90,756,205.60
Total current assets		10,306,177,820.64	10,540,933,035.62
NON-CURRENT ASSETS:			
Loans and advances to customers		—	—
Available-for-sale financial assets		—	—
Entrusted loans		—	—
Long-term receivables		—	—
Long-term equity investments		86,309,182.27	80,984,687.49
Investment properties		25,557,340.09	26,426,468.11
Fixed assets		13,235,502,615.92	13,529,590,915.63
Construction in progress		3,229,907,083.26	1,997,961,262.18
Construction materials		51,003,888.06	42,912,962.27
Disposal of fixed assets		8,758,079.00	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		1,328,345,385.05	1,313,428,867.12
Development expenditure		—	—
Goodwill		20,283,787.17	20,283,787.17
Long-term prepaid expenses		26,469,006.19	32,411,932.85
Deferred income tax assets		131,699,991.10	131,425,981.64
Other non-current assets		581,641,690.16	496,724,974.94
Total non-current assets		18,725,478,048.27	17,672,151,839.40
TOTAL ASSETS		29,031,655,868.91	28,213,084,875.02

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

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term borrowings		1,577,823,931.10	3,103,153,828.18
Borrowings from the central bank		—	—
Customer bank deposits and due to banks and other financial institutions		—	—
Placements from banks and other financial institutions		—	—
Held-for-trading financial liabilities		2,580,000.00	6,450,000.00
Bills payable		349,608,052.57	544,532,508.19
Accounts payable		2,783,532,440.84	2,122,860,892.58
Advance receipts		167,353,774.37	233,123,691.11
Assets sold under agreements to repurchase		—	—
Handling charges and commission payable		—	—
Staff remuneration payables		183,493,227.22	245,501,281.04
Taxes payable		95,468,160.29	137,491,104.68
Interest payable		50,104,333.32	5,050,000.00
Dividend payable		—	78,807.70
Other payables		459,241,706.51	321,220,579.61
Due to reinsurers		—	—
Insurance contract reserves		—	—
Customer brokerage deposits		—	—
Securities underwriting brokerage deposits		—	—
Non-current liabilities due within one year		498,173,562.18	345,353,527.87
Other current liabilities		1,515,722,500.00	—
Total current liabilities		7,683,101,688.40	7,064,816,220.96
NON-CURRENT LIABILITIES:			
Long-term borrowings		4,222,357,666.73	5,087,424,182.26
Bonds payable		—	—
Long-term payables		—	—
Deferred income		136,451,749.82	121,890,615.92
Estimated liabilities		—	—
Deferred income tax liabilities		15,265,236.10	12,408,618.13
Other non-current liabilities		2,282,197,764.60	1,189,484,415.60
Total non-current liabilities		6,656,272,417.25	6,411,207,831.91
TOTAL LIABILITIES		14,339,374,105.65	13,476,024,052.87
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital(or share capital)		2,062,045,941.00	2,062,045,941.00
Capital reserves		6,093,493,004.70	6,093,483,801.92
Less: Treasury shares		—	—
Special reserves		—	—
Surplus reserves		906,929,047.49	906,929,047.49
General risk provisions		—	—
Retained profit		3,917,841,485.49	3,928,586,297.55
Foreign currency translation differences		735,166.40	859,233.72
Total equity attributable to equity holders of the company		12,981,044,645.08	12,991,904,321.68
Minority interests		1,711,237,118.18	1,745,156,500.47
Total owners' equity		14,692,281,763.26	14,737,060,822.15
TOTAL LIABILITIES AND OWNERS' EQUITY		29,031,655,868.91	28,213,084,875.02

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

Balance Sheet Of The Company

As at 30 June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds		1,190,871,289.62	2,037,930,262.40
Held-for-trading financial assets		—	—
Bills receivable		1,184,326,420.86	1,915,645,987.88
Accounts receivable		1,730,911,969.11	1,387,208,451.92
Prepayments		532,966,310.47	826,816,984.44
Interest receivable		—	—
Dividend receivable		132,003,072.86	188,362,997.10
Other receivables		3,549,673,808.12	2,045,123,389.13
Inventory		1,418,037,174.32	901,471,663.46
Entrusted loans due within one year		1,822,000,000.00	1,688,000,000.00
Other current assets		81,565,385.69	35,927,902.98
Total current assets		11,642,355,431.05	11,026,487,639.31
NON-CURRENT ASSETS:			
Available-for-sale financial assets		—	—
Entrusted loans		500,000,000.00	395,000,000.00
Long-term receivables		—	—
Long-term equity investments		4,096,994,990.15	4,091,670,495.37
Investment properties		25,557,340.09	26,426,468.11
Fixed assets		5,473,150,396.30	5,741,048,494.95
Construction in progress		218,937,781.81	139,440,285.68
Construction materials		8,495,390.04	6,592,106.05
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		357,605,127.40	349,130,281.02
Development expenditure		—	—
Goodwill		—	—
Long-term prepaid expenses		—	—
Deferred income tax assets		76,827,209.22	73,479,449.99
Other non-current assets		—	—
Total non-current assets		10,757,568,235.01	10,822,787,581.17
TOTAL ASSETS		22,399,923,666.06	21,849,275,220.48

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

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term loans		1,031,761,488.03	2,637,914,967.54
Held-for-trading financial liabilities		2,580,000.00	6,450,000.00
Bills payable		263,411,052.57	456,914,277.59
Accounts payable		1,873,121,355.14	1,349,629,055.79
Advance receipt		222,565,080.32	168,878,896.38
Staff remuneration payables		114,303,299.73	133,530,934.62
Taxes payable		33,975,492.81	70,066,082.73
Interest payable		50,104,333.32	5,050,000.00
Dividend payable		—	78,807.71
Other payables		299,731,850.90	225,959,345.59
Non-current liabilities due within one year		407,454,000.00	252,423,000.00
Other current liabilities		1,515,722,500.00	—
Total current liabilities		5,814,730,452.82	5,306,895,367.95
NON-CURRENT LIABILITIES:			
Long-term borrowings		2,302,390,935.94	3,418,358,035.94
Bonds payable		—	—
Long-term payables		—	—
Deferred income		12,708,763.54	11,222,282.74
Estimated liabilities		—	—
Deferred income tax liabilities		—	—
Other non-current liabilities		2,282,197,764.60	1,189,484,415.60
Total non-current liabilities		4,597,297,464.08	4,619,064,734.28
TOTAL LIABILITIES		10,412,027,916.90	9,925,960,102.23
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital(or share capital)		2,062,045,941.00	2,062,045,941.00
Capital reserves		6,184,215,988.77	6,184,215,988.77
Less: Treasury shares		—	—
Special reserves		—	—
Surplus reserves		894,739,465.58	894,739,465.58
General risk provisions		—	—
Retained profit		2,846,894,353.81	2,782,313,722.90
Total owners' equity (shareholders' equity)		11,987,895,749.16	11,923,315,118.25
TOTAL LIABILITIES AND OWNERS' EQUITY (SHAREHOLDERS' EQUITY)		22,399,923,666.06	21,849,275,220.48

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

Consolidated Income Statement

January to June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Total operating revenue		8,176,641,676.99	6,675,366,559.73
Including: Operating revenue		8,176,641,676.99	6,675,366,559.73
Interest income		—	—
Earned premium		—	—
Handling charges and commission income		—	—
II. Total operating costs		7,411,971,191.83	6,499,643,053.93
Including: Operating costs		6,396,400,180.14	5,629,255,046.18
Interest expenses		—	—
Handling charges and commission expenses		—	—
Surrenders		—	—
Net claims paid		—	—
Net change in insurance contract reserves		—	—
Policyholder dividend expenses		—	—
Expenses for reinsurance accepted		—	—
Business taxes and surcharges		10,397,727.74	7,109,033.53
Selling and distribution expenses		441,501,879.97	339,929,245.25
General and administrative expenses		417,135,260.86	335,899,354.53
Finance expenses		125,739,655.86	176,847,315.84
Loss on impairment of assets		20,796,487.26	10,603,058.60
Add: Gain on change in fair value (“-” denotes loss)		8,358,094.03	8,985,659.76
Investment income (“-” denotes loss)		4,324,494.78	-9,531,720.12
Including: Investment income from associates and joint ventures		4,324,494.78	-9,531,720.12
Foreign exchange gains (“-” denotes loss)		—	—
III. Operating profit (“-” denotes loss)		777,353,073.97	175,177,445.44
Add: Non-operating income		67,413,802.58	68,384,829.29
Less: Non-operating expenses		6,208,466.79	5,322,631.80
Including: Loss on disposal of non-current assets		3,130,585.22	4,653,149.89
IV. Total profit (“-” denotes total loss)		838,558,409.76	238,239,642.93
Less: Income tax expenses		142,479,322.30	52,124,816.31
V. Net profit (“-” denotes net loss)		696,079,087.46	186,114,826.62
Net profit attributable to equity holders of the Company		607,868,970.24	157,487,312.97
Minority interests		88,210,117.22	28,627,513.65
VI. Earnings per share:		—	—
(I) Basic earnings per share		0.29	0.076
(II) Diluted earnings per share		N/A	N/A
VII. Other comprehensive income		-124,067.32	-10,210.57
VIII. Total comprehensive income		695,955,020.14	186,104,616.05
Total comprehensive income attributable to equity holders of the Company		607,744,902.92	157,477,102.40
Total comprehensive income attributable to minority interests		88,210,117.22	28,627,513.65

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

Income Statement Of The Company

January to June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Operating revenue		7,103,442,044.05	6,181,612,312.77
Less: Cost of operations		6,017,146,134.97	5,578,614,295.07
Business tax and surcharges		1,746,468.34	154,785.75
Selling and distribution expenses		229,508,020.80	214,720,116.93
General and administrative expenses		210,426,747.56	114,469,006.05
Finance expenses		111,970,947.81	155,142,424.33
Loss on impairment of assets		34,949,608.75	12,791,869.13
Add: Gain on change in fair value (“-” denotes loss)		3,870,000.00	-5,200,000.00
Investment income (“-” denotes loss)		249,697,380.90	36,407,598.41
Including: Investment income from associates and joint ventures		4,324,494.78	-9,531,720.12
II. Operating profit (“-” denotes loss)		751,261,496.72	136,927,413.92
Add: Non-operating income		32,258,682.65	32,808,385.47
Less: Non-operating expenses		3,993,753.67	4,666,580.20
Including: Loss on disposal of non-current assets		1,904,148.67	4,449,274.39
III. Total profit (“-” denotes total loss)		779,526,425.70	165,069,219.19
Less: Income tax expenses		96,332,012.49	49,719,019.10
IV. Net profit (“-” denotes net loss)		683,194,413.21	115,350,200.09
V. Earnings per share:		—	—
(I) Basic earnings per share		0.33	0.056
(II) Diluted earnings per share		N/A	N/A
VI. Other comprehensive income		—	—
VII. Total comprehensive income		683,194,413.21	115,350,200.09

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

Consolidated Cash Flow Statements

January to June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		8,396,743,627.10	5,072,568,207.01
Net increase in customer bank deposits and due to banks and other financial institutions		—	—
Net increase in borrowings from the central bank		—	—
Net increase in placements from other financial institutions		—	—
Cash received from premiums under original insurance contracts		—	—
Net cash received from reinsurance business		—	—
Net increase in deposits from policyholders		—	—
Net increase from disposal of held-for-trading financial assets		—	—
Cash received from interest, handling charges and commissions		—	—
Net increase in placements from banks and other financial institutions		—	—
Net capital increase of repurchase business		—	—
Tax rebates received		9,564,967.88	7,596,994.38
Cash received relating to other operating activities		149,110,831.59	101,170,561.40
Subtotal of cash inflows from operating activities		8,555,419,426.57	5,181,335,762.79
Cash paid for goods and services		5,928,577,889.61	4,710,646,865.64
Net increase in loans and advances to customers		—	—
Net increase in deposits with the central bank and other financial institutions		—	—
Cash paid for claims under original insurance contracts		—	—
Cash paid for interest, handling charges and commission		—	—
Cash paid for policyholder dividend		—	—
Cash paid to and for employees		398,614,872.25	253,887,714.94
Payments of taxes and surcharges		704,611,703.50	343,299,580.44
Cash paid relating to other operating activities		333,891,884.81	399,603,409.25
Subtotal of cash outflows from operating activities		7,365,696,350.17	5,707,437,570.27
Net cash flows from operating activities		1,189,723,076.40	-526,101,807.48

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

Items	Notes	Amounts for the current period	Amounts for the prior period
II. Cash flows from investing activities:			
Cash received from investments		—	—
Cash received from investment income		—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		20,129,176.66	19,421,000.00
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other investing activities		—	47,990,000.00
Subtotal of cash inflows from investing activities		20,129,176.66	67,411,000.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		1,521,600,542.26	407,727,921.18
Cash paid on investments		1,010,000.00	6,000,000.00
Net increase in pledged loans		—	—
Net cash paid for acquisition of subsidiaries and other business units		—	5,706,000.00
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		1,522,610,542.26	419,433,921.18
Net cash flows from investing activities		-1,502,481,365.60	-352,022,921.18
III. Cash flows from financing activities:			
Cash received from capital contribution		—	—
Including: Cash received from minority interest contribution to subsidiaries		—	—
Cash received from borrowings		2,475,825,316.09	6,483,130,711.58
Cash received from bond issue		—	—
Cash received relating to other financing activities		2,899,268,303.74	—
Subtotal of cash inflows from financing activities		5,375,093,619.83	6,483,130,711.58
Cash repayments of amounts borrowed		4,713,400,265.77	3,546,592,000.00
Cash paid for dividend and profit distribution or interest payment		831,853,799.22	217,493,000.00
Cash paid relating to other financing activities		—	2,040,013,989.64
Subtotal of cash outflows from financing activities		5,545,254,064.99	5,804,098,989.64
Net cash flows from financing activities		-170,160,445.16	679,031,721.94
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-11,859,439.78	-1,378,763.33
V. Net increase in cash and cash equivalents		-494,778,174.14	-200,471,770.05
Add: Balance of cash and cash equivalents as at the beginning of the period		2,367,334,202.50	2,687,579,159.85
VI. Balance of cash and cash equivalents as at the end of the period		1,872,556,028.36	2,487,107,389.80

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

Cash Flow Statements of the Company

January to June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		6,528,632,656.16	4,131,278,897.79
Tax rebates received		—	—
Cash received relating to other operating activities		46,562,110.75	52,407,526.45
Subtotal of cash inflows from operating activities		6,575,194,766.91	4,183,686,424.24
Cash paid for goods and services		4,554,172,766.62	4,391,742,107.99
Cash paid to and for employees		130,147,836.04	94,149,841.11
Payments of taxes and surcharges		446,152,782.46	181,207,781.34
Cash paid relating to other operating activities		1,480,177,671.73	571,437,104.56
Subtotal of cash outflows from operating activities		6,610,651,056.85	5,238,536,835.00
Net cash flows from operating activities		-35,456,289.94	-1,054,850,410.76
II. Cash flows from investing activities:			
Cash received from investments		296,000,000.00	580,900,000.00
Cash received from investment income		182,607,069.44	50,939,318.53
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		18,977,755.80	19,099,922.08
Net cash received from disposal of subsidiaries and other business units		—	—
Cash received relating to other investing activities		—	4,850,000.00
Subtotal of cash inflows from investing activities		497,584,825.24	655,789,240.61
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		30,295,440.54	21,564,955.31
Cash paid on investments		535,000,000.00	406,000,000.00
Net cash paid for acquisition of subsidiaries and other business units		—	—
Cash paid relating to other investing activities		—	—
Subtotal of cash outflows from investing activities		565,295,440.54	427,564,955.31
Net cash flows from investing activities		-67,710,615.30	228,224,285.30

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

Items	Notes	Amounts for the current period	Amounts for the prior period
III. Cash flows from financing activities:		—	—
Cash received from capital contribution		—	—
Cash received from borrowings		1,447,618,522.84	5,798,764,711.64
Cash received relating to other financing activities		2,875,273,211.00	—
Subtotal of cash inflows from financing activities		4,322,891,733.84	5,798,764,711.64
Cash repayments of amounts borrowed		4,068,972,362.27	2,757,800,070.71
Cash paid for dividend and profit distribution or interest payment		696,143,228.07	160,011,987.42
Cash paid relating to other financing activities		—	2,015,594,417.01
Subtotal of cash outflows from financing activities		4,765,115,590.34	4,933,406,475.14
Net cash flows from financing activities		-442,223,856.50	865,358,236.50
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-10,495,000.04	-70,524.91
V. Net increase in cash and cash equivalents		-555,885,761.78	38,661,586.13
Add: Balance of cash and cash equivalents as at the beginning of the period		1,586,045,998.83	2,080,005,634.40
VI. Cash and cash equivalents as at the end of the period		1,030,160,237.05	2,118,667,220.53

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

Consolidated Statement of Changes in Owners' Equity

January to June 2010

Prepared by:
Shandong Chenming
Paper Holdings Limited
Unit: RMB

Items	Amounts for the current period										Amounts for the prior year										
	Equity attributable to equity holders of the Company					Less:					Equity attributable to equity holders of the Company					Less:					
	Capital reserves	Treasury Shares	Special reserves	Surplus reserves	Retained profit	Others	Minority interests	owners' equity	Total	or share capital	Capital reserves	Treasury Shares	Special reserves	Surplus reserves	Retained profit	Others	Minority interests	owners' equity	Total	or share capital	
I. Balance as at the end of the prior year	2,082,045,941.00	6,063,463,801.92	-	906,929,047.49	3,228,536,297.55	889,233.72	1,745,159,500.47	14,737,080,822.15	2,082,045,941.00	6,063,463,801.92	-	-	825,476,693.53	3,277,932,810.40	879,498.14	1,782,685,782.97	14,021,774,664.96				
Adt. Accounting policy change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance as at the beginning of the year	2,082,045,941.00	6,063,463,801.92	-	906,929,047.49	3,228,536,297.55	889,233.72	1,745,159,500.47	14,737,080,822.15	2,082,045,941.00	6,063,463,801.92	-	-	825,476,693.53	3,277,932,810.40	879,498.14	1,782,685,782.97	14,021,774,664.96				
III. Changes in the year	-	9,202.78	-	-	-10,744,612.06	-124,067.32	-33,919,382.29	-44,779,658.83	-	-	-	-	81,432,198.96	651,939,487.15	-20,284.42	-17,539,282.50	715,286,157.19				
(*) Net profit	-	-	-	-	607,888,970.24	-124,067.32	882,111,177.22	665,079,087.46	-	-	-	-	-	833,947,381.16	-	117,983,449.06	953,914,932.22				
(II) Other comprehensive income	-	-	-	-	-	-124,067.32	-	-124,067.32	-	-	-	-	-	-	-20,284.42	-	-20,284.42				
Sub-total of (I) and (II) above	-	-	-	-	607,888,970.24	-124,067.32	882,111,177.22	665,955,020.14	-	-	-	-	-	833,947,381.16	-20,284.42	117,983,449.06	953,891,650.80				
IV. Capital paid in and reduced by owners	9,202.78	-	-	-	-	-	-	9,202.78	-	-	-	-	-	-	-	-	-				
1. Capital paid in by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
2. Amounts of state-based payments recognised in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
3. Others	9,202.78	-	-	-	-	-	-	9,202.78	-	-	-	-	-	-	-	-	-				
V. Profit distribution	-	-	-	-	-618,613,782.20	-	-122,110,296.73	-740,724,078.93	-	-	-	-	81,432,198.96	-81,432,198.96	-141,001,534.16	-244,108,891.21	-				
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
2. Transfer to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
3. Distribution to owners (shareholders)	-	-	-	-	-618,613,782.20	-	-122,110,296.73	-740,724,078.93	-	-	-	-	-	-103,102,287.06	-141,001,534.16	-244,108,891.21	-				
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
VI. Transfer within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
1. Transfer from capital reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
2. Transfer from surplus reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
3. Transfer from surplus reserves to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
VII. Others	-	-	-	-	-	-	-19,202.78	-19,202.78	-	-	-	-	-	-	-	-	-	5,498,822.60			
1. Others	-	-	-	-	-	-	-19,202.78	-19,202.78	-	-	-	-	-	-	-	-	-	5,498,822.60			
VIII. Balance as at the end of the period	2,082,045,941.00	6,063,463,801.70	-	906,929,047.49	3,197,841,685.49	735,166.40	1,711,257,116.18	14,682,281,768.26	2,082,045,941.00	6,063,463,801.92	-	-	906,929,047.49	3,202,365,297.55	889,233.72	1,745,195,500.47	14,737,060,822.15				

Statement of Changes in Equity of Equity Holders of the Company

January to June 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Items	Amounts for the current period					Amounts for the prior year					Total owners' equity				
	Paid-up capital (or share capital)	Capital reserves	Treasury shares	Less: Special reserves	Surplus reserves	General risk provisions	Retained profit	Total owners' equity	Capital reserves	Treasury shares		Less: Special reserves	Surplus reserves	General risk provision	Retained profit
I. Balance as at the beginning of the prior year	2,062,045,941.00	6,184,215,988.77	-	-	884,739,465.58	-	2,782,313,722.90	11,923,315,118.25	6,184,215,988.77	-	-	813,287,268.82	-	2,152,346,247.34	11,211,895,445.73
Add: Accounting policy changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance as at the beginning of the year	2,062,045,941.00	6,184,215,988.77	-	-	884,739,465.58	-	2,782,313,722.90	11,923,315,118.25	6,184,215,988.77	-	-	813,287,268.82	-	2,152,346,247.34	11,211,895,445.73
III. Changes in the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(*) denotes decrease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(I) Net profit	-	-	-	-	64,580,630.91	-	64,580,630.91	64,580,630.91	-	-	-	81,452,198.96	-	629,967,475.56	711,419,672.52
(II) Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of (I) and (II)	-	-	-	-	64,580,630.91	-	64,580,630.91	64,580,630.91	-	-	-	81,452,198.96	-	629,967,475.56	711,419,672.52
(III) Capital paid in and reduced by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital paid in by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Amounts of share-based payments recognised in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners (shareholder/s)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Transfer with owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Transfer from surplus reserves to make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriated in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Used in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
M. Balance as at the end of the period	2,062,045,941.00	6,184,215,988.77	-	-	884,739,465.58	-	2,846,894,353.81	11,987,895,749.16	2,062,045,941.00	6,184,215,988.77	-	884,739,465.58	-	2,782,313,722.90	11,923,315,118.25

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

Notes to the financial statements

2010 Interim Report

(All amounts in RMB unless otherwise specified)

I. General Information of the Company

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

In May 1997, with the approval issued by the Securities Committee of the State Council ([1997] Document No. 26), the Company issued 115 million B Shares in connection with its international offering. B-shares from this issuance were listed on the Shenzhen Stock Exchange since 26 May 1997.

In September 2008, with the approval issued by China Securities Regulatory Committee (hereinafter referred as the “CSRC”) (Zheng Jian Gong Si Zi [2000] Document No. 151), the Company issued 70 million A Shares. A-shares from this issuance were listed on the Shenzhen Stock Exchange on 20 November 2000.

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

As at 31 December 2009, the Company has a total of 2,062,045,941 shares.

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

Shouguang Chenming Holdings Co., Ltd is the largest shareholder of the Company.

The Company’s financial statements were approved by the Board on 24 August 2010.

II. Basis of Preparation of the Financial Statements

The Company’s financial statements have been prepared based on the going concern assumption. Except for consumable biological assets and certain financial instruments that are measured at fair value, the financial statements have been prepared based on actual transactions and events, in accordance with the accounting standards for business enterprises promulgated by the Ministry of Finance of PRC in February 2006 and 38 specific accounting standards, the subsequently promulgated application guidelines, interpretations and other related rules (“Accounting Standards for Business Enterprises”).

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

The financial statements for the period from January to June of 2010 have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company as at 30 June 2010 and relevant information such as the operating results and cash flows of the Company from January to June of 2010. In addition, the financial statements of the Company also comply with, in all material respects, the disclosure requirements of the “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” revised by the China Securities Regulatory Commission (“CSRC”) in 2009 and the notes thereto.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations

1. Accounting period

Accounting periods of the Company are divided into annual periods and interim periods. Interim periods refer to reporting periods that are shorter than a full fiscal year. The fiscal year of the Company is from 1 January to 31 December of each calendar year.

2. Reporting currency

The reporting currency of the Company and its domestic subsidiaries is Renminbi (“RMB”). Overseas subsidiaries of the Company recognise U.S. dollar as their reporting currency according to the primary economic environment in which these subsidiaries operate. Amounts are converted into RMB when preparing the financial statements.

3. Accounting treatment of business combination

Business combination is classified into business combination under common control and business combination not under common control.

(1) Business combination under common control

Assets and liabilities obtained by the absorbing party in a business combination are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the share capital premium account in capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings. Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

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

Where the cost of a business combination exceeds the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is recognised as goodwill. Where the cost of a business combination is less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer’s interest in the fair value of the acquiree’s identifiable net assets, the difference is charged to profit or loss for the period.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

4. Basis for preparation of consolidated financial statements

(1) Principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term “control” means that the Company has the power to decide an investee’s financial and operating policy, pursuant to which, the Company can get the power to obtain benefits from the investee’s operating activities. Where the Company accounts for more than 50% (excluding 50%) of total capital carrying voting rights of the investee or accounts for less than 50% of total capital carrying voting rights of the investee but has effective control, such investees shall be within the consolidation scope.

(2) Basis for preparation of the consolidated financial statements

Based on the financial statements of the parent and subsidiaries included in the consolidation and in accordance with other relevant information, consolidated financial statements are prepared by making adjustment to the long-term equity investment in subsidiaries using the equity method, after offsetting the parent’s equity capital investment and its share in owners’ equity of subsidiaries, material transactions within the Company and transactions between home office and branches. Minority interests shall be presented as “minority interests” under owners’ equity in the consolidated balance sheets. Profit or loss attributable to minority interests shall be presented as “minority interests” under net profits in the consolidated income statements. In preparation of consolidated financial statements, the financial statements of subsidiaries are subject to adjustment where there is a difference in their accounting policies or accounting periods with those of the Company or are required to be separately prepared in accordance with the latter.

For acquisition of subsidiaries by the Company due to merger of entities under common control during the reporting period, the opening balance of the Company’s consolidated balance sheets shall be adjusted in its preparation. For acquisition of subsidiaries arising from merger of entities not under common control, the opening balance of the consolidated balance sheets is not adjusted in its preparation. For disposal of subsidiaries during the reporting period, the opening balance of consolidated balance sheets is not adjusted in its preparation.

For acquisition of subsidiaries by the Company due to merger of entities under common control during the reporting period, the revenue, expense and profit of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statements. For acquisition of subsidiaries arising from merger of entities not under common control, the revenue, expense and profit of such subsidiaries from the date of acquisition to the end of the reporting period are included in the consolidated income statements. For disposal of subsidiaries by the Company during the reporting period, the revenue, expense and profit of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated income statements.

For acquisition of subsidiaries by the Company due to merger of entities under common control during the reporting period, the cash flows of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statements. For acquisition of subsidiaries arising from merger of entities not under same control, the cash flows of such subsidiaries from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statements. For disposal of subsidiaries by the Company during the reporting period, the cash flows of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated cash flow statements.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

5. Standards for recognizing cash and cash equivalents

Cash and cash equivalents of the Company include cash on hand, deposits readily available for payment purpose and short-term (normally fall due within three months from the date of acquisition) and highly liquid investments held the Company which are readily convertible into known amounts of cash and which are subject to insignificant risk of value change.

6. Foreign currency operations and translation of statements denominated in foreign currency

(1) Basis for translation of foreign currency transactions

The foreign currency transactions of the Company, when initially recognised, are translated into RMB at the prevailing spot exchange rate on the date of exchange (usually refers to the middle rate of the exchange rate for the day as quoted by the People's Bank of China, the same below) while the Company's foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into RMB at the exchange rate actually adopted.

(2) Basis for translation of foreign currency monetary items and foreign currency non-monetary items

On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The translation difference arising from the gap between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or on the last balance sheet date shall be recognised in the profit or loss for the period, except that the translation difference arising from foreign currency borrowings related to construction or production of assets eligible for capitalization shall be capitalised in accordance with the Accounting Standards for Business Enterprises No. 17 - Borrowing Costs. The foreign currency non-monetary items measured at historical cost shall still be translated at the spot exchange rate on the date of the transaction, with the reporting currency of which remained unchanged.

Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate on the date of determination of the fair value. The difference between the amounts of reporting currency before and after the translation will be treated as changes in fair value (including changes in foreign exchange rates) and recognised in profit or loss for the period.

(3) Basis for translation of foreign currency financial statements

According to the following requirements, the Company will translate the foreign currency dominated financial statements into RMB dominated financial statements.

The asset and liability items in the balance sheets shall be translated at the spot exchange rate on the balance sheet date. All items under owners' equity other than the "undistributed profits" shall be translated at the spot exchange rate when they are incurred.

The income and expense items in the income statements shall be translated at the spot exchange rate on the date of transaction. On disposal of foreign operations, translation differences arising from the translation of financial statements denominated in foreign currencies related to the disposed foreign operations will be transferred to profit or loss for the period, while disposal in part shall be calculated based on the proportion of disposal.

The translation difference arising from the translation of foreign currency financial statements based on the aforesaid method shall be presented separately under owners' equity in the balance sheets.

Cash flows statements denominated in foreign currency shall be translated at the spot exchange rate on the date when the cash flows are incurred. The effect of changes in exchange rate on cash should be regarded as a reconciling item and presented separately in the cash flow statements.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

7. Financial instruments

(1) Basis for recognising financial instruments

A financial instrument is recognised in the balance sheet when the Company becomes a party to the contract of a financial instrument.

(2) Classification of financial instruments

Financial assets of the Company shall be classified into four categories according to their investment purposes and business substance: ① financial assets that are measured at fair value with any change in fair value recorded into profit or loss for the period, including transactional financial assets and financial assets that are designated to be measured at fair value with any change in fair value recorded into profit or loss for the period; ② investments which will be held to their maturity; ③ loans and accounts receivable; ④ financial assets available for sale.

Financial liabilities are classified into two categories according to their business substance: ① financial liabilities that are measured at fair value with any change in fair value recorded into profit or loss for the period, including transactional financial liabilities and financial liabilities that are designated to be measured at fair value with any change in fair value recorded into profit or loss for the period; ② other financial liabilities.

(3) Measurement of financial instruments

① *Financial assets or financial liabilities measured at fair value with any change in fair value recorded into profit or loss for the period*

When obtained, the financial assets or financial liabilities shall be initially measured at their fair value (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn), and relevant transaction costs are charged to profit or loss for the period. The interests or cash dividends to be obtained during the period are recognised as investment gain. By the end of the period, any change in fair value will be recorded into profit or loss for the period.

On disposal of such financial assets or financial liabilities, the difference between the fair value and the amount of initial recognition shall be recognised as investment gain; meanwhile, profit or loss arising from the change in fair value will be adjusted.

② *Held-to-maturity investments*

Held-to-maturity investments are initially measured at fair value when obtained (except for interests on bonds of which the maturity interest is not drawn) plus relevant transaction expenses.

Interest income is calculated according to the amortised cost and effective interest rate (if the difference between effective interest rate and coupon rate is minor, interest income will be measured at coupon rate) and recorded into investment income. The effective interest rate, ascertained when initially obtained, shall remain unchanged within the predicted term of existence or within a shorter applicable term. When disposed, the difference between the consideration obtained and the carrying amount of the investment shall be recorded into investment income.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

7. Financial instruments (continued)

(3) Measurement of financial instruments (continued)

③ *Accounts receivable*

The creditor's rights receivable that are formed when selling goods or providing services to external parties, and creditor's rights on debt instruments of other enterprises held by the Company that are not quoted in an active market, including accounts receivable, bills receivable, other receivables, long-term receivables, etc., shall be initially measured in accordance with the consideration of the contract or agreement to be received from the acquirer. Accounts receivable that are of a financing nature are initially recognised at the current value. Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

④ *Available-for-sale financial assets*

Available-for-sale financial assets are initially measured at fair value when obtained (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn) plus relevant transaction expenses. The interests or cash dividends to be obtained during the period the available-for-sale financial assets are held shall be recorded into investment income. By the end of the reporting period, financial assets are measured at fair value, and the change in fair value shall be recorded into capital reserves (other capital reserves). When disposed of, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment income; meanwhile, the corresponding portion of accumulated change in fair value previously recorded into owners' equity shall be transferred to profit or loss for the period.

⑤ *Other financial liabilities*

Other financial liabilities are initially measured at fair value plus relevant transaction expenses, and subsequently measured at amortised cost.

Except the following circumstances:

- A. Derivative financial liabilities which are linked to equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably measured, and which shall be settled by delivery of equity instruments are measured at cost.
- B. Financial guarantee contracts which are not designated as a financial liability measured at fair value and the change in fair value is recorded into profit or loss for the period, and commitments on loans which are not designated to be measured at fair value and the change in fair value is recorded into profit or loss for the period and which is incorporated with preferential interest rate, are subsequently measured at the higher of the following two amounts after initial measurement:
 - a. The amount ascertained according to the Accounting Standards for Business Enterprises No. 13 – Contingencies;
 - b. The surplus of initially recognised amount from which the accumulative amortization ascertained according to the principles of the Accounting Standards for Business Enterprises No.14 – Income is subtracted.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

7. Financial instruments (continued)

(4) Recognition and measurement of transfer of financial instruments

A financial asset shall be derecognised while the Company has transferred nearly all the risks and rewards related to the ownership of the financial asset to the transferee, and it shall not be derecognised if the Company has retained nearly all the risks and rewards related to the ownerships of the financial asset.

The substance-over-form principle shall be adopted while making a judgment on whether the transfer of financial assets satisfies the above conditions for termination of recognition. The transfer of financial assets could be classified into entire transfer and partial transfer.

If the transfer of an entire financial asset satisfies the conditions for termination of recognition, the difference between the two amounts below shall be recorded into profit or loss for the period:

- ① The carrying amount of the transferred financial asset;
- ② The consideration received as a result of the transfer, plus the accumulative amount of the change in fair value previously recorded into the owners' equities (in cases where the transferred financial asset is available-for-sale financial asset).

If the partial transfer of financial assets satisfies the conditions for termination of recognition, the overall carrying amount of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognised part and the remaining part (in such cases, the service assets retained shall be deemed as part of the financial assets the recognition of which is not terminated), and the difference between the two amounts below shall be recorded into profit or loss for the period:

- ① The carrying amount of the derecognised part;
- ② The sum of consideration of the derecognised portion and the corresponding portion of accumulated change in fair value previously recorded into owners' equity (in cases where the transferred financial assets are available-for-sale financial assets). Financial assets will still be recognised if they fail to satisfy the conditions for termination of recognition, with the consideration received recognised as a financial liability.

(5) Determination of fair value of financial instruments

- ① Where there is an active market of financial assets of financial liabilities, the price quoted in an active market shall be used to determine the fair value. The quoted price is ascertained in accordance with the following principles:
 - A. In an active market, the quoted price of the financial assets the Company holds or the financial liabilities the Company intends to assume shall be the bid price currently available in the market, while the quoted price of the financial assets the Company intends to acquire or the financial liabilities the Company assumed shall be the ask price currently available in the market.
 - B. Where there is no bid price or ask price currently available for a financial asset or financial liability, the Company shall adopt the market quoted price of the latest transaction or adjusted market quoted price of the latest transaction, except that there are obvious evidence indicating that such a market quoted price is not fair.
- ② If no active market exists for a financial asset or financial liability, a valuation technique will be adopted by the Company to establish the fair value.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

7. Financial instruments (continued)

(6) Impairment of financial assets

An impairment test shall be made on the carrying amount of financial assets on the balance sheet date. Provision for impairment will be made if there is objective evidence indicating that the financial asset is impaired. The objective evidence indicating that the financial asset has been impaired refers to the events that actually occur after the initial recognition, which materially affect the estimated future cash flows generated by the financial asset and such influence could be reliably measured.

① Held-to-maturity investments

Held-to-maturity investments measured at amortised cost shall be written down when impaired, with its carrying amount written down to the present value (discounted at the original effective interest rate) of the estimated future cash flows (excluding future credit losses not yet incurred), and the amount written-down shall be recognised as an impairment loss of the asset through profit or loss for the period. When a provision for impairment is made, an independent impairment test will be conducted for single item with significant held-to-maturity investments. With regard to single item without significant held-to-maturity investments, an independent impairment test can be carried out separately, or they may be tested for impairment in a group sharing similar credit risk features. Held-to-maturity investments which are not impaired upon an independent test shall be put into a group sharing similar credit risk features and tested again. Held-to-maturity investments the impairment loss of which has been individually recognised will no longer be tested for impairment within a group sharing similar credit risk features.

② Accounts receivable

Please refer to “note 4: accounts receivable” for the way in which bad debt provision for accounts receivable is made.

③ Available-for-sale financial assets

If the fair value of available-for-sale financial asset falls relatively significantly, or it is expected that the descending trend is not temporary after taking into account all relevant factors, the difference between the fair value and the carrying amount shall be recognised as impairment loss. When an impairment loss is recognised, the accumulated loss arising from the decrease in fair value previously recorded into owners' equity shall be transferred out and recorded into impairment loss.

④ Others

When an equity investment that is not quoted in an active market and the fair value of which can not be measured reliably, or a derivative financial asset linked to the equity instrument that shall be settled by delivery of that equity instrument is impaired, the difference between the carrying amount of the equity investment or derivative financial asset and the discounted present value of the future cash flows using the then market yield rate of similar financial assets is recognised as an impairment loss through profit or loss for the period. Equity investments that are not quoted in an active market and the fair value of which can not be measured reliably will cease to be reversed after provision for impairment is made.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

8. Accounts receivable

(1) Recognition of bad debt provision

The Company carries out an overall inspection on the carrying amount of accounts receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganizations; ④ other objective evidences show that the accounts receivable are impaired. Bad debt provision will not be made for accounts receivable falling within the scope of consolidation.

(2) Measurement of provision for bad debts

① *Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable*

- A. Recognition of bad debt provision for single item with significant accounts receivable: the Company recognises accounts receivable amounting to over RMB1 million as a single item with significant accounts receivable.
- B. Measurement of bad debt provision for single item with significant accounts receivable: the Company conducts an independent impairment test on each single item with significant accounts receivable to separately test financial assets that have never been impaired, including impairment tests conducted within a group of financial assets sharing similar credit risk features. Accounts receivable the impairment loss of which has been recognised are separately tested, excluding impairment tests conducted for a group of accounts receivable sharing similar credit risk features.

② *Basis for recognition and measurement of bad debt provision for single item without significant accounts receivable but considered to be greater risks after arrival at by credit risk features*

- A. Basis for determining portfolio of credit risk features: in respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Company classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.
- B. Measurement of provision based on credit risk feature portfolio: when an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

8. Accounts receivable (continued)

(2) Measurement of provision for bad debts (continued)

③ Analysis by age

Age	Proportion of provision for accounts receivable (%)	Proportion of provision for other accounts receivable (%)
Within 1 year (including 1 year, the same below)	5	5
1-2 years	10	10
2-3 years	20	20
Over 3 years	100	100

(3) Reversal of provision

If there are evidences indicating that the value of the account receivable is recovered and that recovery is connected to the event subsequent to the recognition of the loss, the impairment loss previously recognised will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment loss has been made.

9. Inventory

(1) Classification of inventory

The inventory of the Company mainly comprises raw materials, work in progress, and finished goods etc..

(2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the planned cost first, and deviations in cost will be apportioned by month end, so that the planned cost will be adjusted to become the actual cost.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

9. Inventory (continued)

(3) Recognition and measurement of provision for decline in value of inventories

On balance sheet date, inventories of the Company are measured at the lower of the cost and the net realizable value.

The net realizable value is the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of inventories. Amongst others: ① the net realizable value of inventories directly held for sale, such as finished goods, products and materials held for sale, is the amount after deducting the estimated selling expenses and relevant taxes from the estimated selling price of the inventories; ② the net realizable value of material inventories, which need to be processed, during the normal course of production and operation refers to the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; ③ the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

The provision for decline in value of inventories is made by the Company on the basis of a single inventory item.

On the balance sheet date, if the cost of inventories is higher than their net realizable value, provision for decline in value of inventories will be made and recorded into profit or loss for the period. If factors previously causing any write-down of the inventories disappeared, the amount of write-down shall be recovered and reversed from the provision to the extent provision for decline in value of inventories are previously made. The reversed amount is recorded into profit or loss for the period.

(4) The Company's inventory system is a perpetual inventory system

(5) Amortisation of low-value consumables and packaging materials

Low-value consumables are amortised by lump-sum when taken for use. Also, packaging materials are amortised by lump-sum when taken for use.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

10. Long-term equity investments

(1) Recognition of the initial cost of long-term equity investments

For long-term equity investments obtained by the Company through business combination of entities under common control, the Company's share of the carrying amount of all owners' equity of the parties being merged shall be taken as the initial cost of investment. For long-term equity investments obtained through business combination of entities not under common control, the combination cost ascertained will be used for initial measurement. As regards long-term equity investments obtained by other means, the initial cost of investment shall be ascertained based on the actual cash payment, the fair value of the equity securities issued, the value stipulated in the investment contract or agreement, etc. The initial cost of investment shall comprise all costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments.

For long-term equity investments obtained by the Company through business combination of entities under common control, the Company's share of the carrying amount of all owners' equity of the parties being merged on the date of combination shall be taken as the initial cost of investment of the long-term equity investments. The difference between the initial cost of the long-term equity investment and the carrying amount of consideration paid for the combination (or the aggregate par value of shares issued) shall be offset against capital reserve. If the capital reserve is not sufficient to offset the same, the retained earnings shall be adjusted. All costs directly attributable to the business combination on the side of the acquirer are recorded through profit or loss for the period. Handling charges, commissions and other expenses in respect of bonds issued or other liabilities assumed for the purpose of business combination are recorded into the initial amount of the bonds issued and other liabilities. Handling fees, commissions and other expenses incurred from the equity securities issued for a business combination are offset against the premium income of the equity securities. If the premium income is not sufficient for this purpose, the retained earnings will be written down.

For long-term equity investments obtained by the Company through business combination of entities not under common control, the cost of the combination ascertained on the date of acquisition shall be taken as the initial cost of investment of the long-term equity investments. The cost of the combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued to be paid by the Company, in exchange for control of the acquiree plus any cost directly attributable to the business combination. When the business combination is achieved in stages through a number of exchange transactions, the cost of the combination is the aggregate cost of individual transactions. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company shall include the amount of that adjustment in the cost of the combination on the date of acquisition if the adjustment is probable and can be measured reliably. Handling charges, commissions and other expenses in respect of bonds issued or other liabilities assumed for the purpose of business combination are recorded into the initial amount of the bonds issued and other liabilities. Handling fees, commissions and other expenses incurred from the equity securities issued during a business combination are offset against the premium income of the equity securities. If the premium is not sufficient for this purpose, the retained earnings will be written down.

The initial cost of investment of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid. The initial cost of investment shall comprise all costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments.

The initial cost of investment of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

The initial cost of investment of a long-term equity investment contributed by the Company's investors shall be the value stipulated in the investment contract or agreement except for cases where the value stipulated in the contract or agreement is not fair.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

10. Long-term equity investments (continued)

(1) Recognition of the initial cost of long-term equity investments (continued)

The initial cost of investment a long-term equity investment obtained by the Company through the exchange of non-monetary assets shall be ascertained in accordance with the Accounting Standards for Business Enterprises No. 7 - Exchange of Non-monetary Assets.

The initial cost of investment of a long-term equity investment obtained by the Company through debt restructurings shall be ascertained in accordance with Accounting Standards for Business Enterprises No. 12 - Debt Restructurings.

The initial cost of investment of a long-term equity investment shall be recognised based on its appraised value if the carrying amount of assets and liabilities are adjusted in light of their appraised value during the Company's reformation of institutions.

Except for the costs directly attributable to business combination, the initial cost of investment of long-term equity investments acquired by the Company in other ways shall comprise all costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments.

When acquiring the investments, the cash dividends and profits declared but are yet to be distributed, which are included in the consideration to be paid, shall not be recognised as the initial cost of investment of the long-term equity investments.

(2) Subsequent measurement of long-term equity investments and recognition of profit or loss

① A long-term equity investment of the Company, which is able to control the investees, does not involve joint control or significant influences over the investees, has no quoted price in an active market and the fair value of which cannot be measured reliably, are measured by employing the cost method.

The long-term equity investments measured by employing the cost method shall be measured at the initial cost of investment. The cost of the long-term equity investment shall be adjusted on subsequent increase or recovery of the investment. Cash dividends or profits declared by the investees are recognised as investment gain for the period.

② A long-term equity investment of the Company which involves joint control or significant influences over the investees is measured by employing the equity method. If the initial cost of investment of a long-term equity investment is greater than the Company's attributable share of the fair value of the investees' identifiable net assets as a result of the investment, the initial cost of investment of the long-term equity investment shall not be adjusted. If the initial cost of investment of a long-term equity investment is less than the Company's attributable share of the fair value of the investees' identifiable net assets as a result of the investment, the difference shall be recorded through profit or loss for the period, and the cost of the long-term equity investment shall be adjusted as well.

A long-term equity investment shall, in accordance with the Company's share of the net profits or losses realised by the investees, recognise the investment profits or losses and adjust the carrying amount of the long-term equity investment. The Company shall reduce the carrying amount of the long-term equity investment in accordance with the share of the profits or cash dividends declared by the investees.

The Company shall recognise the net losses of the investees to the extent that the carrying amount of the long-term equity investment and other long-term rights which substantially form the net investment made to the investees are reduced to zero, unless the Company has the extra obligation to undertake extra losses. If the investees realise any net profits subsequently, the Company shall resume recognising its attributable share of profits after its attributable share of profits offsets against its attributable share of the unrecognised losses.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

10. Long-term equity investments (continued)

(2) Subsequent measurement of long-term equity investments and recognition of profit or loss (continued)

The Company shall ascertain its attributable share of the investees' net profits or losses on the ground of the fair value of all identifiable assets of the investees when it obtains the investment and adjust the net profits of the investees in accordance with the accounting policies and accounting periods adopted by the investees, after offsetting the Company's attributable share of the inter-transaction profits or losses incurred with associates and joint ventures based on the percentage of shareholdings (all inter-transaction losses due to impairment are recognised in full). If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the Accounting Standards for Business Enterprises, an investment loss or gain shall be ascertained after deducting the debit variation of the equity investment amortised over the original residual term using the straight-line method.

Changes in owners' equity other than the Company's share of the investees' net profits and losses are accounted for with an adjustment made to the carrying amount of the long-term equity investment and included into owners' equity, and the portion previously included in the owners' equity (refer only to portion recorded into the capital reserves) shall be transferred to the profit or loss for the period according to a certain proportion.

(3) Basis for determination of joint control and significant influences over the investees

- ① Basis for determination of joint control: No party to the joint venture could solely control the production and operations of the joint venture. Any decision concerning the basic operations of the joint venture shall require the unanimous consent of all party to the joint venture.
- ② Basis for determination of significant influences: When the Company directly or indirectly owns, or by subsidiaries owns, 20% (including 20%) or above but less than 50% of the voting shares of investees, unless there is obvious evidence indicating that there will not be any significant impact if the Company does not participate in the decision-making process of the production and operations of the investees under certain circumstances, the Company will be regarded as having significant influence on investees. If the Company owns less than 20% (excluding 20%) of the voting shares of the investees, in general the Company will not be considered to be having significant influences on the investees.

However, under the following conditions, the Company will be regarded as having significant influences over the investees: A. the Company has representative(s) in board of directors of the investees or similar authority organisations; B. the Company gets involved in policy making of the investees; C. there are significant transactions with the investees. D. management staff is dispatched to the investees. E. key technology and information is provided to the investees.

(4) Method for impairment testing and measurement of impairment provision

On the balance sheet date, the Company shall, based on the following information, make a judgment on whether there is any sign of possible impairment of the long-term equity investments. If there are signs of impairment, the Company will estimate the recoverable amount of the long-term equity investments and conduct an impairment test.

- ① The current market price of the long-term equity investments falls significantly, beyond the expectation based on the advance of time or normal use;
- ② Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the long-term equity investments are located, thus exerting an adverse effect on the Company;

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

10. Long-term equity investments (continued)

(4) Method for impairment testing and measurement of impairment provision (continued)

- ③ Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the present value of expected future cash flows of the long-term equity investments and resulting in a material decrease in the recoverable amount of the long-term equity investments;
- ④ The long-term equity investments have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- ⑤ Any evidence in the internal report of the Company shows that the economic performance of the long-term equity investments have been or will be lower than expected, for example, the net cash flow created by the long-term equity investments or the operating profits (or losses) realised are much lower (higher) than the expected amount, etc.;
- ⑥ Other circumstances indicate that the long-term equity investments may have been impaired.

The recoverable amount shall be ascertained in light of the higher of the net amount of the fair value of the long-term equity investments minus the disposal expenses and the present value of the expected future cash flows of the long-term equity investments. The Company shall, on the basis of an individual long-term equity investment, estimate the recoverable amount of long-term equity investments. Where it is difficult to do so, it shall determine the recoverable amount of the asset group on the basis of the asset group to which the long-term equity investment belongs. The recognition of an asset group shall be based on whether the main cash inflows generated by the asset group are independent of those generated by other assets or other asset groups. The carrying amount of an individual long-term equity investment or the asset group to which the long-term equity investment belongs shall be written down to the recoverable amount if the recoverable amount of the long-term equity investment or the asset group is lower than its carrying amount. The amount written down shall be recorded into profit or loss for the period and corresponding impairment provision shall be made for the long-term equity investment.

Once any impairment loss of the long-term equity investment is recognised, it shall not be reversed in subsequent accounting periods.

11. Investment Property

The company's investment properties include buildings that have been leased out.

The Group adopts the cost method for subsequent measurement of investment properties, which are depreciated or amortised using the same policy as that adopted for the same or similar fixed assets and intangible assets.

On the balance sheet date, the Company shall, based on the following information, make a judgment on whether there is any sign of possible impairment of the investment properties. If there are signs of impairment, the Company will estimate the recoverable amount of the investment properties and conduct an impairment test.

- ① The current market price of the investment properties falls significantly, beyond the expectation based on the advance of time or normal use;
- ② Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the investment properties are located, thus exerting an adverse effect on the Company;

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

11. Investment Property (continued)

- ③ Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the present value of expected future cash flows of the investment properties and resulting in a material decrease in the recoverable amount of the investment properties;
- ④ There is evidence indicating that the investment properties have become obsolete or physical damage to the investment properties have occurred;
- ⑤ The investment properties have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- ⑥ Any evidence in the internal report of the Company shows that the economic performance of the investment properties have been or will be lower than expected, for example, the net cash flow created by the investment properties or the operating profits (or losses) realised are much lower (higher) than the expected amount, etc.;
- ⑦ Other circumstances indicate that the investment properties may have been impaired.

The recoverable amount shall be ascertained in light of the higher of the net amount of the fair value of the investment properties minus the disposal expenses and the present value of the expected future cash flows of the investment properties. The Company shall, on the basis of an individual investment property, estimate the recoverable amount of investment properties. Where it is difficult to do so, it shall determine the recoverable amount of the asset group on the basis of the asset group to which the investment property belongs. The recognition of an asset group shall be based on whether the main cash inflows generated by the asset group are independent of those generated by other assets or other asset groups. The carrying amount of an individual investment property or the asset group to which the investment property belongs shall be written down to the recoverable amount if the recoverable amount of the investment property or the asset group is lower than its carrying amount. The amount written down shall be recorded into profit or loss for the period and corresponding impairment provision shall be made for the investment property. Once any impairment loss of the investment property is recognised, it shall not be reversed in subsequent accounting periods.

12. Fixed Assets

(1) Criteria for recognition of fixed assets

The Company's fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed assets will be recognised only when the following conditions are simultaneously satisfied: ① it is probable that the economic benefits relating to the fixed assets will flow into the enterprise; and ② the costs of the fixed assets can be measured reliably.

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

12. Fixed Assets (continued)

(2) Depreciation method of fixed assets

The fixed assets are depreciated on straight-line basis over their estimated useful lives. The useful lives, estimated residual value rates and depreciation rates per annum are as follows:

Category of fixed assets	Depreciation life (in years)	Estimated residual value rate (%)	Depreciation rate p.a. (%)
Buildings and structures	20-40	5-10	2.25-4.75
Machinery and equipment	8-20	5-10	4.5-11.88
Transportation equipment	5-8	5-10	11.25-19.00
Electronic equipment and others	5	5-10	18.00-19.00

Any fixed assets that have been provided for impairment are depreciated over their residual useful life of the amount after the original price net of estimated net residual value, depreciation charged and after impairment provisions. If a fixed asset has reached the working condition for its intended use but the final project accounts have not been completed and approved, its costs should be determined based on its estimated value and provided for appreciation. Upon completion of the project accounts, the estimated value will be adjusted in accordance with the actual cost. However, the recognised depreciation will not be adjusted.

The Company reviews the useful life, estimated net residual value and depreciation method of a fixed asset at least at each year end. Adjustments will be made if necessary.

(3) Impairment test method and impairment provision method

At each balance date, the Company determines whether there is any sign showing that fixed assets are impaired based on the following information. Where there is sign of impairment, the Company will estimate their recoverable amount and carry out impairment test.

- ① the current market value of fixed assets has declined significantly to the extent more than would be expected as a result of the passage of time or normal use;
- ② significant changes with an adverse effect on the Company have taken place or will take place in the near future in the technological, market, economic or legal environment in which the Company operates, or in the market in which the fixed assets are located;
- ③ market interest rates or rates of return in other markets have increased significantly in the period and the increases are likely to affect the discount rate used in calculating fixed assets' recoverable amount and therefore decrease the fixed assets' recoverable amount materially;
- ④ there is evidence indicating that fixed assets have become obsolete or physical damage to the assets have occurred;
- ⑤ fixed assets have been or will be left idle, terminated for use or planned to be disposed of before their original expiration dates;
- ⑥ economic performance of fixed assets is or will be lower than expected as indicated in any evidence shown in the Company's internal report such as the net cash flow created or operating profit (or loss) realised by the fixed assets is significantly lower (or higher) than the originally estimated amount;

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

12. Fixed Assets (continued)

(3) Impairment test method and impairment provision method (continued)

- ⑦ other signs indicate that fixed assets may be impaired.

The recoverable amount will be determined based on the fair value of a fixed asset less the remaining net amount after cost of disposal or the present value of the projected future cash flow of the asset, whichever is higher. The recoverable amount of a fixed asset will be assessed by the Company on an individual basis. If assessment of the recoverable amount for individual assets is difficult, the recoverable amount of an asset group will be determined based on the asset group to which the asset belongs. The recognition of an asset group will be based on whether the main cash inflow generated by the asset group is independent of that generated by other assets or asset groups.

Where the recoverable amount of an individual fixed asset or an asset group to which a fixed asset belongs is lower than its carrying amount, the Company will be written down to the recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on fixed assets will be provided for. The impairment loss on fixed assets recognised shall not be reversed in subsequent accounting periods.

(4) Fixed assets under finance lease

The recognition basis, measurement and depreciation methods of fixed assets under finance lease are set out in “Note 4 Leases”.

13. Construction in progress

Construction in progress includes preparation works before commencement of construction, and construction works, installations, technical retrofits, overhaul in progress, etc. The cost of construction-in-progress is determined according to expenditures actually incurred.

A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

At each balance date, the Company determines whether there is any sign showing that a construction in progress is impaired based on the following information. Where there is sign of impairment, the Company will estimate their recoverable amount and carry out impairment test.

- ① the current market value of construction in progress has declined significantly to the extent more than would be expected as a result of the passage of time or normal use;
- ② significant changes with an adverse effect on the Company have taken place or will take place in the near future in the technological, market, economic or legal environment in which the Company operates, or in the market in which the construction in progress is located;
- ③ market interest rates or rates of return in other markets have increased significantly in the period and the increases are likely to affect the discount rate used in calculating construction in progress’ recoverable amount and therefore decrease the construction in progress’ recoverable amount materially;
- ④ there is evidence indicating that construction in progress has become obsolete or physical damage to the assets have occurred;
- ⑤ construction in progress has been or will be left idle, terminated for use or planned to be disposed of before its original expiration dates;

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

13. Construction in progress (continued)

- ⑥ economic performance of construction in progress is or will be lower than expected as indicated in any evidence shown in the Company's internal report such as the net cash flow created or operating profit (or loss) realised by the construction in progress is significantly lower (or higher) than the originally estimated amount;
- ⑦ other signs indicate that construction in progress may be impaired.

The recoverable amount will be determined based on the fair value of a construction in progress less the remaining net amount after cost of disposal or the present value of the projected future cash flow of the construction in progress, whichever is higher. The recoverable amount of a construction in progress will be assessed by the Company on an individual basis. If assessment of the recoverable amount for individual construction in progress is difficult, the recoverable amount of a construction in progress group will be determined based on the asset group to which the construction in progress belongs. The recognition of an asset group will be based on whether the main cash inflow generated by the asset group is independent of that generated by other assets or asset groups.

Where the recoverable amount of an individual construction in progress or an asset group to which a construction in progress belongs is lower than its carrying amount, the Company will be written down to the recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on construction in progress will be provided for. The impairment loss on construction in progress recognised shall not be reversed in subsequent accounting periods.

14. Borrowing costs

Borrowing costs refers to the interests incurred on borrowings and other related costs such as borrowing interests, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings. For borrowing costs incurred by the Company that are directly attributable to the acquisition, construction or production qualified for capitalisation, the costs will be capitalised and included in the costs of the related assets. Other borrowing costs shall be recognised as expense in the period in which they are incurred and included in profit or loss for the current period.

(1) Criteria for recognition of capitalised borrowing costs

Capitalisation of borrowing costs begins when the following three conditions are fully satisfied:

- ① expenditures for the assets have been incurred.
- ② borrowing costs have been incurred.
- ③ acquisition, construction or production that are necessary to enable the asset reach its intended usable or saleable condition have commenced.

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

14. Borrowing costs (continued)

(2) Capitalisation period of borrowing costs

The capitalisation period shall refer to the period between the commencement and the cessation of capitalisation of borrowing costs, excluding the period in which capitalisation of borrowing costs is temporarily suspended.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. The borrowing costs incurred during such period shall be recognised as expenses, and shall be recorded into the profits and losses of the current period, until the acquisition and construction or production of the asset resumes. If the interruption is a necessary step for making the qualifying asset under acquisition and construction or production ready for the intended use or sale, the capitalisation of the borrowing costs shall continue.

Capitalisation of borrowing costs shall be discontinued when qualifying assets under the construction, acquisition or production reach their intended usable or saleable condition. Borrowing costs incurred after qualifying assets reach their intended usable or saleable condition shall be included in the profit and loss of the period in which they arise.

(3) Calculation of capitalisation of borrowing costs

During the period of capitalisation, the to-be-capitalised amount of interests (including the amortisation of discounts or premiums) in each accounting period shall be determined according to the following provisions:

- ① As for specifically borrowed loans for the acquisition and construction or production of qualifying assets for capitalisation, the to-be-capitalised amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.
- ② Where a general borrowing is used for the acquisition and construction or production of qualifying assets for capitalisation, the Company shall calculate and determine the to-be-capitalised amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specifically borrowed loans by the capitalisation rate of the general borrowing used. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

15. Biological assets

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

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

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

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

16. Intangible assets

(1) Initial measurement of intangible assets

Intangible assets are initially measured at cost and the actual costs shall be determined based on the following principles:

- ① The costs of an externally purchased fixed asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the fixed asset shall be ascertained based on the current value of the purchase price. For any difference between the actual amount paid and the present value of the purchase price, it shall be capitalised according to “Enterprise Accounting Standards No. 17 – Borrowing costs” and also included into the profit and loss of the current period during the credit period.
- ② The cost invested into an intangible asset by the investor shall be ascertained in accordance with the value stipulated in the investment contract or agreement, except in cases where the value stipulated in the contract or agreement is unfair.
- ③ Self-developed intangible assets

The cost of self-developed intangible assets shall include the total expenditure incurred from the time when it meets the provisions for recognition of intangible assets to the time when the assets are ready for their intended use. However, expenditure which has already been treated in prior periods shall not be adjusted.

- ④ The cost of intangible assets acquired through exchange of non-monetary assets, debt restructurings, government subsidies and business combination shall be determined respectively according to the Accounting Standards for Business Enterprises No. 7 - Exchange of Non-monetary assets, Accounting Standards for Business Enterprises No. 12 - Debt Restructurings, Accounting Standards for Business Enterprises No. 16 - Government Grants and Accounting Standards for Business Enterprises No. 20 - Merge of Enterprises.

(2) Subsequent measurement of intangible assets

The Company shall analyse and judge the useful life of intangible assets upon acquisition. The useful life of an intangible asset is determined by the term in which economic benefits are brought to the Company by the intangible asset. If the term in which economic benefits are brought to the Company by an intangible asset can not be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life.

With regard to intangible assets with finite useful life, its amortisation amount shall be amortised within its useful life systematically and reasonably. The Company adopted straight-line method for amortisation.

The reasonable amortisation amount of an intangible asset shall be its cost minus the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision for the intangible asset shall be deducted from the cost as well. Amortised amount of intangible assets shall be included into profit or loss for the period. Intangible assets with indefinite life are not amortised.

The Company reviews the useful life and amortisation method of intangible assets with finite useful life at each year end and makes adjustment where necessary.

The useful life of intangible assets with indefinite useful life will be reviewed during each accounting period. If there are evidences indicating that the life is finite, the policy applicable to intangible assets with finite useful life as stated above shall be adopted for accounting purpose.

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IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

16. Intangible assets (continued)

(3) Expenditure on research and development

Expenditure for internal research and development projects of the Company is divided into expenditure in the research phase and expenditure in the development phase. Expenditure in the research stage is recorded through profit or loss for the period in which such expenditure is incurred. Expenditure in the development stage shall be capitalised only when it satisfies the following conditions simultaneously:

- A. It is technically feasible to complete such intangible assets for use or sale;
- B. It is intended to complete, use or sell the intangible assets;
- C. The methods for intangible assets to generate economic benefits include the ability to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets themselves. Should the intangible assets be used internally, its usefulness shall be evidenced.
- D. There are sufficient technologies, financial resources and other resources supporting the development of the intangible assets. And the Company is able to use or sell such intangible assets;
- E. The expenditure incurred in the development phase of the intangible assets can be measured reliably.

(4) Method for impairment testing and measurement of impairment provision

On the balance sheet date, the Company shall, based on the following information, make a judgment on whether there is any sign of possible impairment of the intangible assets with finite useful life. If there are signs of impairment, the Company will estimate the recoverable amount of the intangible assets and conduct an impairment test. Intangible assets with indefinite useful life will be tested for impairment every year, regardless of whether there are signs of impairment.

- ① The current market price of intangible assets falls significantly, beyond the expectation based on the advance of time or normal use;
- ② Significant changes have taken place or will take place in the near future in the economic, technological or legal environment in which the Company operates or in the market in which the intangible assets are located, thus exerting an adverse effect on the Company;
- ③ Market interest rates or any other investment return rate have increased significantly during the period, thus affecting the discount rate used in calculating the present value of expected future cash flows of the intangible assets and resulting in a material decrease in the recoverable amount of the intangible assets;
- ④ Any evidence shows that the intangible assets have become obsolete or physical damage occurred;
- ⑤ The intangible assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
- ⑥ Any evidence in the internal report of the Company shows that the economic performance of the intangible assets have been or will be lower than expected, for example, the net cash flow created by the intangible assets or the operating profits (or losses) realised are much lower (higher) than the expected amount, etc.;

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

16. Intangible assets (continued)

(4) Method for impairment testing and measurement of impairment provision (continued)

- ⑦ Other circumstances indicate that the intangible asset may have been impaired.

The recoverable amount shall be ascertained in light of the higher of the net amount of the fair value of the intangible assets minus the disposal expenses and the present value of the expected future cash flows of the intangible assets. The Company shall, on the basis of a single intangible asset, estimate the recoverable amount of intangible assets. Where it is difficult to do so, it shall determine the recoverable amount of the asset group on the basis of the asset group to which the intangible asset belongs. The recognition of an asset group shall be based on whether the main cash inflows generated by the asset group are independent of those generated by other assets or other asset groups.

The carrying amount of a single intangible asset or the asset group to which the intangible asset belongs shall be written down to the recoverable amount if the recoverable amount of the asset or the asset group is lower than its carrying amount. The amount written down shall be recorded into profit or loss for the period and corresponding impairment provision shall be made for the intangible asset. Once any impairment loss of the intangible asset is recognised, it shall not be reversed in subsequent accounting periods.

17. Long-term deferred expenses

Long-term deferred expenses refer to expenses occurred but shall be amortised over the current period and subsequent periods with an amortisation period of over 1 year (excluding 1 year). Long-term deferred expenses is accounted for at actual expenses, and amortised evenly over the benefit period.



18. Accrued liabilities

(1) Basis for recognition of accrued liabilities

Businesses regarding external guaranties, pending litigations or arbitrations, product quality assurance, layoff plan, onerous contracts, restructuring obligations, and disposal obligations of fixed assets which satisfy the following conditions are recognised as liabilities:

- ① The obligation is a current obligation borne by the Company.
- ② It is likely that an outflow of economic benefits will be resulted from the performance of the obligation.
- ③ The amount of the obligation can be measured reliably.

(2) Measurement of accrued liabilities

Accrued liabilities shall be initially measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies. If the time value of money is of great significance, the best estimate shall be ascertained after discounting the relevant future outflows of cash. The carrying amount of projected liabilities shall be checked upon on each balance sheet date. If there are concrete evidences indicating that the carrying amount cannot reflect the present best estimate, the carrying amount shall be adjusted against the present best estimate.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

19. Revenue

(1) Principles for recognition of revenue from selling goods

Revenue from selling goods shall be recognised only when all of the following conditions are met:

- ① The major risks and rewards attached to the ownership of the goods have been transferred to the purchasers by the Company.
- ② The Company retains neither continuous management right that are usually related to the ownership nor effective control over the sold goods.
- ③ The amount of the revenue can be measured reliably.
- ④ The relevant economic benefits are likely to flow into the Company.
- ⑤ The relevant costs incurred or to be incurred can be measured reliably.

Sales of electricity are recognised when electricity is generated and transmitted to the power grid operated by the local electric power company.

Sales of steam are recorded based upon output delivered and capacity provided at rates specified under contract terms.

(2) Recognition of the rendering of service

If the Company can, on the balance sheet date, estimate reliably the outcome of a transaction concerning the rendering of services, it shall recognise the revenue from the rendering of services employing the percentage-of-completion method. The Company shall ascertain the completion schedule of transaction concerning the rendering of services according to the proportion of services already rendered.

Cases where the Company can not, on the balance sheet date, estimate reliably the outcome of a transaction concerning the rendering of services shall be treated as follows:

- ① If the cost of the services rendered is expected to be compensated, the revenue from the rendering of services shall be recognised in accordance with the cost of the services rendered, and the cost of the services shall be carried forward at the same amount.
- ② If it is expected that the cost of the services rendered cannot be compensated, the cost of the services rendered should be recorded through profit or loss for the period, and no revenue from the rendering of services will be recognised.

(3) Recognition of revenue from abalienating assets' use rights

- ① Principles for recognition of revenue from abalienating assets' use rights

Revenue from abalienating assets' use rights consists of interest revenue and royalty revenue. Revenue will be recognised only when all of the following conditions are met:

- A. Economic benefits associated with the transaction can flow into the Company;
- B. The amount of the revenue can be measured reliably.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

19. Revenue (continued)

(3) Recognition of revenue from abalienating assets' use rights (continued)

② Specific recognition method

- A. Interest revenue are measured and recognised in accordance with the length of time for which the Company's monetary capital is used by other parties and the actual interest rate.
- B. When the outcome of a transaction involving the rendering of services can be estimated reliably and such services may be commenced and completed in the same fiscal year, hotel income realised from the rendering of services is recognised upon completion of services.

20. Government Grants

Government grants of the Company include government grants related to assets and government grants related to revenue.

(1) Recognition of government grants

No government grants may be recognised unless all the following conditions have been met: ① the Company can meet the conditions attached to such government grants; ② the Company can obtain such government grants.

(2) Measurement of government grants

- ① If government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value; where fair value cannot be obtained reliably, it shall be measured at its nominal amount (\$1).
- ② Government grant related to an asset is recognised initially as deferred income and amortised to profit or loss for the period on a straight-line basis over the useful life of the asset. But government grant measured at its nominal amount is directly credited to the profit or loss for the period. Government grant related to revenue shall be treated in accordance with the circumstances: a grant that compensates the Company for expenses or losses to be incurred in the subsequent periods is recognised as deferred income and recognised in profit or loss in the same periods in which such expenses are recognised; a grant that compensates the Company for expenses or losses already incurred is recognised in profit or loss for the period.
- ③ If it is necessary to refund any government grant which has been recognised, it shall be treated in accordance with the circumstances: if it is related to deferred income, the book balance of the deferred income shall be offset by such refund, and the amount in excess shall be accounted for in the profit or loss for the period; if it is not related to deferred income, it shall be accounted for directly in the profit or loss for the period.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

21. Deferred Income Tax Assets / Deferred Income Tax Liabilities

On the balance sheet date, where there is temporary difference between the carrying amounts of the assets or liabilities and the tax base, or temporary difference of arising from the difference between the carrying amounts and the tax base of items not recognised as assets or liabilities but the tax base can be ascertained according to tax law, the deferred income tax shall be ascertained using balance sheet liability method.

(1) Basis of recognition of deferred income tax assets

For any deductible loss or tax deduction that can be used to offset temporary difference or carried forward to the subsequent years, the corresponding deferred income tax assets shall be recognised to the extent of the amount of future taxable income likely to be used to offset such temporary difference, deductible loss or tax deduction, except:

- ① deductible temporary difference arising from the following transaction: the transaction itself is not a business combination, and the occurrence of the transaction will not affect accounting profits and taxable amount or deductible loss;
- ② where deductible temporary difference related to the investments of the subsidiaries, joint ventures and associated corporations can meet all of the following requirements, the corresponding deferred income tax assets shall be recognised: such temporary differences are likely to be reversed in the foreseeable future, and it is likely to obtain the taxable income tax that is used to offset the deductible temporary differences.

(2) Basis of recognition of deferred income tax liabilities

All taxable temporary differences shall be recognised as deferred income tax liabilities, except:

- ① taxable temporary differences arising from the following transactions:
 - A. initiation recognition of goodwill;
 - B. initial recognition of assets or liabilities incurred from transactions showing all of the following characteristics: the transaction itself is not a business combination, and the occurrence of the transaction will not affect accounting profits and taxable amount or deductible loss.
- ② for taxable temporary differences related to the investments of subsidiaries, joint ventures and associated corporations, the timing for the reversal of such temporary differences can be controlled and such temporary differences are not likely to be reversed in the foreseeable future.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

22. Leases

(1) Basis of determination of finance leases and operating leases

Where a lease satisfies one or more of the following criteria, it shall be determined as a finance lease: ① the ownership of the leased asset is transferred to the lessee upon expiration of lease term; ② the lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable; thus, on the lease beginning date, it can be reasonably determined that the option will be exercised by the Company; ③ even if the ownership of the asset is not transferred, the lease term covers the major part of the useful life of the leased asset (generally 75% or above); ④ in the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially (generally 90% or above) the fair value of the leased asset on the lease beginning date; in the case of the lessor, the present value of the minimum lease receipts on the lease beginning date amounts to substantially (generally 90% or above) the fair value of the leased asset on the lease beginning date; ⑤ the leased assets are of a specialised nature that only the Company (or the lessee) can use them without making significant modifications.

Lease that does not fall into the category of finance lease is regarded as operating lease.

(2) Significant accounting treatments for finance leases

① Accounting treatments for the lessee

On the lease beginning date, a lessee shall recognise the lower of the fair value of the leased asset on the lease beginning date and the present value of the minimum lease payments as the recorded value, and recognise the minimum lease payments as the recorded value of long-term accounts payable, and the difference between such amounts shall be determined as unrecognised finance charge. The initial direct costs (e.g. handling fees, etc.) directly attributable to the leased item incurred during the process of lease negotiation and execution of the leasing agreement (same below) shall be accounted for as the value of the leased asset. The unrecognised financing charge shall be accounted for during the lease period using the effective interest method and recognised as financing charge for the period. Contingent rent payments are recognised in the profit and loss for the period when actually incurred.

In calculating the depreciation of a leased asset, the Company uses a depreciation policy consistent with that of proprietary fixed assets. If it can be reasonably determined that the ownership of the leased asset can be obtained upon expiration of the lease term, the leased asset shall be depreciated over its useful life. If it cannot be reasonably determined that the ownership of the leased asset can be obtained at the expiration of the lease term, the leased asset shall be depreciated over the shorter of the lease term or its useful life.

② Accounting treatments for the lessor

On the beginning date of the lease term, the lessor shall recognise the minimum lease receipts on the lease beginning date and the initial direct costs as the recorded value for the financing lease receivable, and recognise the unguaranteed residual value at the same time. The difference between the sum of minimum lease receipts, initial direct costs and unguaranteed residual value, and the sum of their present values shall be recognised as unrealised financing income. The unrealised financing income shall be accounted for during the lease period using the effective interest method and recognised as financing income for the period. Contingent rent receipts are recognised in the profit and loss for the period when actually incurred.

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

IV. Significant Accounting Policies and Estimates of the Company and Prior Period Derivations (continued)

22. Leases (continued)

(3) Significant accounting treatments for operating leases

The rents from operating leases shall be recorded by the lessor and lessee in the profits and losses for the period using the straight-line method over each period of the lease term. The initial direct costs incurred to a lessor and lessee shall be recorded into the profits and losses for the period. The contingent rents shall be recorded into the profits and losses for the period when actually incurred.

23. Changes in Significant Accounting Policies and Estimates

(1) Changes in accounting policies

Nil

(2) Changes in accounting estimates

Nil

24. Corrections on accounting errors in prior periods

Nil

V. Taxation

1. Main tax types and tax rates

Tax type	Basis of taxing	Tax rate
Value added tax		
Of which: Product sold	Sales volume	17%
in the domestic market		
Paper core sales, printing	Sales volume	17%
Purchase of barley grass, pampas grass	Procurement volume	13%
Purchase of steam power for production use	Procurement volume	13%
Purchase of electric power for production use	Procurement volume	17%
Purchase of sodium silicate, paperboard for production use	Procurement volume	17%
Purchase of waste paper in the PRC	Procurement volume	10%
Coal	Procurement volume	17%
Business tax		
Of which: Repair services	Revenue from repair fees	5%
Entrusted loans	Interests income	5%
Transportation services	Revenue from transportation fees	3%
Urban maintenance and construction tax	Amount of value added tax and business tax paid	5-7%
Education surtax	Amount of value added tax and business tax paid	3%
Enterprise income tax	Taxable income	Corresponding tax rate

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

V. Taxation (continued)

2. Tax incentives and approvals

Enterprise income tax

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) dated 16 March 2007, the Company is recognised as a high or new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Shouguang, Shandong. An enterprise income tax rate of 15% is applicable to the Company since 1 January 2009 for three years. The sales branches of the Company were still subject to an enterprise income tax rate of 25%.

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

Pursuant to the Guo Xi Ban Zong [2001] Document No. 10 "Written Reply concerning the Application of the Preferential Tax Policies on Development of the Western Region in Yanbian Korean Autonomous Prefecture" issued by the Office of the Leading Group for Western Region Development of the State Council (《國務院西部開發辦關於延邊朝鮮族自治州參照報行國家西部大開發優惠政策的復函》) and Yanzhou local tax notice [2001] Document No. 99 "Letter confirming the entitlement ofto preferential tax policy" issued by the local tax bureau of Yanbian Korean Autonomous Prefecture (《延邊州地方稅務局關於吉林晨鳴亞松漿紙有限公司享受稅收優惠政策承諾的函》), Yanbian Chenming Paper Co., Ltd. (延邊晨鳴紙業有限公司), a subsidiary of the Company, is covered by the preferential tax policies on development of the Western Region and thus enjoys preferential tax rate of 15% from 2001 to 2010.

Shandong Chenming Xinli Power Co., Ltd. (山東晨鳴新力熱電有限公司), a subsidiary of the Company, was established in 2001 as a Sino-foreign joint venture and engaged in the business of electric power and thermal power generation. Pursuant to Rule No. 73 of "Detailed Rules on the Implementation of the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》) and rules under the State Council's Circular on Expanding Application Scope of Income Tax Preferential Treatment on Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (《國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定使用範圍的通知》) (Guo Fa [1999] No. 13), and Guo Shui Han [2002] Document No. 1032 "Written Reply on issues regarding the application of preferential enterprise income tax rate to Shandong Chenming Xinli Power Co., Ltd." from the State Council (《國家稅務總局關於山東晨鳴新力熱電有限公司適用企業所得稅稅率問題的批復》), Shandong Chenming Xinli Power Co., Ltd. is subject to income tax rate of 15%. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

Wuhan Chenming Hanyang Paper Holdings Co., Ltd. (武漢晨鳴漢陽紙業股份有限公司), a subsidiary of the Company, was transformed into an EFI in April 2005. Pursuant to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, and as approved by State Taxation Administration of Economic and Technological Development Zone of Wuhan City, the income tax for 2007 was reduced in half. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

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

V. Taxation (continued)

2. Tax incentives and approvals (continued)

Enterprise income tax (continued)

Jiangxi Chenming Paper Co., Ltd. (江西晨鳴紙業有限責任公司), a subsidiary of the Company, was transformed into an EFI in 2004. It engaged in production with a period of operation of more than 10 years as a foreign-investment enterprise. 2009 was the third year since it started to make profits. Pursuant to Guo Fa [2007] Document No. 39 “Circular on Transitional Preferential Enterprise Income Tax Policy” issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax of 12.5% in 2010.

Pursuant to the “Revenue Bill 2008” passed by The Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, Chenming (HK) Limited, a subsidiary of the Company, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2010 was 16.5%.

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

Income tax credits in respect of investments in domestic-manufactured equipment

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

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

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

V. Taxation (continued)

2. Tax incentives and approvals (continued)

Value-added Tax (“VAT”)

Pursuant to the requirements of the “Provisional Regulations on Value-added Tax of the People’s Republic of China” (《中華人民共和國增值稅暫行條例》) and “Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People’s Republic of China” (《中華人民共和國增值稅暫行條例實施細則》), with effect from 1 January 2009, general payers of VAT may have the input amount incurred from acquiring (including acceptance of donation and investment in kind) or manufacturing (including rebuilding, expansion of building and installation) fixed assets deducted from the output amount upon the proof of the VAT-specific invoice, special bill of payment of import VAT obtained from the customs and freight settlement voucher.

Pursuant to Cai Shui [1995] No. 44 “Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources” issued by the State Administration of Taxation (《國家稅務總局對部分資源綜合利用產品免徵增值稅的通知》), enterprises engaged in utilisation of raw materials containing not less than 30% of coal gangue, stone coal, coal ash, bottom ash of coal boiler (excluding blast furnace water quenching residue) in the production of building material products shall be exempted from VAT. Wuhan Chenjian New-style Wall Materials Co., Ltd. (武漢晨建新型牆體材料有限公司), a subsidiary of the Company, utilises raw materials containing above 30% of coal ash in its production. It is thus qualified as an enterprise engaged in the utilisation of waste in production and is exempted from VAT in 2009.

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

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

(1) Subsidiaries acquired through establishment or investment

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Sino-foreign joint venture	Wuhan City	Manufacture of paper	21,136	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	20,283.00	50.93	50.93	Yes	43,278.18	—	—
Shandong Chenming Paper Group Qilte Paperboard Co., Ltd.	Limited liability company	Qilte, Shandong	Manufacture of paper	37,620	Manufacture, processing and sales of paperboard and packaging paper	37,620.00	100.00	100.00	Yes	—	—	—
Shandong Chenming Power Supply Holdings Co., Ltd.	Joint stock company	Shouguang, Shandong	Electricity	9,955	Manufacture and supply of electricity and heat	15,781.00	86.71	86.71	Yes	8,847.88	—	—
Yanbian Chenming Paper Co., Ltd.	Limited liability company	Yanji, Jilin	Manufacture of paper	8,163.30	Mucilage glue fiber pulp, pulp and machine-made paper	4,009.00	76.73	76.73	Yes	7,144.23	—	—

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Jiangxi Chenming Paper Co., Ltd.	Sino-foreign joint venture	Nanchang city	Manufacture of paper	USD172.00 million	Production and processing, etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials	69,755.00	—	51.00	51.00	Yes	87,900.46	—	—
Shougang Chenming Tianyuan Arboriculture Co., Ltd.	Limited liability company	Shougang, Shandong	Arboriculture	1,059	Development, nurture of fast growth poplar, forest, vegetable and fruit	720.00	—	68.00	68.00	Yes	—	—	-77.75
Hailaer Chenming Paper Co., Ltd.	Limited liability company	Hailaer City	Manufacture of paper	1,600	Sales and processing, sales of machine-made paper and pulp paper	1,200.00	—	75.00	75.00	Yes	3,144.88	—	—
Chibi Chenming Paper Co., Ltd.	Limited liability company	Chibi, Hubei	Manufacture of paper	17,742	Production, processing and sales of pulp and paper products; land transport	3,548.00	—	51.00	51.00	Yes	15,143.80	—	—
Wuhan Chenming Qiameng Electric Power Co., Ltd.	Limited liability company	Wuhan City	Electricity	8,824	Generation and sales of electricity and heat	4,500.00	—	51.00	51.00	Yes	5,670.20	—	—

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Wuhan Chenjian New-style Wall Materials Co., Ltd.	Limited liability company	Wuhan City	Wall materials	1,000	Production, operation and sales of aerated fly ash concrete blocks	510.00	—	51.00	51.00	Yes	1,605.77	—	—
Shandong Chenming Xinli Power Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Electricity	USD11.80 million	Generation and sales of electricity and heat	4,982.00	—	51.00	51.00	Yes	6,585.15	—	—
Shouguang Chenming Cement Co., Ltd.	Limited liability company	Shouguang, Shandong	Cement	700	Utilization of ash in the production of cement and sales of cement	700.00	—	100.00	100.00	Yes	—	—	—
Shandong Chenming Panels Co., Ltd.	Limited liability company	Shouguang, Shandong	Panels	3,000	Production, processing and sales of the decorative board of the layer of laminated board, wooden products, laminated board, fortified wooden floorboard and impregnated paper	3,000.00	—	100.00	100.00	Yes	—	—	—

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang Chenming Floor Board Co., Ltd.	Limited liability company	Shouguang, Shandong	Floor board	50	Production, processing and sales of fortified wooden floorboard and impregnated paper	50.00	—	100.00	100.00	Yes	—	—	—
Qihe Chenming Panels Co., Ltd.	Limited liability company	Qihe, Shandong	Panels	4,082	Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	4,082.00	—	100.00	100.00	Yes	—	—	—
Heze Chenming Panels Co., Ltd.	Limited liability company	Heze, Shandong	Panels	3,000	Production and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor	2,010.00	—	67.00	67.00	Yes	—	—	-465.60
Yangjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Yangjiang, Guangdong	Arboriculture	100	Plantation and development of forest, and technology consultation of forestry	100.00	—	100.00	100.00	Yes	—	—	—

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that constitutes net investment in the subsidiary	Shareholding (%)	Voicing rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Zhanjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	Arboriculture	100	Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	100.00	—	100.00	100.00	Yes	—	—	—
Jilin Chenming Paper Co., Ltd.	Limited liability company	Jilin City	Manufacture of paper	150,000	Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper	150,135.00	—	100.00	100.00	Yes	—	—	—
Juancheng Chenming Panels Co., Ltd.	Limited liability company	Juancheng, Shandong	Panels	1,500	Production and sales of particle board, decorative particle board and melamine impregnated paper	1,500.00	—	100.00	100.00	Yes	—	—	—
Shandong Grand View Hotel Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Beverage	USD13.31 million	Restaurant and beverage services	8,050.00	—	70.00	70.00	Yes	717.77	—	—

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Zhanjiang Chenming Paper Pulp Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	Arboriculture	50,000	Research on breeding and forest breeding, manufacture, production, processing and sales of paper pulp	50,000.00	—	100.00	100.00	Yes			
Chenming (HK) Limited	Limited liability company	Hong Kong	Trade of paper	USD0.10 million	Export and import trade of paper products and market research	78.00	—	100.00	100.00	Yes			
Shouguang Chenming Modern Logistic Co., Ltd.	Limited liability company	Shouguang, Shandong	Transportation	1,000	Transportation of goods	1,000.00	—	100.00	100.00	Yes			
Shouguang Chenming Art Paper Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Manufacture of paper	USD20.00 million	Production and sales of machine-made paper	11,362.00	—	75.00	75.00	Yes	4,943.61		
Qihe Chenming Waste Collection Co., Ltd.	Limited liability company	Qihe, Shandong	Waste Collection	50	Purchase and sales of wastes and old materials	50.00	—	100.00	100.00	Yes			

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Jilin Chenming Waste Collection Co., Ltd.	Limited liability company	Jilin City	Waste Collection	100	Purchase and sales of wastes and old materials	100.00	—	100.00	100.00	Yes			
Jilin Chenming Machinery Manufacturing Co., Ltd.	Limited liability company	Jilin City	Processing of machinery	60	Processing of machinery, manufacture, installation and repair of the equipment of machinery	60.00	—	100.00	100.00	Yes			
Nanchang Chenming Arboriculture Co., Ltd.	Limited liability company	Nanchang, Jiangxi	Panels	1,000	Processing and sales of wooden finished products, semi-finished products and by-products of timber	1,000.00	—	100.00	100.00	Yes			
Fuyu Chenming Paper Co., Ltd.	Limited liability company	Fuyu, Heilongjiang	Manufacture of paper	20,800	Production and sales of machine-made paper and paperboard	20,800.00	—	100.00	100.00	Yes			
Huanggang Chenming Arboriculture Co., Ltd.	Limited liability company	Huanggang, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	1,000.00	—	100.00	100.00	Yes			

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(1) Subsidiaries acquired through establishment or investment (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Huanggang Chenming Paper Co., Ltd.	Limited liability company	Huanggang, Hubei	Arboriculture	2,000	Operation and acquisition of forest; establishment of paper pulp projects	2,000.00	—	100.00	100.00	Yes			
Xianning Chenming Arboriculture Co., Ltd.	Limited liability company	Xianning, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	1000.00	—	100.00	100.00	Yes			
Shouguang Meilun Paper Co., Ltd.	Limited liability company	Shouguang, Shandong	Manufacture of paper	2,000	Production and sales of machine-made paper and paperboard	2,000.00	—	100.00	100.00	Yes			
Shouguang Shun Da Customs Declaration Co., Ltd.	Limited liability company	Shouguang, Shandong	Customs declaration, inspection declaration	150	Business agency of professional customs declaration and inspection declaration	150.00	—	100.00	100.00	Yes			
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Limited liability company	Wuhan, Hubei	Real estate	2,000	Development of real estate and sales of commodity house	2,000.00	—	100.00	100.00	Yes			

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

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Subsidiaries (continued)

(2) Subsidiaries acquired through business combination under non-common control (continued)

Unit: RMB '0000

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	The actual investment at the end of period	Balance of other projects that investment constitutes net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Set off the profit or loss of the minority interests from the equity of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Limited liability company	Shouguang, Shandong	Waste Collection	100	Purchase and sales of waste and obsolete materials	100	100	100	100	Yes			
Wuxie Song Ling Paper Co., Ltd.	Limited liability company	Wuxi	Manufacture of paper	501	Sales, cutting and processing of paper	—		100	100	Yes			
Shouguang Hongyi Decorative Packaging Co., Ltd.	Limited liability company	Shouguang, Shandong	Packaging	155	Processing and sales of packaging Products, indoor and outdoor decorations	170		100	100	Yes			
Shouguang Wei Yuan Logistics Company Limited	Limited liability company	Shouguang, Shandong	Transportation	393	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency service	400		100	100	Yes			
Shouguang Xinyuan Coal Co., Ltd.	Limited liability company	Shouguang, Shandong	Coal	200	Retail of coal, gasoline, construction materials and plumbing parts	200		100	100	Yes			
Shandong Lin Dun Wood Industry Co., Ltd.	Limited liability company	Shouguang, Shandong	Panels	138	Production and sales of panels	370		67	67	Yes			640.68

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

VI. Business Combination and Consolidated Financial Statements (continued)

2. The exchange rate of translation of the major statement items of the overseas operating entities

The reporting currency of the consolidated financial statements of exchange rate of translation translated from Chenming (HK) Limited, an overseas controlling subsidiary of the Company as follows: all asset and liability items of the balance sheet is translated according to the spot exchange rate (i.e. translated according to RMB6.7909 : USD1) prevailing at the reporting date; all the owner's equity items are translated according to the spot exchange rate when occurrence, except the "Undistributed profits" item.

VII. Notes to the Consolidated Financial Statements

Unless specified otherwise in the following notes (including the notes to the financial statements of the Company), the terms "closing balance" and "opening balance" refer to the balances as of 30 June 2010 and 1 January 2010 respectively, and the terms "the period" and "prior period" refer to January to June 2010 and January to June 2009 respectively.

1. Monetary funds

Items	Closing balance			Opening balance		
	Foreign currency amount	Exchange Rate	Amount in RMB	Foreign currency amount	Exchange Rate	Amount in RMB
Cash:	—	—	3,003,685.99	—	—	1,905,043.24
– RMB	—	—	3,003,685.99	—	—	1,734,099.25
– USD	—	—	—	25,035.00	6.8282	170,943.99
Cash in Bank:	—	—	1,755,586,626.84	—	—	2,365,429,159.26
– RMB	—	—	864,199,579.77	—	—	1,922,160,187.63
– HKD	8,545,802.97	0.8724	7,455,273.06	750.18	0.8805	660.53
– USD	129,260,147.75	6.7909	877,792,729.57	63,601,348.40	6.8282	434,282,727.15
– EURO	742,237.27	8.2710	6,139,044.45	917,167.73	9.7971	8,985,583.95
Other monetary funds:	—	—	324,386,455.22	—	—	525,589,043.43
– RMB	—	—	317,240,942.18	—	—	524,368,583.55
– USD	1,052,204.44	6.7909	7,145,415.10	177,901.64	6.8282	1,214,747.97
– EURO	11.84	8.2710	97.94	583.02	9.7971	5,711.91
Total			2,082,976,768.06			2,892,923,245.93

note: As at the end of the period, other monetary funds contained bank acceptance deposit of RMB278,375,559.00, letter of credit deposit of RMB46,010,896.22.

2. Held-for-trading financial assets

Items	Fair value as at the end of the period	Fair value as at the beginning of the period
Held-for-trading financial assets – foreign currency forward contracts	7,900,000.00	14,900,000.00
Total	7,900,000.00	14,900,000.00

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

VII. Notes to the Consolidated Financial Statements (continued)

3. Bills receivable

(1) Classification of bills receivable

Category	Closing balance	Opening balance
Bank acceptance	2,057,485,271.00	2,704,799,074.02
Commercial acceptance	4,700,000.00	—
Total	2,062,185,271.00	2,704,799,074.02

(2) As at 30 June 2010, the bank acceptance discounted with recourse of the Company amounted to RMB1,127,344,799.16.

4. Accounts receivable

(1) The breakdown of accounts receivable according to classification is as follows

Category	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Single item with significant accounts receivable	1,555,520,853.41	77.39	159,614,832.10	79.65	1,462,971,676.02	85.08	132,882,322.49	69.69
Single item without significant accounts receivable but considered to be greater risks after arrival at by credit risk characteristics	34,992,936.89	1.74	31,563,035.96	15.75	35,161,196.35	2.04	31,038,532.32	16.28
Other items without significant accounts receivable	419,380,276.38	20.87	9,224,242.41	4.60	221,537,740.06	12.88	26,758,259.93	14.03
Total	2,009,894,066.68	100.00	200,402,110.47	100.00	1,719,670,612.43	100.00	190,679,114.74	100.00

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

VII. Notes to the Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

(2) Bad debt provision accrued at the end of the period

(1) Provision for accounts receivable bad debt according to the aging analysis

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio (%)	Bad debt provision	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	1,830,636,348.34	91.08	86,182,937.29	1,507,264,155.22	87.65	72,733,231.12
1 to 2 years	27,026,867.78	1.34	9,036,100.33	152,953,443.62	8.89	65,319,432.65
2 to 3 years	103,035,277.48	5.13	55,987,499.77	8,758,784.64	0.51	1,932,222.02
Over 3 years	49,195,573.08	2.45	49,195,573.08	50,694,228.95	2.95	50,694,228.95
Total	2,009,894,066.68	100.00	200,402,110.47	1,719,670,612.43	100.00	190,679,114.74

(2) Single item without significant accounts receivable but considered to be greater risks after arrival at by credit risk characteristics

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio(%)	Bad debt provision	Book balance Amount	Ratio(%)	Bad debt provision
Within 1 year	—	—	—	—	—	—
1 to 2years	—	—	—	—	—	—
2 to 3years	4,287,376.16	12.25	857,475.23	5,154,237.01	14.66	1,031,572.98
3 to 4years	4,245,720.09	12.13	4,245,720.09	5,886,668.98	16.74	5,886,668.98
4 to 5years	8,511,687.28	24.33	8,511,687.28	4,968,557.81	14.13	4,968,557.81
Over 5years	17,948,153.36	51.29	17,948,153.36	19,151,732.55	54.47	19,151,732.55
Total	34,992,936.89	100.00	31,563,035.96	35,161,196.35	100.00	31,038,532.32

(3) The Group and the Company did not have other receivables from shareholder units and other related party holding 5% (including 5%) or more shares in the Company.

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

VII. Notes to the Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

(4) Top 5 accounts receivable are set out as follows

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Customer I	Non-related party	47,706,660.23	2 to 3 years	2.37
Customer II	Non-related party	42,297,295.18	Within 1 year	2.10
Customer III	Non-related party	32,155,597.59	Within 1 year	1.60
Customer IV	Non-related party	30,304,044.19	Within 1 year	1.51
Customer V	Non-related party	27,980,163.44	Within 1 year	1.39
Total		180,443,760.63		8.98

(5) Single item with significant accounts receivable or single item without significant accounts receivable but provided the bad debts after assess the asset individually for impairment at the end of the reporting period

Name	Book balance	Bad debt amount	Provision ratio (%)	Reason
佛山市順德區星晨紙業有限公司	47,706,660.23	47,706,660.23	100.00	Due to poor management of the counterparties; therefore, it could be provided as bad debts after considering its collectability.
上海青年傳媒有限公司	7,093,218.90	7,093,218.90	100.00	Due to poor management of the counterparties; therefore, it could be provided as bad debts after considering its collectability.
蘇州騰駿紙業有限公司	7,037,126.17	7,037,126.17	100.00	Due to poor management of the counterparties; therefore, it could be provided as bad debts after considering its collectability.
Total	61,837,005.30	61,837,005.30		

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

VII. Notes to the Consolidated Financial Statements (continued)

5. Prepayments

(1) Prepayments stated according to aging

Aging	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	803,766,605.80	84.18	869,002,788.87	86.83
1 to 2 years	151,038,432.66	15.82	131,770,086.98	13.17
Total	954,805,038.46	100.00	1,000,772,875.85	100.00

Note: At the end of the current period, prepayments of the Group with age over 1 year and in significant amount were advance for timber, advance for raw materials and auxiliary items and parts as stipulated in contract.

(2) Top 5 prepayments are set out as follows

Name	Relationship with the Company	Amount	Year	Reason of outstanding
Supplier I	Non-related party	145,832,506.08	Within 1 year	Prepaid the good payments according to the agreed contract
Supplier II	Non-related party	43,435,777.10	Within 1 year	Prepaid the good payments according to the agreed contract
Supplier III	Non-related party	38,015,220.04	Within 1 year	Prepaid the good payments according to the agreed contract
Supplier IV	Non-related party	31,595,744.89	Within 1 year	Prepaid the good payments according to the agreed contract
Supplier V	Non-related party	23,021,563.93	Within 1 year	Prepaid the good payments according to the agreed contract
Total		281,900,812.04		

(3) There is no outstanding amount within the prepayments due from shareholders and other related party holding 5% or more (including 5%) in the shares of the Company at the end of the period.

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

VII. Notes to the Consolidated Financial Statements (continued)

(6) Other receivables

(1) The breakdown of other receivables according to classification is as follows

Category	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Single item with significant other receivables	111,485,382.59	63.98	42,037,621.49	57.56	72,104,024.34	49.63	24,837,434.15	38.76
Single item without significant other receivables but considered to be greater risks after arrived at by credit risk characteristics	16,060,450.71	9.22	14,465,769.72	19.81	19,169,593.80	13.19	16,542,105.20	25.82
Other items without significant other receivables	46,695,015.68	26.80	16,524,267.10	22.63	54,015,300.33	37.18	22,698,735.18	35.42
Total	174,240,848.98	100.00	73,027,658.31	100.00	145,288,918.47	100.00	64,078,274.53	100.00

(2) Bad debt provisions as at the end of the period

(1) Bad debt provisions for other receivables bad tests according to the aging analysis is as follows

Aging	Closing balance			Opening balance		
	Book balance	Bad debt		Book balance	Bad debt	
	Amount	Ratio (%)	provision	Amount	Ratio (%)	provision
Within 1 year	90,556,891.64	51.97	29,775,853.13	88,229,738.28	60.73	28,833,141.06
1 to 2 years	26,414,929.46	15.16	2,676,364.15	17,862,033.95	12.29	770,390.47
2 to 3 years	20,844,883.51	11.96	4,151,296.66	5,542,592.58	3.82	820,189.34
Over 3 years	36,424,144.37	20.90	36,424,144.37	33,654,553.66	23.16	33,654,553.66
Total	174,240,848.98	100.00	73,027,658.31	145,288,918.47	100.00	64,078,274.53

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

VII. Notes to the Consolidated Financial Statements (continued)

(6) Other receivables

(2) Bad debt provisions as at the end of the period (continued)

- (2) Single item without significant other receivables but considered to be greater risks after arrival at by credit risk characteristics

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio(%)	Bad debt provision	Book balance Amount	Ratio(%)	Bad debt provision
Within 1 year	—	—	—	—	—	—
1 to 2 years	—	—	—	—	—	—
2 to 3 years	1,983,976.24	12.35	389,295.25	3,022,880.10	15.77	395,391.50
3 to 4 years	2,153,437.18	13.41	2,153,437.18	1,353,315.89	7.06	1,353,315.89
4 to 5 years	1,820,865.02	11.34	1,820,865.02	1,636,677.56	8.54	1,636,677.56
Over 5 years	10,102,172.27	62.90	10,102,172.27	13,156,720.20	68.63	13,156,720.25
Total	16,060,450.71	100.00	14,465,769.72	19,169,593.75	100.00	16,542,105.20

- (3) At the end of the period, the Company did not have other receivables from shareholder units and other related party holding 5% (including 5%) or more shares in the Company.

- (4) Top five other receivables are set out as follows

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of other receivables (%)
Unit I	Non-related party	13,389,926.07	Within 1 year	4.94
Unit II	Non-related party	7,439,337.06	Within 1 year	2.74
Unit III	Non-related party	7,094,166.45	2 to 3 years	2.62
Unit IV	Non-related party	6,752,428.41	Within 1 year	2.49
Unit V	Non-related party	5,016,000.00	2 to 3 years	1.85
Total		39,691,857.99		14.63

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

VII. Notes to the Consolidated Financial Statements (continued)

7. Inventory

(1) Inventory categories:

Items	Closing balance			Opening balance		
	Book balance	Allowance for inventories	Carrying amount	Book balance	Allowance for inventories	Carrying amount
Raw materials	1,801,920,577.70	3,036,964.89	1,798,883,612.81	1,469,188,916.71	4,175,527.37	1,465,013,389.34
Goods-in stock	77,692,836.33	1,443,111.46	76,249,724.87	58,174,106.14	3,743,111.46	54,430,994.68
Work-in-progress	1,266,840,056.57	4,434,459.77	1,262,405,596.80	712,296,442.78	5,161,334.21	707,135,108.57
Total	3,146,453,470.60	8,914,536.12	3,137,538,934.48	2,239,659,465.63	13,079,973.04	2,226,579,492.59

(2) Allowance for inventories

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
Raw materials	4,175,527.37	—	—	1,138,562.48	3,036,964.89
Goods-in stock	5,161,334.21	—	726,874.44	—	4,434,459.77
Work-in-progress	3,743,111.46	—	2,300,000.00	—	1,443,111.46
Total	13,079,973.04	—	3,026,874.44	1,138,562.48	8,914,536.12

(3) The provided impairment of inventories of panel of the previous period was reversed as the market price of the panel improved; the provided impairment of inventories was written off as inventories for which allowance was provided in the previous period were sold in the current period.

8. Other current assets

Items	Closing balance	Opening balance
Non-credited VAT proceeds	122,416,480.36	64,332,041.62
Prepaid enterprise income tax	27,650,181.40	26,424,163.98
Total	150,066,661.76	90,756,205.60

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

VII. Notes to the Consolidated Financial Statements (continued)

9. Investments in joint ventures and associates

(1) Investments in associates

Name of investee entity	Enterprise type	Registration place	Legal Representative	Business nature	Registered capital	Percentage of the shareholding of the investee entity (%)	Percentage of the voting right in the investee entity (%)	Total assets at the end of period	Total liabilities at the end of period	Total net asset value for the current period	Operating revenue for the current period	Net profit for the current period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Sino-foreign joint venture	Shandong	Tong Chong	Manufacture of paper	267,368,330.00	30.00	30.00	373,175,314.68	247,383,985.20	125,791,329.48	1,764,555.01	16,720,241.06
Shouguang Liben Paper Making Co., Ltd.	Sino-foreign joint venture	Shandong	Cang Tiantai	Manufacture of paper	74,070,000.00	26.40	26.40	79,362,483.52	11,181,177.02	68,181,306.50	47,543,725.28	-2,093,506.28
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Limited liability company	Jiangxi	Ou Yang	Printing	23,140,000.00	21.15	21.15	33,073,378.84	12,001,408.08	21,071,970.76	5,215,811.16	-656,899.18
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Limited liability company	Shandong	Fang Shiming	Deep processing of starch	3,000,000.00	30.00	30.00		Allowance for impairment provided in full			

10. Long-term equity investments

(1) Classification of Long-term equity investments

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Investments in subsidiaries	—	—	—	—
Investments in joint ventures	—	—	—	—
Investments in associates	58,033,225.56	4,324,494.78	—	62,357,720.34
Other equity investments	24,950,000.00	1,000,000.00	—	25,950,000.00
Less: Provision for impairment of long equity investments	1,998,538.07	—	—	1,998,538.07
Total	80,984,687.49	5,324,494.78	—	86,309,182.27

VII. Notes to the Consolidated Financial Statements (continued)

10. Long-term equity investments (continued)

(2) The details of long-term equity investments

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /deduction	Closing balance	Percentage of shareholding in the investee entity (%)	Percentage of voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonuses for the current period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	32,610,827.22	5,016,072.32	37,626,899.54	30.00	30.00	—	—	—	—
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	18,826,749.91	-552,885.66	18,274,064.25	26.40	26.40	—	—	—	—
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	5,695,648.43	-138,891.88	5,556,756.55	21.15	21.15	—	—	—	—
Qingzhou Chenming Denaturation Amylum Co., Ltd	Equity method	900,000.00	900,000.00	—	900,000.00	30.00	30.00	—	900,000.00	—	—
Weifang Venture Capital Co., Ltd.	Cost method	1,000,000.00	1,000,000.00	—	1,000,000.00	1.95	1.95	—	80,385.84	—	—
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00	—	200,000.00	2.00	2.00	—	200,000.00	—	—
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00	—	2,000,000.00	9.96	9.96	—	—	—	—
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00	—	350,000.00	5.00	5.00	—	350,000.00	—	—
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00	—	20,000,000.00	19.46	19.46	—	—	—	—
Shanghai Forest & Paper E-Commerce Co., Ltd	Cost method	1,400,000.00	1,400,000.00	—	1,400,000.00	14.00	14.00	—	468,152.23	—	—
安徽時代物業股份有限公司	Cost method	1,000,000.00	—	1,000,000.00	1,000,000.00	10.00	10.00	—	—	—	—
Total		132,500,000.00	82,983,225.56	5,324,494.78	88,307,720.34				1,998,538.07		

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

VII. Notes to the Consolidated Financial Statements (continued)

11. Investment Properties

(1) The details of investment properties

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Investment property adopting cost method for subsequent measurement	38,291,395.70	—	—	38,291,395.70
Investment property adopting fair value method for subsequent measurement	—	—	—	—
Less: Provision for impairment of long investment property	—	—	—	—
Total	38,291,395.70	—	—	38,291,395.70

(2) Investment properties measured at cost

Opening Items	Increase for the balance	Decrease for the current period	Decrease for the current period	Closing balance
I. Total original value	38,291,395.70	—	—	38,291,395.70
Buildings	38,291,395.70	—	—	38,291,395.70
Land use rights	—	—	—	—
II. Accumulated depreciation and accumulated amortization				
in total	11,864,927.59	869,128.02	—	12,734,055.61
Buildings	11,864,927.59	869,128.02	—	12,734,055.61
Land use rights	—	—	—	—
III. Impairment provision				
in total	—	—	—	—
Buildings	—	—	—	—
Land use rights	—	—	—	—
IV. Total carrying amount	26,426,468.11			25,557,340.09
Buildings	26,426,468.11			25,557,340.09
Land use rights	—			—

Note: Depreciation and amortization for the current period amounted to RMB869,128.02.

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

VII. Notes to the Consolidated Financial Statements (continued)

12. Fixed Assets

(1) Overview of fixed assets

Items	Opening balance	Additions for the current period	Deductions for the current period	Closing balance
I. Total original carrying amount:	19,994,415,603.39	319,613,001.28	80,466,142.35	20,233,562,462.32
Of which: Buildings	3,406,027,308.96	66,556,822.11	1,043,213.00	3,471,540,918.07
Machinery and equipment	15,904,536,297.54	223,427,568.78	62,531,834.76	16,065,432,031.56
Vehicles	155,994,939.46	7,965,083.73	3,282,143.56	160,677,879.63
Electronic equipment and others	527,857,057.43	21,663,526.66	13,608,951.03	535,911,633.06
II. Total accumulated depreciation:	6,458,522,672.77	579,241,343.41	46,006,184.77	6,991,757,831.41
Of which: Buildings	671,663,469.93	58,451,618.57	545,606.32	729,569,482.18
Machinery and equipment	5,443,371,103.92	487,735,426.85	42,041,128.28	5,889,065,402.49
Vehicles	68,142,883.41	7,391,778.59	2,316,721.84	73,217,940.16
Electronic equipment and others	275,345,215.51	25,662,519.40	1,102,728.33	299,905,006.58
III. Net carrying amount	13,535,892,930.62			13,241,804,630.91
Of which: Buildings	2,734,363,839.03			2,741,971,435.89
Machinery and equipment	10,461,165,193.62			10,176,366,629.07
Vehicles	87,852,056.05			87,459,939.47
Electronic equipment and others	252,511,841.92			236,006,626.48
IV. Total impairment provision	6,302,014.99	—	—	6,302,014.99
Of which: Buildings	—	—	—	—
Machinery and equipment	6,302,014.99	—	—	6,302,014.99
Vehicles	—	—	—	—
Electronic equipment and others	—	—	—	—
V. Net carrying amount	13,529,590,915.63			13,235,502,615.92
Of which: Buildings	2,734,363,839.03			2,741,971,435.89
Machinery and equipment	10,454,863,178.63			10,170,064,614.08
Vehicles	87,852,056.05			87,459,939.47
Electronic equipment and others	252,511,841.92			236,006,626.48

Note: Depreciation for the current period amounted to RMB 579,241,343.41. RMB 264,563,196.03 was transferred from construction in progress to the original value of fixed assets for the current period.

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

VII. Notes to the Consolidated Financial Statements (continued)

12. Fixed Assets

(2) Fixed assets without property right certificates

Companies	Items	certificates	carrying amount
Parent Company	Buildings	Being applied	1,171,331.84
Fuyu Chenming Paper Co., Ltd.	Buildings	Being applied	48,195,052.29
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Buildings	Being applied	31,289,695.27
Jilin Chenming Paper Co., Ltd.	Buildings	Being applied	196,335,833.19
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Buildings	Being applied	43,571,196.38
Shandong Grand View Hotel Co., Ltd.	Buildings	Being applied	124,298,047.38
Total			444,861,156.35

- (3) Fixed assets - the carrying amount of machinery and equipment of RMB 1,052,966,876.50 and intangible assets - the carrying amount of land use rights of RMB 72,249,726.02 were used as collateral for borrowings. The secured borrowings amounted to USD37,294,118.00.

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

VII. Notes to the Consolidated Financial Statements (continued)

13 Construction in progress

(1) The general information of constructions in progress

Items	Book balance	Closing balance		Book balance	Opening balance	
		Impairment provision	Carrying amount		Impairment provision	Carrying amount
Mihe River view wetland (Grand View Hotel)	21,625,297.60	—	21,625,297.60	15,967,509.04	—	15,967,509.04
Power plant (Jilin)	18,098,029.01		18,098,029.01	18,009,496.91		18,009,496.91
Technological improvement in fixed assets (Jilin)	41,792,171.34		41,792,171.34	12,944,711.67		12,944,711.67
Pulp machine engineering (Jixiang)	778,437.74		778,437.74	89,860,144.48		89,860,144.48
Intermediate water advance treatment in drainage workshops (Qihe)	—		—	45,552,578.47		45,552,578.47
Improvement in power workshops (Chibi)	4,264,075.45		4,264,075.45	30,295,414.25		30,295,414.25
700,000 tonne pulp project (Chenming Paper Pulp)	1,810,360,820.42		1,810,360,820.42	959,976,410.72		959,976,410.72
Paper machine technological improvement (Qihe)	52,690,574.08		52,690,574.08	46,132,143.40		46,132,143.40
Sheet machine ultra pressure improvement (Jiangxi)	—		—	13,869,977.50		13,869,977.50
Intermediate water advance treatment (Jiangxi)	—		—	15,033,614.37		15,033,614.37
800,000-tonne Copperplate paper (Meilun)	605,072,727.57		605,072,727.57	413,790,949.09		413,790,949.09
98,000-tonne toilet paper (Meilun)	108,507,986.67		108,507,986.67	61,564,178.12		61,564,178.12
40,000 intermediate water improvement	1,402,931.01		1,402,931.01	18,728,695.87		18,728,695.87
Power plant phase III expansion and improvement	132,494,001.88		132,494,001.88	77,591,734.87		77,591,734.87
Group R & D centre	35,671,127.11		35,671,127.11	22,369,788.81		22,369,788.81
Small technological improvement projects	49,369,721.81		49,369,721.81	20,750,066.13		20,750,066.13
Thermoelectrical pipes of eastern cities project (Xinli)	23,753,870.22		23,753,870.22	22,232,122.98		22,232,122.98
Others	324,025,311.35		324,025,311.35	113,291,725.50		113,291,725.50
Total	3,229,907,083.26	—	3,229,907,083.26	1,997,961,262.18	—	1,997,961,262.18

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

VII. Notes to the Consolidated Financial Statements (continued)

13 Construction in progress (continued)

(2) Change in material constructions in progress projects

Project name	(RMB in 100 million)	Opening balance	Additions for the current period	Transfer to fixed asset for the current period	Other deductions	Closing balance	Accumulated capitalised interest amount	Of which: capitalised interest amount for the current period	Capitalisation rate of the interest amount for the current period (%)	Investment to budgeted costs (%)	Sources of Fund
Mihe River view wetland (Grand View Hotel)	0.60	15,967,509.04	5,657,788.56	—	—	21,625,297.60	850,132.62	545,382.63	5.31	36.00	Self-raised and borrowings
Power plant (Jilin)	1.70	18,009,496.91	88,532.10	—	—	18,098,029.01	—	—	—	11.00	Self-raised
Technological improvement in fixed assets (Jilin)	0.18	12,944,711.67	28,847,459.67	—	—	41,792,171.34	—	—	—	—	Self-raised
Pulp machine engineering (Jixiang)	0.96	89,860,144.48	—	84,825,307.58	4,256,399.16	778,437.74	—	—	—	1.00	Self-raised and borrowings
Intermediate water advance treatment in drainage workshops (Qihe)	0.49	45,552,578.47	2,537,637.31	48,090,215.78	—	—	—	—	—	—	Self-raised
Improvement in power workshops (Chibi)	0.43	30,295,414.25	4,461,147.01	30,492,485.81	—	4,264,075.45	—	—	—	10.00	Self-raised
700,000 tonne pulp project (Chenming Paper Pulp)	94.32	959,976,410.72	850,384,409.70	—	—	1,810,360,820.42	—	—	—	19.00	Borrowings
Paper machine technological improvement (Qihe)	0.60	46,132,143.40	6,558,430.68	—	—	52,690,574.08	—	—	—	88.00	Self-raised
Sheet machine ultra pressure improvement (Jiangxi)	0.16	13,869,977.50	2,971,062.21	16,841,039.71	—	—	—	—	—	—	Self-raised
Intermediate water advance treatment (Jiangxi)	0.18	15,033,614.37	1,522,661.12	16,556,275.49	—	—	—	—	—	—	Self-raised

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

VII. Notes to the Consolidated Financial Statements (continued)

13 Construction in progress (continued)

(2) Change in material constructions in progress projects (continued)

Project name	(RMB in 100 million)	Opening balance	Additions for the current period	Transfer to fixed asset for the current period	Other deductions	Closing balance	Accumulated capitalised interest amount	Of which: capitalised interest amount for the current period	Capitalisation rate of the interest amount for the current period (%)	Investment to budgeted costs (%)	Sources of Fund
800,000-tonne Copperplate paper (Meilun)	35.00	413,790,949.09	191,366,997.91	85,219.43	—	605,072,727.57	19,008,452.33	18,253,503.29	5.35		Self-raised and borrowings
98,000-tonne toilet paper (Meilun)	5.00	61,564,178.12	46,967,865.39	24,056.84	—	108,507,986.67	3,153,863.77	3,042,250.55	5.35		Self-raised and borrowings
40,000 intermediate water improvement		18,728,695.87	5,771,186.76	23,096,951.62		1,402,931.01					Self-raised
Power plant phase III expansion and improvement	4.50	77,591,734.87	54,902,267.01			132,494,001.88				29.00	Self-raised
Group R & D centre	1.60	22,369,788.81	13,301,338.30			35,671,127.11				22.00	Self-raised
Small technological improvement projects		20,750,066.13	28,619,655.68			49,369,721.81					Self-raised
Thermoelectrical pipes of eastern cities project (Xinli)	0.30	22,232,122.98	1,521,747.24			23,753,870.22	1,133,781.49		—		Self-raised
Others		113,291,725.50	256,395,928.90	44,551,643.77	1,110,699.28	324,025,311.35	109,748.06	109,748.06	5.31		Self-raised and borrowings
Total		1,997,961,262.18	1,501,876,115.55	264,563,196.03	5,367,098.44	3,229,907,083.26	24,255,978.27	21,950,884.53			

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

VII. Notes to the Consolidated Financial Statements (continued)

14. Project materials

Items	Opening balance	Additions for the current period	Deduction for the current period	Closing balance
Special equipment	14,967,992.76	11,356,299.21	9,914,252.03	16,410,039.94
Special materials	27,944,969.51	122,202,675.71	115,553,797.10	34,593,848.12
Total	42,912,962.27	133,558,974.92	125,468,049.13	51,003,888.06

15. Disposal of fixed assets

Items	Opening carrying amount	Closing carrying amount	Reason of disposal
Small generation units	—	8,758,079.00	Closed in accordance with policies
Total	—	8,758,079.00	

16. Intangible assets

(1) The details of intangible assets

Items	Opening book balance	Additions for the current period	Deductions for the current period	Closing book balance
I. Total original carrying amount:	1,440,628,963.95	41,715,674.99	—	1,482,344,638.94
Land use rights	1,425,343,340.90	41,715,674.99	—	1,467,059,015.89
Software	15,285,623.05	—	—	15,285,623.05
II. Total accumulated amortization	127,200,096.83	26,799,157.06	—	153,999,253.89
Land use rights	120,017,377.03	26,012,809.76	—	146,030,186.79
Software	7,182,719.80	786,347.30	—	7,969,067.10
III. Total net carrying amount	1,313,428,867.12			1,328,345,385.05
Land use rights	1,305,325,963.87			1,321,028,829.10
Software	8,102,903.25			7,316,555.95
IV. Total impairment provision	—	—	—	—
Land use rights	—	—	—	—
Software	—	—	—	—
V. Total carrying amount	1,313,428,867.12			1,328,345,385.05
Land use rights	1,305,325,963.87			1,321,028,829.10
Software	8,102,903.25			7,316,555.95

(2) The amortisation amount was RMB 26,799,157.06 during the current period.

(3) Intangible assets – land use rights used as collateral are detailed in Note VII. 12 (3).

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

VII. Notes to the Consolidated Financial Statements (continued)

17. Goodwill

Breakdown of the goodwill

Name of investee units or matters generating goodwill	Opening balance	Additions for the current period	Deductions for the current period	Closing balance	Impairment provision at the end of the period
Jilin Chenming Paper Co., Ltd.	14,314,160.60	—	—	14,314,160.60	—
Shandong Chenming decorating materials Panels Co., Ltd.	5,969,626.57	—	—	5,969,626.57	—
Total	20,283,787.17	—	—	20,283,787.17	—

18. Long-term prepaid expenses

Items	Opening balance	Additions for the current period	Amortisation for the current period	Other deductions	Closing balance
Transforming expense on fixed assets held under operation lease	23,250,993.55	33,835.04	2,923,115.28	—	20,361,713.31
Others	9,160,939.30	—	3,053,646.42	—	6,107,292.88
Total	32,411,932.85	33,835.04	5,976,761.70	—	26,469,006.19

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

VII. Notes to the Consolidated Financial Statements (continued)

19. Deferred income tax assets / deferred income tax liabilities

Recognised deferred income tax assets and deferred income tax liabilities

Items	Closing balance	Opening balance
Deferred income tax assets:		
Provision for impairment of assets	60,790,867.12	53,878,364.07
Prepaid salaries of senior management	16,768,924.86	27,168,742.57
Deductible tax loss	11,923,059.88	10,123,548.35
Unpaid payables	1,346,413.76	6,054,842.19
Preliminary expenses	216,994.05	433,988.10
Unrealised profit arising from intra-group transactions	22,715,312.54	14,994,641.01
Deferred income	17,551,418.89	15,567,479.30
Decrease in fair value of consumable biological assets	—	2,236,876.05
Change of fair value	387,000.00	967,500.00
Sub-total	131,699,991.10	131,425,981.64
Deferred income tax liabilities:		
Increase in fair value of consumable biological assets	13,909,548.90	11,037,525.39
Valuation gain on acquisition of subsidiaries	1,386,498.28	1,386,498.28
Amortisation of valuation gain on acquisition of subsidiaries	-30,811.08	-15,405.54
Sub-total	15,265,236.10	12,408,618.13

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

VII. Notes to the Consolidated Financial Statements (continued)

20. Provision for impairment of assets

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
I. Provisions for bad debts	254,757,389.27	23,823,361.70	—	5,150,982.19	273,429,768.78
II. Provisions for inventory impairment	13,079,973.04	—	3,026,874.44	1,138,562.48	8,914,536.12
III. Impairment provisions for available-for-sale financial assets	—	—	—	—	—
IV. Impairment provisions for held-to-maturity investments	—	—	—	—	—
V. Impairment provisions for long-term equity investments	1,998,538.07	—	—	—	1,998,538.07
VI. Impairment provisions for investment properties	—	—	—	—	—
VII. Impairment provisions for fixed assets	6,302,014.99	—	—	—	6,302,014.99
VIII. Impairment provisions for project materials	—	—	—	—	—
IX. Impairment provisions for construction in progress	—	—	—	—	—

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

VII. Notes to the Consolidated Financial Statements (continued)

20. Provision for impairment of assets (continued)

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
X. Impairment provisions for productive biological assets	—	—	—	—	—
Of which: impairment provisions for mature productive biological assets	—	—	—	—	—
XI. Impairment provisions for oil and gas assets	—	—	—	—	—
XII. Impairment provisions for intangible assets	—	—	—	—	—
XIII. Impairment provisions for goodwill	—	—	—	—	—
XIV. Others	142,210.00	—	—	—	142,210.00
Total	276,280,125.37	23,823,361.70	3,026,874.44	6,289,544.67	290,787,067.96

21. Other non-current assets

Items	Details	Closing balance	Opening balance
Other non-current assets	Consumable biological assets	581,641,690.16	496,724,974.94
Total		581,641,690.16	496,724,974.94

22. Short-term borrowings

Items	Closing balance	Opening balance
Secured borrowings	9,443,877.65	39,093,574.20
Guarantee loans (Note)	40,000,000.00	40,000,000.00
Credit loans	401,035,254.29	932,992,447.39
Discounted bills	1,127,344,799.16	2,091,067,806.59
Total	1,577,823,931.10	3,103,153,828.18

Note: Guarantee loans were mainly guarantees provided by the Company to its subsidiaries for their long-term and short-term borrowings. For details please see Note VIII.(5).

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

VII. Notes to the Consolidated Financial Statements (continued)

23. Held-for-trading financial liabilities

Items	Fair value as at the end of the period	Fair value as at the beginning of the period
Held-for-trading financial liabilities – foreign currency forward contracts	2,580,000.00	6,450,000.00
Total	2,580,000.00	6,450,000.00

24. Bills payable

Type	Closing balance	Opening balance
Bank acceptance	344,908,052.57	544,532,508.19
Commercial acceptance	4,700,000.00	—
Total	349,608,052.57	544,532,508.19

Amount to be due in the next accounting period amounted to RMB349,608,052.57.

25. Accounts payable

(1) Breakdown of accounts payable:

Items	Closing balance	Opening balance
Within 1 year	2,545,129,603.26	1,885,379,043.87
1-2 years	137,622,066.64	155,633,581.77
2-3 years	48,815,810.88	52,665,733.96
Over 3 years	51,964,960.06	29,182,532.98
Total	2,783,532,440.84	2,122,860,892.58

(2) During the current period, the accounts payable was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares.

(3) During the current period, the accounts payable aged over three years were insignificant.

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

VII. Notes to the Consolidated Financial Statements (continued)

26. Advance receipts

(1) Breakdown of advance receipts

Items	Closing balance	Opening balance
Within 1 year	160,190,597.95	226,597,505.20
Over 1 year	7,163,176.42	6,526,185.91
Total	167,353,774.37	233,123,691.11

(2) During the current period, the advance receipts were not received from any shareholders holding over 5% (5% inclusive) of the Company's shares.

(3) During the current period, the advance receipts aged over one year were insignificant. There were no significant advance receipts aged over one year.

27. Staff remuneration payables

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
I. Salaries, bonuses, allowance and subsidies	173,292,799.49	313,897,680.86	381,904,244.60	105,286,235.75
II. Staff welfare	2,062,876.48	22,804,950.81	21,854,271.21	3,013,556.08
III. Social insurance premiums	19,007,627.96	65,148,380.64	60,821,929.44	23,334,079.16
Pension insurance	4,813,758.04	49,157,343.71	44,591,193.39	9,379,908.36
Medical insurance	11,588,304.58	9,603,160.55	10,126,678.31	11,064,786.82
Work-related injury insurance	48,535.03	1,242,980.65	1,246,181.69	45,333.99
Unemployment insurance	331,610.39	4,643,420.41	4,148,547.93	826,482.87
Maternity insurance	2,225,419.92	501,475.32	709,328.12	2,017,567.12
IV. Housing provident funds	9,172,595.01	19,359,712.26	21,281,050.18	7,251,257.09
V. Lay-off welfare	—	—	—	—
VI. Others	19,719,411.71	603,827.18	592,715.19	19,730,523.70
Of which: housing subsidies for Chinese employees	18,722,869.49			
VII. Union operation costs and employee education costs	22,245,970.39	6,798,528.91	4,166,923.86	24,877,575.44
Total	245,501,281.04	428,613,080.66	490,621,134.48	183,493,227.22

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

VII. Notes to the Consolidated Financial Statements (continued)

28. Taxes payables

Items	Closing balance	Opening balance
Value added tax	15,021,279.13	66,671,372.07
Business tax	2,643,376.01	7,355,951.33
Enterprise income tax	15,298,816.21	39,908,712.66
Individual income tax	38,971,704.24	1,386,280.36
Urban maintenance and construction tax	437,849.01	1,142,128.84
Property tax	6,728,583.50	6,765,846.63
Land use tax	11,407,126.26	9,183,246.64
Stamp duty	1,998,583.66	4,011,290.96
Educational surcharges and others	2,960,842.27	1,066,275.19
Total	95,468,160.29	137,491,104.68

29. Interest Payable

Items	Closing balance	Opening balance
Interest of the medium-term notes	50,104,333.32	5,050,000.00
Total	50,104,333.32	5,050,000.00

30. Dividend payable

Name	Closing balance	Opening balance
Legal person shares	—	78,807.70
Total	—	78,807.70

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

VII. Notes to the Consolidated Financial Statements (continued)

31. Other payables

(1) Breakdown of other payables

Items	Closing balance	Opening balance
Within 1 year	338,787,574.91	122,415,639.41
1-2 years	28,756,875.46	114,863,418.12
2-3 years	36,589,335.84	25,071,672.83
Over 3 years	55,107,920.30	58,869,849.25
Total	459,241,706.51	321,220,579.61

- (2) The other payables at the end of the period were not due to any shareholders who holding over 5% (5% inclusive) of the Company's shares.

32. Non-current liabilities due within one year

(1) Breakdown of long-term liabilities due within one year

Items	Closing balance	Opening balance
Long-term liabilities due within one year	498,173,562.18	345,353,527.87
Total	498,173,562.18	345,353,527.87

(2) Long-term borrowings due within one year

(1) Breakdown of long-term borrowings due within one year

Items	Closing balance	Opening balance
Secured borrowings	90,719,562.18	91,223,477.87
Guarantee loans	—	1,707,050.00
Credit loans	407,454,000.00	252,423,000.00
Total	498,173,562.18	345,353,527.87

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

VII. Notes to the Consolidated Financial Statements (continued)

32. Non-current liabilities due within one year (continued)

(2) Long-term borrowings due within one year (continued)

(2) Top five long-term borrowings due within one year:

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance		Opening balance	
					Foreign currency	Functional currency	Foreign currency	Functional currency
Bank I	2009-5-20	2011-5-19	1.3291	USD	25,000,000.00	169,772,500.00	25,000,000.00	170,705,000.00
Bank II	2009-5-12	2011-5-11	1.2013	USD	20,000,000.00	135,818,000.00	20,000,000.00	136,564,000.00
Bank III	2009-5-11	2010-11-10	3.4500	USD	10,000,000.00	67,909,000.00	10,000,000.00	68,282,000.00
Bank IV	2006-12-22	2011-6-15	LIBOR+1%	USD	7,000,000.00	47,536,300.00	7,000,000.00	47,797,400.00
Bank V	2005-2-28	2011-6-15	LIBOR+1.75%	USD	5,333,334.00	36,218,137.86	5,333,334.00	36,417,071.22
Total						457,253,937.86		459,765,471.22

33. Other current liabilities

Items	Closing balance	Opening balance
Short-term debentures	1,515,722,500.00	—
Total	1,515,722,500.00	—

Notes: The Company issued short-term debentures of a term of 365 days with aggregated par values of RMB1,500,000,000.00 on 8 March 2010. The debentures are unsecured, bearing interest at 3.31% per annum. The redemption date and maturity date are 9 March 2011.

34. Long-term borrowings

(1) Types of long-term borrowings

Items	Closing balance	Opening balance
Guarantee loans (Note 1)	158,843,061.31	205,341,955.16
Secured borrowings (Note 2)	1,760,353,300.00	1,452,357,300.00
Credit loans	2,303,161,305.42	3,429,724,927.10
Total	4,222,357,666.73	5,087,424,182.26

Note 1: For the category and amount of secured assets under secured borrowings, please see Note VII.12.

Note 2: Guarantee loans were guarantees provided by the Company to its subsidiaries. For specific amounts please see Note VIII.5.

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

VII. Notes to the Consolidated Financial Statements (continued)

34. Long-term borrowings

(2) Top five long-term borrowings

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Closing balance		Opening balance	
					Foreign currency	Functional currency	Foreign currency	Functional currency
Bank I	25 March 2008	24 March 2023	2.96	USD	137,000,000.00	930,353,300.00	76,500,000.00	522,357,300.00
Bank II	10 December 2009	10 December 2012	3.81	RMB	—	450,000,000.00	—	450,000,000.00
Bank III	23 December 2008	22 December 2011	4.86	RMB	—	400,000,000.00	—	400,000,000.00
Bank IV	23 December 2008	22 November 2011	4.86	RMB	—	100,000,000.00	—	300,000,000.00
Bank V	28 September 2009	27 September 2012	3.51	RMB	—	280,000,000.00	—	280,000,000.00
Total						2,160,353,300.00	—	1,952,357,300.00

35. Deferred income

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Funds for three projects in connection with technology allocated by the local financial authority	80,000.00		32,000.00	48,000.00
Special subsidy funds for environmental protection (1)	38,777,543.10	5,770,000.00	2,345,620.95	42,201,922.15
Project fund for National technological support scheme (2)	3,196,628.91		82,350.00	3,114,278.91
Special subsidy fund for Songhuajiang environmental protection project (3)	31,698,333.15	4,000,000.00	1,160,416.72	34,537,916.43
Modification of alkaline recycling system	1,381,250.00		37,500.00	1,343,750.00
Atmospheric pollution prevention and treatment subsidy fund	1,000,000.00	—	—	1,000,000.00
Sewage treatment and water conservation reconfiguration project	4,364,285.71		335,714.29	4,028,571.42
Financial grants for technological modification project	2,332,142.89		155,357.12	2,176,785.77
Zhejiang pulp project and construction project of eucalyptus forest	37,996,000.00	1,834,800.00	—	39,830,800.00
Others	1,064,432.16	7,124,467.17	19,174.19	8,169,725.14
Total	121,890,615.92	18,729,267.17	4,168,133.27	136,451,749.82

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

VII. Notes to the Consolidated Financial Statements (continued)

36. Other non-current liabilities

Items	Details	Closing balance	Opening balance
Other non-current liabilities	medium-term notes	1,191,198,564.06	1,189,484,415.60
Other non-current liabilities	medium-term notes	1,090,999,200.54	—
Total		2,282,197,764.60	1,189,484,415.60

Notes: The Company issued medium-term notes with a total face value of RMB1,200,000,000.00 and interest rate at 5.05% per annum for a term of 3 years on 2 December 2009. The notes will pay interest on 2 December once a year and repay the principal at maturity. The Company received net subscription amount of approximately RMB1,189,200,000.00 with effective interest rate of 5.38%. As at 30 June 2010, the interest payable of the medium-term notes mentioned above was RMB35,518,333.32.

The Company issued medium-term notes with a total face value of RMB1,100,000,000.00 and interest rate at 4.59% per annum for a term of 3 years on 18 March 2010. The notes will pay interest on 19 March once a year and repay the principal at maturity. The Company received net subscription amount of approximately RMB1,090,100,000.00 with effective interest rate of 4.92%. As at 30 June 2010, the interest payable of the medium-term notes mentioned above was RMB14,586,000.00.

37. Share capital

Items	Opening balance		Change for the period (Increase/decrease)				Sub-total	Closing balance Amounts
	Amounts	Percentage	New issue	Bonus shares	Shares transfer from reserve	Others		
I. Restricted shares								
State-owned legal person shares	293,003,657.00	14.21%	—	—	—	—	—	293,003,657.00
Other domestic shares	10,295,148.00	0.50%	—	—	—	368,123.00	368,123.00	10,663,271.00
Total number of restricted shares	303,298,805.00	14.71%	—	—	—	368,123.00	368,123.00	303,666,928.00
II. Non-restricted shares								
1. RMB ordinary shares	809,979,651.00	39.28%	—	—	—	-368,123.00	-368,123.00	809,611,528.00
2. Domestic listed foreign shares	557,497,485.00	27.04%	—	—	—	—	—	557,497,485.00
3. Overseas listed foreign shares	391,270,000.00	18.97%	—	—	—	—	—	391,270,000.00
4. Others	—	—	—	—	—	—	—	—
Total number of non-restricted shares	1,758,747,136.00	85.29%	—	—	—	-368,123.00	-368,123.00	1,758,379,013.00
III. Total shares	2,062,045,941.00	100%	—	—	—	—	—	2,062,045,941.00

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

VII. Notes to the Consolidated Financial Statements (continued)

38. Capital reserves

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Capital premium	5,391,471,967.47	—	—	5,391,471,967.47
Other capital reserves	—	—	—	—
Of which: Transfer from capital reserves under the original system	463,813,228.85	—	—	463,813,228.85
Long-term equity investments provision	237,198,605.60	—	—	237,198,605.60
Others	1,000,000.00	9,202.78	—	1,009,202.78
Total	6,093,483,801.92	9,202.78	—	6,093,493,004.70

Note : During the current period, Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., a subsidiary of the Company, acquired 2% minority interests of Qihe Chenming Waste Collection Co., Ltd., a subsidiary of the Company, and the actual investment amount was RMB10,000.00, which is less than the share of equity of Qihe Chenming Waste Collection Co., Ltd. of RMB9,202.78; according to the Accounting Standards for Business Enterprises Interpretation No.3, the capital reserves increased by RMB9,202.78 when the Company consolidated the financial statements.

39. Surplus reserve

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Statutory surplus reserves	906,929,047.49	—	—	906,929,047.49
Total	906,929,047.49	—	—	906,929,047.49

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

VII. Notes to the Consolidated Financial Statements (continued)

40. Retained profit

(1) Information on the change of retained profit

Items	Amounts	Proportion of appropriation or allocation
Retained profit of previous year before adjustment	3,928,586,297.55	
Adjustment of the aggregate retained profit at the beginning of the year (increase after adjustment +, decrease after adjustment -)	—	
Retained profit at the beginning of the year after adjustment	3,928,586,297.55	
Add : Net profit of the current period attributable to equity holders of the Company	607,868,970.24	
Surplus reserves setting off the loss	—	
Other transfers	—	
Less : Withdrawn statutory surplus reserves	—	
Withdrawn discretionary surplus reserves	—	
Ordinary shares dividend payable	618,613,782.30	
Ordinary shares dividend transfer to share capital	—	
Retained profit at the end of the period	3,917,841,485.49	

41. Operating revenue and operating costs

(1) Operating revenue and operating costs

Items	Incurred during the current period	Incurred during the prior period
Operating revenue from principal operations	8,163,269,791.82	6,649,999,886.64
Other operating revenue	13,371,885.17	25,366,673.09
Total operating revenue	8,176,641,676.99	6,675,366,559.73
Operating costs from principal operations	6,394,221,973.32	5,614,304,061.05
Other operating costs	2,178,206.82	14,950,985.13
Total operating costs	6,396,400,180.14	5,629,255,046.18

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

VII. Notes to the Consolidated Financial Statements (continued)

41. Operating revenue and operating costs (continued)

(2) Principal operation (by products)

Product name	Incurred during the current period		Incurred during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Machine-made paper	7,752,518,632.68	6,074,850,432.89	6,373,366,334.34	5,414,319,673.82
Electricity and steam	175,867,123.49	143,026,054.52	108,739,961.97	74,242,679.66
Building materials	173,871,552.11	144,211,194.63	143,529,702.92	117,342,306.89
Paper chemicals	32,447,409.89	21,360,557.82	3,708,505.15	1,858,345.37
Hotel income	22,229,234.27	5,763,863.47	19,158,559.75	5,608,708.61
Others	6,335,839.38	5,009,869.99	1,496,822.51	932,346.70
Sub-total	8,163,269,791.82	6,394,221,973.32	6,649,999,886.64	5,614,304,061.05

(3) The following table sets forth the breakdown of the revenue from principal operations of paper products by geographical segments:

Regions	Incurred during the current period Operating revenue	Incurred during the prior period Operating revenue
PRC	6,713,574,816.48	5,648,960,748.12
United States	43,637,929.18	53,840,582.65
Hong Kong	102,064,685.86	71,282,360.48
Japan	112,421,707.48	183,108,355.38
South Africa	44,048,245.23	38,699,042.28
Other overseas countries	736,771,248.46	377,475,245.43
Total	7,752,518,632.68	6,373,366,334.34

(4) The following table sets forth the operating revenue of the Company's Top 5 customers:

Name of customer	Operating revenue	Percentage of the total operating revenue of the Company (%)
Customer I	178,352,785.52	2.18%
Customer II	98,855,415.06	1.21%
Customer III	59,585,860.56	0.73%
Customer IV	54,960,685.02	0.67%
Customer V	54,873,811.73	0.67%
Total	446,628,557.89	5.46%

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

VII. Notes to the Consolidated Financial Statements (continued)

42. Business taxes and surcharges

Items	Incurred during the current period	Incurred during the prior period
Business taxes	4,517,393.04	3,431,326.28
Urban maintenances and construction tax	3,660,038.84	2,574,287.06
Educational surcharges	2,204,920.45	1,096,210.51
Others	15,375.41	7,209.68
Total	10,397,727.74	7,109,033.53

43. Gain on changes in fair value

Source of gain on changes in fair value	Incurred during the current period	Incurred during the prior period
Gain on changes in fair value generated from derivative financial Instruments	-3,130,000.00	6,993,100.00
Biological assets measured at fair value	11,488,094.03	1,992,559.76
Total	8,358,094.03	8,985,659.76

44. Investment income

Name of investees	Incurred during the current period	Incurred during the prior period
Gain from long-term equity investments accounted for using the cost method	—	—
Gain from long-term equity investments accounted for using the equity method	4,324,494.78	-9,531,720.12
Investment gain on disposal of long-term equity investments	—	—
Investment gain generated during the period of holding the held-for-trading financial investments	—	—
Investment gain generated during the period of holding the held-to-maturity investments	—	—
Investment gain generated during the period of holding the available-for-sale financial assets	—	—
Investment gain generated from disposal of held-for-trading financial assets	—	—
Investment gain generated from held-to-maturity investments	—	—
Investment gain generated from available-for-sale financial assets	—	—
Others	—	—
Total	4,324,494.78	-9,531,720.12

Note: There are no significant restrictions on remittance of investment gain back to the Company.

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

VII. Notes to the Consolidated Financial Statements (continued)

45 Loss on impairment of assets

Items	Incurred during the current period	Incurred during the prior period
Loss on bad debts	23,823,361.70	23,555,474.64
Loss on allowance for inventories	-3,026,874.44	-12,952,416.04
Loss on impairment of available-for-sale financial assets	—	—
Loss on impairment of long term equity investments	—	—
Loss on impairment of investment properties	—	—
Loss on impairment of fixed assets	—	—
Loss on impairment of construction materials	—	—
Loss on impairment of constructions in progress	—	—
Loss on impairment of productive biological assets	—	—
Loss on impairment of oil and gas assets	—	—
Loss on impairment of intangible assets	—	—
Loss on impairment of goodwill	—	—
Others	—	—
Total	20,796,487.26	10,603,058.60

46. Non-operating income

(1) Breakdown of non-operating income

Items	Incurred during the current period	Incurred during the prior period
Total income on disposal of non-current assets	1,699,483.26	10,445,396.64
Of which: Income on disposal of fixed assets	1,699,483.26	10,445,396.64
Income from debt reconstructing	—	248,447.14
Unpaid debts	—	7,452,764.59
Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	—	3,026,165.27
Insurance claims	—	2,179,040.12
Government grants	58,914,598.71	42,973,571.38
Others	6,799,720.61	2,059,444.15
Total	67,413,802.58	68,384,829.29

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

VII. Notes to the Consolidated Financial Statements (continued)

46. Non-operating income (continued)

(2) The breakdown of government grants

Items	Incurred during the current period	Incurred during the prior period
Reversal of value-added tax	9,564,967.88	7,596,994.38
Financial support fund	49,349,630.83	35,376,577.00
Total	58,914,598.71	42,973,571.38

47. Non-operating expenses

Items	Incurred during the current period	Incurred during the prior period
Total loss on disposal of non-current assets	3,130,585.22	4,653,149.89
Of which: Loss on disposal of fixed assets	3,130,585.22	4,653,149.89
Loss on debt restructuring	545,247.24	—
Fine payments	—	458,420.53
Donation expenses	402,000.00	50,000.00
Others	2,130,634.33	161,061.38
Total	6,208,466.79	5,322,631.80

48. Income tax expenses

Items	Incurred during the current period	Incurred during the prior period
Current income tax calculated according to tax laws and relevant rules	139,896,713.79	56,621,495.64
Adjustment on deferred income tax	2,582,608.51	-4,496,679.33
Total	142,479,322.30	52,124,816.31

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

VII. Notes to the Consolidated Financial Statements (continued)

49. Basic earnings per share and diluted earnings per share

Profit for the reporting period	Current period		Prior period	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	0.29	N/A	0.076	N/A
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.28	N/A	0.054	N/A

50 Notes to the cash flow statement items

(1) Cash received relating to other operating activities

Items	Amounts
Finance support fund	49,349,630.83
Interest income	14,026,021.32
Bank balances	69,080,266.80
Income on default penalty and fine	81,528.20
Other income	16,573,384.44
Total	149,110,831.59

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

VII. Notes to the Consolidated Financial Statements (continued)

50 Notes to the cash flow statement items (continued)

(2) Cash paid relating to other operating activities

Items	Amounts
Transportation expense	183,707,949.28
Hospitality expense	8,210,460.56
Rental expense	9,408,605.94
Travel expense	11,831,101.89
Office expense	6,470,004.66
Waste disposal expense	16,627,402.05
Insurance premium	8,946,959.52
Water and electricity expense	2,929,069.19
Repair expense	6,990,804.88
Advertising expense	19,200.00
Intermediary service expense	1,960,431.35
Quality compensation	81,670.90
Financial institutions charge	11,055,221.89
Others	65,653,002.70
Total	333,891,884.81

(3) Cash received relating to other financing activities

Items	Amounts
Deposits of notes	315,168,303.74
Medium-term notes	1,090,100,000.00
Short-term notes	1,494,000,000.00
Total	2,899,268,303.74

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

VII. Notes to the Consolidated Financial Statements (continued)

51. Supplementary information on cash flow statements

(1) Information on reconciliation of net profit to cash flows from operating activities

Items	Amounts during the current period	Amounts during the prior period
1. Reconciliation of net profit as cash flows from operating activities:		
Net profit	696,079,087.46	186,114,826.62
Add: Provision for impairment of assets	20,796,487.26	10,603,058.60
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	580,110,471.43	595,950,099.87
Amortisation of intangible assets	26,799,157.06	10,477,484.50
Long-term prepaid expenses	5,976,761.70	7,491,557.58
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” denotes gain)	1,431,101.96	-5,792,246.75
Loss on retired fixed assets (“-” denotes gain)	—	—
Loss on change in fair value (“-” denotes gain)	3,130,000.00	-12,011,825.03
Finance expenses (“-” denotes gain)	136,676,921.12	194,786,713.11
Investment loss (“-” denotes gain)	-4,324,494.78	9,531,720.12
Decrease in deferred income tax assets (“-” denotes increase)	-274,009.46	-4,994,819.27
Increase in deferred income tax liabilities (“-” denotes decrease)	2,856,617.97	498,139.94
Decrease in inventory (“-” denotes increase)	-910,959,441.89	394,297,232.45
Decrease in operating receivables (“-” denotes increase)	306,166,511.18	-1,659,192,379.76
Increase in operating payables (“-” denotes decrease)	410,174,620.61	-154,694,763.32
Decrease in consumable biological assets (“-” denotes increase)	-84,916,715.22	-99,166,606.14
Others		
Net cash flows from operating activities	1,189,723,076.40	-526,101,807.48
2. Major investing and financing activities not involving cash settlements:		
Capital converted from debts	—	—
Convertible bonds of the Company due within one year	—	—
Finance leases of fixed assets	—	—
3. Net change in cash and cash equivalents:		
Cash balance at the end of the period	1,872,556,028.36	2,487,107,389.80
Less: cash balance at the beginning of the period	2,367,334,202.50	2,687,579,159.85
Add: balance of cash equivalents at the end of the period	—	—
Less: balance of cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	-494,778,174.14	-200,471,770.05

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

VII. Notes to the Consolidated Financial Statements (continued)

51. Supplementary information on cash flow statements (continued)

(2) The compositions of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash	1,872,556,028.36	2,367,334,202.50
Of which : Treasury cash	3,003,685.99	1,905,043.24
Bank deposits repayable on demand	1,755,586,626.84	2,365,429,159.26
Other monetary funds repayable on demand	113,965,715.52	—
Amounts deposited at the central bank available for payment	—	—
Due to banks	—	—
Loans to banks and other financial institutions	—	—
2. Cash equivalents	—	—
Of which : bond investments due within 3 months	—	—
3. Balance of cash and cash equivalents at the end of period	1,872,556,028.36	2,367,334,202.50

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

VIII. Related party relations and transactions

1. The information on the parent company of the Company:

Name of the parent company	Relationship	Type of corporation	Place of registration	Legal representative	Type of business	Registered capital	The parent company's shareholding in the Company (%)	Voting rights of the largest shareholder in the Company (%)	Ultimate controller of the Company	Organisation code
Shouguang Chenming Holdings Co., Ltd	The largest shareholder	Limited liability company	Shouguang City	Chen Hongguo	Investments in papermaking, power and steam, forestry projects	RMB 1,685,420,000	14.21	14.21	State-owned Assets Supervision and Administration Commission of Shouguang City	78346518-9

2. The subsidiaries of the Company

Name of subsidiary	Type of subsidiary	Place of incorporation	Legal representative	Business nature	Registered capital	Shareholding (%)	Voting rights (%)	Organization code
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Sino-foreign	Wuhan City	譚道誠	Manufacture of paper	21,136	50.93	50.93	27189235-4
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Limited liability	Qihe, Shandong	侯煥才	Manufacture of paper	37,620	100.00	100.00	72074277-4
Shandong Chenming Power Supply Holdings Co., Ltd.	Stock company	Shouguang, Shandong	孫洪吉	Electricity	9,955	86.71	86.71	70620711-8
Yanbian Chenming Paper Co., Ltd.	Limited liability company	Yanji, Jilin	桑景高	Manufacture of paper	8,163.30	76.73	76.73	72958840-0
Jiangxi Chenming Paper Co., Ltd.	Sino-foreign	Nanchang city	譚道誠	Manufacture of paper	USD 172,000,000	51.00	51.00	74426460-7
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Limited liability company	Shouguang, Shandong	李德江	Forestry	1,059	68.00	68.00	73925671-7
Hailaer Chenming Paper Co., Ltd.	Limited liability company	Hailaer City	高子偉	Manufacture of paper	1,600	75.00	75.00	70130836-6

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

VIII. Related party relations and transactions (continued)

2. The subsidiaries of the Company (continued)

Name of subsidiary	Type of subsidiary	Place of incorporation	Legal representative	Business nature	Registered capital	Shareholding (%)	Voting rights (%)	Organisation code
Chibi Chenming Paper Co., Ltd.	Limited liability Company	Chibi, Hubei	陳建明	Manufacture of paper	17,742	51.00	51.00	42203935-3
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Limited liability Company	Wuhan City	張利平	Electricity	8,824	51.00	51.00	72579372-2
Wuhan Chenjian New-style Wall Materials Co., Ltd.	Limited liability Company	Wuhan City	呂學峰	Wall materials	1,000	51.00	51.00	74475404-0
Shandong Chenming Xinli Power Co., Ltd.	Sino-foreign	Shouguang, Shandong	孫洪吉	Electricity	USD 11,800,000	51.00	51.00	72073121-5
Shouguang Chenming Cement Co., Ltd.	Limited liability company	Shouguang, Shandong	孫洪吉	Cement	700	100.00	100.00	73720178-X
Shandong Chenming Panels Co., Ltd.	Limited liability Company	Shouguang, Shandong	劉樹森	Panels	3,000	100.00	100.00	73816170-8
Shouguang Chenming Floor Board Co., Ltd.	Limited liability Company	Shouguang, Shandong	劉樹森	Floor board	50	100.00	100.00	76366212-5
Qihe Chenming Panels Co., Ltd.	Limited liability Company	Qihe, Shandong	劉樹森	Panels	4,082	100.00	100.00	76001404-2
Heze Chenming Panels Co., Ltd.	Limited liability Company	Heze, Shandong	劉樹森	Panels	3,000	67.00	67.00	75827615-8
Yangjiang Chenming Arboriculture Co., Ltd.	Limited liability Company	Yangjiang, Guangdong	尹同遠	Forestry	100	100.00	100.00	78487434-6
Zhanjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	王在國	Forestry	100	100.00	100.00	78298807-5
Jilin Chenming Paper Co., Ltd.	Limited liability Company	Jilin City, Jilin province	王在國	Manufacture of paper	150,000	100.00	100.00	78298556-0

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

VIII. Related party relations and transactions (continued)

2. The subsidiaries of the Company (continued)

Name of subsidiary	Type of subsidiary	Place of incorporation	Legal representative	Business nature	Registered capital	Shareholding (%)	Voting rights (%)	Organisation code
Juancheng Chenming Panels Co., Ltd.	Limited liability company	Juancheng, Shandong	侯煥才	Panels	1,500	100.00	100.00	77872435-X
Shandong Grand View Hotel Co., Ltd.	Sino-foreign	Shouguang, Shandong	劉樹森	Beverage	USD 13,910,000	70.00	70.00	97529857-8
Zhanjiang Chenming Paper Pulp Co., Ltd.	Limited liability Company	Zhanjiang, Guangdong	馮新泉	Forestry	50,000	100.00	100.00	77527884-1
Chenming (HK) Limited	Limited liability Company	Hong Kong, China	魏克雨	Trade of paper products	USD100,000	100.00	100.00	373492730 0011080
Shouguang Chenming Modern Logistic Co., Ltd.	Limited liability Company	Shouguang, Shandong	陳洪國	Transportation	1,000	100.00	100.00	66015223-7
Shouguang Chenming Art Paper Co., Ltd.	Sino-foreign joint	Shouguang, Shandong	尹同遠	Manufacture of art paper	USD 20,000,000	75.00	75.00	79867677-0
Qihe Chenming Waste Collection Co., Ltd.	Limited liability Company	Qihe, Shandong	李峰	Materials collection	50	100.00	100.00	75825591-2
Jilin Chenming Waste Collection Co., Ltd.	Limited liability Company	Jilin	張邦吉	Materials collection	100	100.00	100.00	77872731-5
Jilin Chenming Machinery Manufacturing Co., Ltd.	Limited liability Company	Jilin	張春林	Processing of machinery	60	100.00	100.00	66012410-5
Nanchang Chenming Arboriculture Co., Ltd.	Limited liability Company	Nanchang, Jiangxi	張國英	Panels	1,000	100.00	100.00	66204306-9
Fuyu Chenming Paper Co., Ltd.	Limited liability Company	Fuyu County, Qiqihar City	劉春山	Manufacture of paper	20,800	100.00	100.00	66389298-6
Huanggang Chenming Arboriculture Co., Ltd.	Limited liability Company	Huanggang city, Hubei	王在國	Forestry	1,000	100.00	100.00	67036898-X

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

VIII. Related party relations and transactions (continued)

2. The subsidiaries of the Company (continued)

Name of subsidiary	Type of subsidiary	Place of incorporation	Legal representative	Business nature	Registered capital	Shareholding (%)	Voting rights (%)	Organisation code
Huanggang Chenming Paper Co., Ltd.	Limited liability Company	Huanggang city, Hubei	肖翔	Forestry	2,000	100.00	100.00	67976586-9
Xianning Chenming Arboriculture development Co., Ltd.	Limited liability Company	Xianning, Hubei	王在國	Forestry	1,000	100.00	100.00	67975036-8
Shouguang Meilun Paper Co. Ltd.*	Limited liability company	Shouguang, Shandong	尹同遠	Manufacture of paper	2,000	100.00	100.00	69064934-0
Shouguang Shun Da Customs Declaration Co., Ltd.	Limited liability company	Shouguang, Shandong	陳洪國	Declaration and inspection declaration	150	100.00	100.00	69689781-2
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Limited liability company	Wuhan, Hubei	譚道誠	Real estate	2,000	100.00	100.00	69534385-0
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Limited liability company	Shouguang, Shandong	陳洪國	Materials collection	100	100.00	100.00	77316557-9
Wuxie Song Ling Paper Co., Ltd.	Limited liability company	Wuxie	劉春山	Paper industry	501	100.00	100.00	76243145-6
Shouguang Hongyi Decorative Packaging Co., Ltd.	Limited liability company	Shouguang, Shandong	于步勳	Decoration	155	100.00	100.00	78077560-7
Shouguang Xinyuan Coal Co., Ltd.	Limited liability company	Shouguang, Shandong	鞠洪亮	Coals	200	100.00	100.00	86570424-2
Shouguang Wei Yuan Logistics Company Limited	Limited liability company	Shouguang, Shandong	郝利民	Logistics	393	100.00	100.00	78079463-X
Shandong Lin Dun Wood Industry Co., Ltd.	Limited liability company	Shouguang, Shandong	劉樹森	Panels	138	67.00	67.00	16899764-1

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

VIII. Related party relations and transactions (continued)

3. Information on the joint ventures and associates of the Company

Further information on the joint ventures and associates of the Company refer to Note VII.9.

4. Other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code
Shouguang Chenming Guangyuan Real Property Company Limited	Both are controlled by the parent company	69312142-9

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

VIII. Related party relations and transactions (continued)

5. Information on related party transactions

(1) Related party transactions involving purchase and sales of goods and provision and receipt of services

Related party	Type of related transaction	Details of related transaction	Pricing principle of related transaction	During the current period Amount	During the prior period Amount
Subsidiaries of the Company	Sale	Raw materials, electricity, steam	At prices negotiated between both parties	536,214,289.98	583,027,020.14
Associated corporations of the Company	Sale	Raw materials, steam and transportation	At prices negotiated between both parties	4,178,835.08	3,994,099.63
Subsidiaries of the Company	Purchase	Raw materials	At prices negotiated between both parties	3,743,575,198.79	2,649,861,106.25

(2) Guarantees provided for related parties

Guarantor	Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Performance of guarantee is completed
Shandong Chenming Paper Holdings Limited	Zhanjiang Chenming Paper Pulp Co., Ltd.	1,090,353,300.00	2008-3-25	2023-3-24	No
Shandong Chenming Paper Holdings Limited	Jiangxi Chenming Paper Co., Ltd.	50,000,000.00	2009-4-22	2012-4-21	No
Shandong Chenming Paper Holdings Limited	Jiangxi Chenming Paper Co., Ltd.	450,000,000.00	2009-12-10	2012-12-10	No
Shandong Chenming Paper Holdings Limited	Huanggang Chenming Arboriculture Co., Ltd.	50,000,000.00	2009-6-2	2012-6-2	No
Shandong Chenming Paper Holdings Limited	Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	40,000,000.00	2010-3-8	2011-3-4	No
Shandong Chenming Paper Holdings Limited	Huanggang Chenming Arboriculture Co., Ltd.	20,000,000.00	2010-4-29	2013-4-29	No
Shandong Chenming Paper Holdings Limited	Shouguang Meilun Paper Co. Ltd.	80,000,000.00	2010-4-28	2016-8-18	No

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

VIII. Related party relations and transactions (continued)

5. Information on related party transactions (continued)

(3) Entrusted loan of related parties

Related party	Amount of entrusted loan incurred in the current period	Starting date	Expiry date	Balance
Fuyu Chenming Paper Co., Ltd.		2009-12-16	2010-12-15	100,000,000.00
Heze Chenming Panels Co., Ltd.		2008-9-4	2010-9-3	15,000,000.00
Heze Chenming Panels Co., Ltd.		2009-9-28	2010-9-27	20,000,000.00
Heze Chenming Panels Co., Ltd.		2009-12-14	2010-12-13	31,000,000.00
Heze Chenming Panels Co., Ltd.	15,000,000.00	2010-1-14	2011-1-13	15,000,000.00
Heze Chenming Panels Co., Ltd.	10,000,000.00	2010-4-21	2011-4-20	10,000,000.00
Huanggang Chenming Arboriculture Co., Ltd.	80,000,000.00	2010-1-6	2011-1-5	80,000,000.00
Jiangxi Chenming Paper Co., Ltd.		2007-5-24	2017-5-24	190,000,000.00
Jiangxi Chenming Paper Co., Ltd.		2007-5-25	2017-5-25	110,000,000.00
Jiangxi Chenming Paper Co., Ltd.	200,000,000.00	2010-4-19	2013-4-18	200,000,000.00
Juancheng Chenming Panels Co., Ltd.		2008-9-24	2010-9-24	20,000,000.00
Juancheng Chenming Panels Co., Ltd.		2009-12-3	2010-12-2	20,000,000.00
Qihe Chenming Paper Co., Ltd.		2009-12-3	2010-12-2	15,000,000.00
Shandong Chenming Panels Co., Ltd.		2009-12-3	2010-12-2	26,000,000.00
Shandong Chenming Qihe Paperboard Co., Ltd.		2009-12-3	2010-12-2	90,000,000.00
Shouguang Chenming Art Paper Co., Ltd.		2009-12-3	2010-12-2	600,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.		2008-9-4	2010-9-3	40,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.		2009-12-3	2010-12-2	380,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.		2009-12-14	2010-12-13	130,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	20,000,000.00	2010-1-27	2011-1-26	20,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	50,000,000.00	2010-4-21	2011-4-20	50,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	50,000,000.00	2010-5-7	2011-5-6	50,000,000.00
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	55,000,000.00	2010-6-2	2011-6-1	55,000,000.00
Wuhan Chenming Qianneng Electric Power Co., Ltd.	55,000,000.00	2010-4-21	2011-4-20	55,000,000.00
Total	535,000,000.00			2,322,000,000.00

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

VIII. Related party relations and transactions (continued)

6. Receivables and payables of related parties

Name of items	Related party	Closing balance	Opening balance
Accounts receivable	Subsidiaries of the Company	163,149,934.70	189,413,764.27
	Associated corporations of the Company	—	—
Total		163,149,934.70	189,413,764.27
Prepayments	Subsidiaries of the Company	92,275,298.67	250,936,854.04
Total		92,275,298.67	250,936,854.04
Other receivables	Subsidiaries of the Company	3,503,276,281.31	2,002,356,020.69
	Associated corporations of the Company	2,093,099.57	1,290,901.12
Total		3,505,369,380.88	2,003,646,921.81
Accounts payable	Subsidiaries of the Company	934,819,053.03	731,664,282.10
	Associated corporations of the Company	—	—
Total		934,819,053.03	731,664,282.10
Bills payable	Subsidiaries of the Company	9,147,560.00	50,894,161.72
Total		9,147,560.00	50,894,161.72
Advance receipts	Subsidiaries of the Company	126,005,709.51	
Total		126,005,709.51	—
Other payables	Subsidiaries of the Company	75,604,619.66	92,721,799.72
Total		75,604,619.66	92,721,799.72
Dividend receivable	Subsidiaries of the Company	132,003,072.86	188,362,997.10
Total		132,003,072.86	188,362,997.10

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

IX. COMMITMENTS

1. Capital commitments

Name of items	Closing balance	Opening balance
Contracted but not yet recognised in the financial statements – commitments in relation to acquisition and construction of long-term assets	7,733,879,517.74	5,553,397,880.88
Total	7,733,879,517.74	5,553,397,880.88

2. Operating lease commitments

As at 30 June 2010, the Group entered into irrevocable operating lease contracts with non-group companies as follows:

Name of items	Closing balance	Opening balance
The first year after balance sheet date	39,490,073.23	43,349,747.30
The second year after balance sheet date	27,816,771.71	31,564,538.27
The third year after balance sheet date	32,925,599.17	30,774,546.27
In the years thereafter	923,285,386.40	1,081,173,531.06
Total	1,023,517,830.51	1,186,862,362.90

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

X. Other important explanations

1. Assets and liabilities measured at fair value

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	—	—	—	—	—
Financial liabilities measured at fair value and its change accounted for profit or loss in the current period (excluding derivative financial assets)	—	—	—	—	—
Derivative financial assets	14,900,000.00	-7,000,000.00	—	—	7,900,000.00
Available-for-sale financial assets	—	—	—	—	—
Sub-total of financial assets	14,900,000.00	-7,000,000.00	—	—	7,900,000.00
Investment properties					—
Consumable biological assets	496,724,974.94	11,488,094.03			581,641,690.16
Other					—
Total amount of above items	511,624,974.94	4,488,094.03	—	—	589,541,690.16
Financial liabilities	—	—	—	—	—
Derivative financial liabilities	6,456,900.00	3,870,000.00			2,586,900.00
Sub-total of financial liabilities	6,456,900.00	3,870,000.00	—	—	2,586,900.00

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

X. Other important explanations (continued)

2. Financial assets and financial liabilities denominated in foreign currency

Items	Opening balance	Profit or loss from change of fair value	Accumulated change of fair value accounted for equity	Provision of impairment in the current period	Closing balance
Financial assets					
Financial liabilities measured at fair value and its change accounted for profit or loss in the current period (excluding derivative financial assets)					
Cash and cash equivalents	443,439,915.62	—	—	—	891,387,047.07
Derivative financial assets	14,900,000.00	-7,000,000.00	—	—	7,900,000.00
Loans and trade receivables	301,347,523.52	—	—	—	1,424,761,796.68
Other bank balances and cash	1,220,459.88	—	—	—	7,145,513.04
Available-for-sale financial assets	—	—	—	—	—
Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	760,907,899.02	-7,000,000.00	—	—	2,331,194,356.79
Financial liabilities					
Derivative financial liabilities	6,450,000.00	3,870,000.00	—	—	2,580,000.00
Accounts payable	676,817,535.78	—	—	—	859,784,343.42
Short-term borrowings	406,862,542.94	—	—	—	229,941,979.18
Long-term loan due within 1 year	195,353,527.87	—	—	—	498,173,562.18
Long-term borrowings	1,615,365,255.16	—	—	—	1,822,849,539.77
Sub-total of financial liabilities	2,900,848,861.75	3,870,000.00	—	—	3,413,329,424.55

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

XI. Notes of the major financial statements' items of the parent company

1. Accounts receivable

(1) Accounts receivable stated according to breakdown

Breakdown	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable	1,722,960,842.94	90.94	145,583,093.90	88.86	1,352,159,482.93	88.45	109,505,866.19	77.39
Single item without significant accounts receivable but considered to be greater risks after arrived at by credit risk characteristics	10,323,788.53	0.54	10,117,123.35	6.17	10,228,140.55	0.67	9,358,032.57	6.61
Other items without significant accounts receivable	161,468,983.37	8.52	8,141,428.49	4.97	166,321,364.31	10.88	22,636,637.11	16.00
Total	1,894,753,614.84	100.00	163,841,645.73	100.00	1,528,708,987.79	100.00	141,500,535.87	100.00

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

XI. Notes of the major financial statements' items of the parent company (continued)

1. Accounts receivable (continued)

(2) Information on the provision of bad debts as at the end of period

- ① Single item with significant accounts receivable or single item without significant accounts receivable but provided the bad debts after assess the asset individually for impairment

Name of unit	Book balance	Bad debt amounts	Provision ratio (%)	Reason
佛山市順德區星辰紙業有限公司	47,706,660.23	47,706,660.23	100.00	Due to poor management of the counterparty, it could be provided as bad debts after considering its collectability
上海青年傳媒有限公司	7,093,218.90	7,093,218.90	100.00	Due to poor management of the counterparty, it could be provided as bad debts after considering its collectability
蘇州騰駿紙業有限公司	7,037,126.17	7,037,126.17	100.00	Due to poor management of the counterparty, it could be provided as bad debts after considering its collectability
Total	61,837,005.30	61,837,005.30		

- ② Single item without significant accounts receivable but considered to be greater risks after arrival at by credit risk characteristics

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio (%)	Bad debt provision	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	—	—	—	—	—	—
1 to 2 years	—	—	—	—	—	—
2 to 3 years	258,331.48	2.50	51,666.30	1,087,634.97	10.63	217,526.99
3 to 4 years	1,078,499.78	10.45	1,078,499.78	3,656,841.87	35.75	3,656,841.87
4 to 5 years	3,576,327.71	34.64	3,576,327.71	329,884.43	3.23	329,884.43
Over 5 years	5,410,629.56	52.41	5,410,629.56	5,153,779.28	50.39	5,153,779.28
Total	10,323,788.53	100.00	10,117,123.35	10,228,140.55	100.00	9,358,032.57

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

XI. Notes of the major financial statements' items of the parent company (continued)

1. Accounts receivable (continued)

(3) Top 5 accounts receivable are set out as follows

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Customer I	Non-related party	47,706,660.23	2 to 3 years	2.76
Customer II	Non-related party	32,155,597.59	within 1 year	1.86
Customer III	Non-related party	30,304,044.19	within 1 year	1.76
Customer IV	Non-related party	27,980,163.44	within 1 year	1.62
Customer V	Non-related party	27,222,765.40	within 1 year	1.58
Total		165,369,230.85		9.58

(4) For details of the accounts receivable of the related parties at the end of the current period, please refer to Note VIII.6.

2. Other receivables

(1) Other receivable stated according to breakdown

Breakdown	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables	3,556,491,309.49	98.90	23,989,903.19	51.88	2,039,880,017.86	98.13	7,993,207.36	23.77
Single item without significant other receivables but considered to be greater risks after arrived at by credit risk characteristics	8,916,315.81	0.25	7,899,777.16	17.08	7,429,754.74	0.36	6,630,034.74	19.71
Other items without significant other receivables	30,506,131.37	0.85	14,350,268.21	31.03	31,445,066.20	1.51	19,008,207.57	56.52
Total	3,595,913,756.67	100.00	46,239,948.55	100.00	2,078,754,838.80	100.00	33,631,449.67	100.00

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

XI. Notes of the major financial statements' items of the parent company (continued)

2. Other receivables (continued)

(2) Information on the provision of bad debts in the end of period

① Single item without significant other receivables but considered to be greater risks after arrival at by credit risk characteristics:

Aging	Closing balance			Opening balance		
	Book balance Amount	Ratio (%)	Bad debt provision	Book balance Amount	Ratio (%)	Bad debt provision
Within 1 year	—	—	—	—	—	—
1 to 2 years	—	—	—	—	—	—
2 to 3 years	1,270,673.31	14.25	254,134.66	999,650.00	13.45	199,930.00
3 to 4 years	1,487,116.38	16.68	1,487,116.38	764,412.11	10.29	764,412.11
4 to 5 years	703,332.60	7.89	703,332.60	173,546.29	2.34	173,546.29
Over 5 years	5,455,193.52	61.18	5,455,193.52	5,492,146.34	73.92	5,492,146.34
Total	8,916,315.81	100.00	7,899,777.16	7,429,754.74	100.00	6,630,034.74

(3) Top 5 other receivables are set out as follows

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Customer I	Non-related party	7,094,166.45	2-3年	0.20
Customer II	Non-related party	6,752,428.41	1年以内	0.19
Customer III	Non-related party	5,016,000.00	2-4年	0.14
Customer IV	Non-related party	4,623,857.89	1-2年	0.13
Customer V	Non-related party	4,380,000.00	1年以内	0.12
Total		27,866,452.75		0.78

(4) For details of the other receivables of the related parties at the end of the current period, please refer to Note VIII.6.

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

XI. Notes of the major financial statements' items of the parent company (continued)

3. Long-term equity investments

(1) Details of subsidiaries

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /Deduction	Closing balance
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Cost method	202,824,716.34	202,824,716.34		202,824,716.34
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Cost method	376,200,000.00	376,200,000.00		376,200,000.00
Shandong Chenming Power Supply Holdings Co., Ltd.	Cost method	157,810,117.43	157,810,117.43		157,810,117.43
Chibi Chenming Paper Co., Ltd.	Cost method	26,270,460.90	26,270,460.90		26,270,460.90
Yanbian Chenming Paper Co., Ltd.	Cost method	40,083,733.01	40,083,733.01		40,083,733.01
Hailaer Chenming Paper Co., Ltd.	Cost method	12,000,000.00	12,000,000.00		12,000,000.00
Jiangxi Chenming Paper Co., Ltd.	Cost method	697,548,406.40	697,548,406.40		697,548,406.40
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Cost method	7,199,000.00	7,199,000.00		7,199,000.00
Jilin Chenming Paper Co., Ltd.	Cost method	1,501,350,000.00	1,501,350,000.00		1,501,350,000.00
Juancheng Chenming Panels Co., Ltd.	Cost method	15,000,000.00	15,000,000.00		15,000,000.00
Shandong Grand View Hotel Co., Ltd.	Cost method	80,500,000.00	80,500,000.00		80,500,000.00
Zhanjiang Chenming Paper Pulp Co., Ltd.	Cost method	500,000,000.00	500,000,000.00		500,000,000.00
Chenming (HK) Limited	Cost method	783,310.00	783,310.00		783,310.00
Shouguang Chenming Modern Logistic Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00
Shouguang Chenming Art Paper Co., Ltd.	Cost method	113,616,063.80	113,616,063.80		113,616,063.80
Fuyu Chenming Paper Co., Ltd.	Cost method	208,000,000.00	208,000,000.00		208,000,000.00
Xianning Chenming Arboriculture Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00
Huanggang Chenming Paper Co., Ltd.	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Huanggang Chenming Arboriculture Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00

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

XI. Notes of the major financial statements' items of the parent company (continued)

3. Long-term equity investments (continued)

(1) details of subsidiaries (continued)

Name of investee entity	Accounting method	Initial investment	Opening balance	Additions /Deduction	Closing balance
Shouguang Meilun Paper Co. Ltd.	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Shouguang Shun Da Customs Declaration Co, Ltd.	Cost method	1,500,000.00	1,500,000.00		1,500,000.00
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	18,826,749.91	-552,685.66	18,274,064.25
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	32,610,827.22	5,016,072.32	37,626,899.54
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Equity method	900,000.00	900,000.00		900,000.00
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	5,695,648.43	-138,891.88	5,556,756.55
Weifang Venture Capital Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00		200,000.00
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00		2,000,000.00
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00		350,000.00
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00	—	20,000,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd	Cost method	1,400,000.00	1,400,000.00	—	1,400,000.00
安徽時代物資股份有限公司	Cost method			1,000,000.00	1,000,000.00
Total			4,093,669,033.44	5,324,494.78	4,098,993,528.22

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

XI. Notes of the major financial statements' items of the parent company (continued)

3. Long-term equity investments (continued)

(1) details of subsidiaries (continued)

Name of investee entity	Percentage of shareholding in investee entity (%)	Percentage of the voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonus
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	50.93	50.93				
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	100.00	100.00				
Shandong Chenming Power Supply Holdings Co., Ltd.	86.71	86.71				
Chibi Chenming Paper Co., Ltd.	51.00	51.00				
Yanbian Chenming Paper Co., Ltd.	76.73	76.73				
Hailaer Chenming Paper Co., Ltd.	75.00	72.00				
Jiangxi Chenming Paper Co., Ltd.	51.00	51.00				
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	68.00	68.00				
Jilin Chenming Paper Co., Ltd.	100.00	100.00				
Juancheng Chenming Panels Co., Ltd.	100.00	100.00				
Shandong Grand View Hotel Co., Ltd.	70.00	70.00				
Zhanjiang Chenming Paper Pulp Co., Ltd.	100.00	100.00				
Chenming (HK) Limited	100.00	100.00				
Shouguang Chenming Modern Logistic Co., Ltd.	100.00	100.00				
Shouguang Chenming Art Paper Co., Ltd.	75.00	75.00				
Fuyu Chenming Paper Co., Ltd.	100.00	100.00				
Xianning Chenming Arboriculture Co., Ltd.	100.00	100.00				
Huanggang Chenming Paper Co., Ltd.	100.00	100.00				
Huanggang Chenming Arboriculture Co., Ltd.	100.00	100.00				

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

XI. Notes of the major financial statements' items of the parent company (continued)

3. Long-term equity investments (continued)

(1) details of subsidiaries (continued)

Name of investee entity	Percentage of shareholding in investee entity (%)	Percentage of the voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonus
Shouguang Meilun Paper Co. Ltd.	100.00	100.00				
Shouguang Shun Da Customs Declaration Co, Ltd.	100.00	100.00				
Shouguang Liben Paper Making Co., Ltd.	26.40	26.40				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	30.00	30.00				
Qingzhou Chenming Denaturation Amylum Co., Ltd.	30.00	30.00		900,000.00		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21.15	21.15				
Weifang Venture Capital Co., Ltd.	1.95	1.95		80,385.84		
Shandong Paper Making & Printing Enterprises Corporation	2.00	2.00		200,000.00		
Zhejiang Province Guangyu Media Printing Company Limited	9.96	9.96			—	—
Jinan Shangyou Commercial Company Limited	5.00	5.00		350,000.00	—	—
Shouguang Mihe Water Company Limited	19.46	19.46		—	—	—
Shanghai Forest & Paper E-Commerce Co., Ltd	14.00	14.00		468,152.23	—	—
安徽時代物資股份有限公司	10.00	10.00				
Total				1,998,538.07	—	—

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

XI. Notes of the major financial statements' items of the parent company (continued)

4. Operating Revenue and Operating Costs

(1) Operating revenue and operating costs

	Incurred during the current period	Incurred during the prior period
Operating revenue from principal operations	7,000,408,065.19	5,933,106,453.45
Revenue from other operations	103,033,978.86	248,505,859.32
Total operating revenue	7,103,442,044.05	6,181,612,312.77
Operating costs from principal operations	5,922,822,786.51	5,333,017,081.39
Costs of other operations	94,323,348.46	245,597,213.68
Total operating costs	6,017,146,134.97	5,578,614,295.07

(2) Principal operations (by products)

Products	Incurred during the current period		Incurred during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Machine-made paper	6,835,350,658.16	5,791,160,743.06	5,832,718,789.04	5,274,722,657.52
Electricity and steam supply	165,057,407.03	131,662,043.45	100,387,664.41	58,294,423.87
Total	7,000,408,065.19	5,922,822,786.51	5,933,106,453.45	5,333,017,081.39

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

XI. Notes of the major financial statements' items of the parent company (continued)

4. Operating Revenue and Operating Costs (continued)

(3) Operating revenue of the 5 largest customers of the Company

Name of customers	Operating revenue	Percentage of the operating revenue of the Company (%)
Customer I	178,352,785.52	2.51
Customer II	98,855,415.06	1.39
Customer III	59,585,860.56	0.84
Customer IV	54,960,685.02	0.77
Customer V	54,873,811.73	0.77
Total	446,628,557.89	6.28

5. Investment Income

(1) Breakdown of investment income

Name of investee entity	Incurred during the current period	Incurred during the previous period
Gain from long-term equity investments accounted for using the cost method	190,257,576.86	—
Gain from long-term equity investments accounted for using the equity method	4,324,494.78	-9,531,720.12
Investment gain on disposal of long-term equity investments	—	—
Investment gains during the term of financial assets held for trading	—	—
Investment gains during the form of held-to maturity investments	—	—
Investment gains during the term of available-for-sale financial assets	—	—
Investment gains from disposal of financial assets held for trading	—	—
Investment gains from held-to maturity investments	—	—
Investment gains from available-for-sale financial assets	—	—
Gain from entrusted loans	55,115,309.26	45,939,318.53
Total	249,697,380.90	36,407,598.41

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

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

XI. Notes of the major financial statements' items of the parent company (continued)

5. Investment Income (continued)

(2) Gain from long-term equity investments accounted for using the cost method

Name of investee entity	Incurred during the current period	Incurred during the previous period	Reason of change from the previous period to the current period
Shandong Chenming Power Supply Holdings Co., Ltd.	108,769,576.86	—	Dividend allocated by subsidiaries
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	81,488,000.00	—	Dividend allocated by subsidiaries
Total	190,257,576.86	—	

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

XI. Notes of the major financial statements' items of the parent company (continued)

6. Supplementary information on cash flow statements

Supplementary Information	Amounts for the current period	Amounts for the prior period
1. Reconciliation of net profits as cash flows from operating activities:		
Net profit	683,194,413.21	115,350,200.09
Add: Provision for impairment of assets	34,949,608.74	12,791,869.13
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive biological-assets	295,079,159.66	320,022,281.26
Amortisation of intangible assets	4,531,494.62	4,566,229.68
Long-term prepaid expenses	—	—
Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is shown as “-”)	1,806,497.52	-5,375,152.20
Loss from retired fixed assets (gain is shown as “-”)	—	—
Loss from change in fair value (gain is shown as “-”)	-3,870,000.00	5,200,000.00
Financial expenses (gain is shown as “-”)	113,757,817.65	165,654,403.61
Investment losses (gain is shown as “-”)	-249,697,380.90	-36,407,598.14
Decrease in deferred income tax assets (increase is shown as “-”)	-3,347,759.23	3,248,018.27
Increase in deferred income tax debt (decrease is shown as “-”)	—	—
Decrease in stock (gain is shown as “-”)	-501,388,042.11	397,317,086.04
Decrease in operating receivables (increase is shown as “-”)	-393,745,054.78	-2,023,728,576.95
Increase in operating payables (decrease is shown as “-”)	-16,727,044.32	-13,489,171.55
Others	—	—
Net cash flows from operating activities	-35,456,289.94	-1,054,850,410.76
2. Major investments and financing activities not involving cash settlements:		
Capital converted from debts	—	—
Convertible bonds of the Company due within one year	—	—
Finance leases of fixed assets	—	—
3. Net change in cash and cash equivalents:		
Cash balance at the end of the period	1,030,160,237.05	2,118,667,220.53
Less: cash balance at the beginning of the period	1,586,045,998.83	2,080,005,634.40
Add: cash equivalents as at the end of the period	—	—
Less: cash equivalents as at the beginning of the period	—	—
Net increase in cash and cash equivalents	-555,885,761.78	38,661,586.13

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

XI. Notes of the major financial statements' items of the parent company (continued)

6. Supplementary information on cash flow statements (continued)

(2) The compositions of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash	1,030,160,237.05	1,586,045,998.83
Of which : Treasury cash	84,251.46	247,185.92
Bank deposits repayable on demand	929,773,485.59	1,585,798,812.91
Other monetary funds repayable on demand	100,302,500.00	—
Amounts deposited at the central bank available for payment	—	—
Amounts deposited in banks	—	—
Due to banks	—	—
2. Cash equivalents	—	—
Of which : bond investments due within 3 months	—	—
3. Cash and cash equivalents at the end of period	1,030,160,237.05	1,586,045,998.83

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

XII. Supplementary information

1. Breakdown of extraordinary gains and losses for the current period

Item	Amount	Remarks
Profit or loss from disposal of non-current assets	-1,431,101.96	
Tax refund or exemption from unauthorised approval or non-official approval document	—	
Government grants accounted for in profit and loss account of the current period (except for government grants closely related to the corporate business that were given under at a fixed standard amount or quantity as stipulated by the State)	49,349,630.83	
Fees for usage of funds received from non-financial enterprises charged to profits and losses for the period	—	
Profit or loss arising from investment costs for acquisition of subsidiary, associated corporation and joint-venture by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition	—	
Gains or losses from exchange of non-currency assets	—	
Gains or losses from discretionary investment or asset management	—	
Impairment provisions for assets due to force majeure factors such as natural disasters	—	
Net gains and losses from debt restructuring	-545,247.24	
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.	—	
Gains or losses arising from transactions at unfair trading prices over their fair value	—	
Net gains or losses from the subsidiary formed by merging jointly controlled enterprises from the beginning of the reporting period to the date of merger attributable to the current period	—	
Gains or losses from contingency items unrelated to the normal business operations of the Company	—	
Except for effective hedging business conducted over the course of ordinary operation of the Company, profit or loss arising from fair value change in financial assets held for trading and financial liabilities held for trading, as well as investment gains from disposal of financial assets held for trading and financial liabilities held for trading and available-for-sale financial assets	-3,130,000.00	
Reversal of impairment provision on receivables tested for impairment on individual basis	—	
Gains or losses from external entrusted loans	—	
Gains or losses from changes in fair value of investment properties adopting fair value method for follow-up measurements	—	
Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations	—	
Discretionary fee income received from discretionary operations	—	
Non-operating gains and losses other than the above items	4,267,086.28	
Other gains and losses items conforming with the definition of non-recurring gains or losses	—	
Sub-total	48,510,367.91	

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

XII. Supplementary information (continued)

1. Breakdown of extraordinary gains and losses for the current period (continued)

Item	Amount	Remarks
Effect of income tax	6,374,879.69	
Effect of minority interests (after tax)	5,771,228.14	
Net extraordinary gains and losses attributable to ordinary shareholders of the Company	36,364,260.08	

Note: In respect the figures of extraordinary gains and losses, "+" refer to gains or incomes, "-" refer to losses or expenditures.

2. Differences in accounting data between domestic and overseas accounting standards

The differences between net profit and net assets as disclosed in the financial statements prepared in accordance with IFRS and China Accounting Standards

Items	Net profit		Net assets	
	Amount in current period	Amount in previous period	Closing balance	Opening balance
Per China Accounting Standards	696,079,087.46	186,114,826.62	14,692,281,763.26	14,737,060,822.15
Special fund for treasury bond received and special accounts payable	16,246,283.53	16,246,283.53	-296,209,395.30	-312,455,678.83
Capitalization of foreign exchange gains and losses on project loans	1,483,458.01	1,483,458.01	-15,408,142.81	-16,890,600.82
Per IFRS	713,808,829.00	203,844,568.16	14,380,664,225.15	14,407,714,542.50

The reason of such differences is as follows:

In years prior to 2006, according to the principles of the PRC Accounting Standards of Business Enterprises (ASBEs), 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 IAS, the Group will account for special fund for treasury bond received and special accounts payable under deferred income and be amortised by installments over the useful lives of fixed assets.

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

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

XII. Supplementary information (continued)

3. Return on net assets and earnings per share

Profit during the reporting period	Weighted average return on assets	Earnings per share (RMB/share)	
		Basic	Diluted
Net profit attributable to holders of ordinary shares of the Company	4.57%	0.29	N/A
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	4.30%	0.28	N/A

4. Explanation on irregular movements in major items of the accounting statements of the Company

Items in balance sheet	2010.6.30	2009.12.31	Range of change (%)	Reason for the difference
Monetary funds	2,082,976,768.06	2,892,923,245.93	-28.00%	(1)
Held-for-trading financial assets	7,900,000.00	14,900,000.00	-46.98%	(2)
Bills receivable	2,062,185,271.00	2,704,799,074.02	-23.76%	(3)
Accounts receivable	1,809,491,956.21	1,528,991,497.69	18.35%	(4)
Other receivables	101,213,190.67	81,210,643.94	24.63%	(5)
Inventory	3,137,538,934.48	2,226,579,492.59	40.91%	(6)
Other current assets	150,066,661.76	90,756,205.60	65.35%	(7)
Construction in progress	3,229,907,083.26	1,997,961,262.18	61.66%	(8)
Other non-current assets	581,641,690.16	496,724,974.94	17.10%	(9)
Short-term borrowings	1,577,823,931.10	3,103,153,828.18	-49.15%	(10)
Helf-for-trading financial liabilities	2,580,000.00	6,450,000.00	-60.00%	(11)
Bills payable	349,608,052.57	544,532,508.19	-35.80%	(12)
Accounts payable	2,783,532,440.84	2,122,860,892.58	31.12%	(13)
Advance receipts	167,353,774.37	233,123,691.11	-28.21%	(14)
Staff remuneration payables	183,493,227.22	245,501,281.04	-25.26%	(15)
Taxes payable	95,468,160.29	137,491,104.68	-30.56%	(16)
Interest payable	50,104,333.32	5,050,000.00	892.17%	(17)
Other payables	459,241,706.51	321,220,579.61	42.97%	(18)
Non-current liabilities due within one year	498,173,562.18	345,353,527.87	44.25%	(19)
Deferred income tax liabilities	15,265,236.10	12,408,618.13	23.02%	(20)
Other current liabilities	2,282,197,764.60	1,189,484,415.60	91.86%	(21)

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

XII. Supplementary information (continued)

4. Explanation on Irregular movements in major items of the accounting statements of the Company (continued)

Items in income statements	2010.6.30	2009.6.30	Range of change (%)	Reason for the differences
Operating revenue	8,176,641,676.99	6,675,366,559.73	22.49	(22)
Operating costs	6,396,400,180.14	5,629,255,046.18	13.63	(23)
Tax and levies on operations	10,397,727.74	7,109,033.53	46.26	(24)
Selling expenses	441,501,879.97	339,929,245.25	29.88	(25)
Administrative expenses	417,135,260.86	335,899,354.53	24.18	(26)
Finance expenses	125,739,655.86	176,847,315.84	-28.90	(27)
Losses from impairment of assets	20,796,487.26	10,603,058.60	96.14	(28)
Investment gains	4,324,494.78	-9,531,720.12	145.37	(29)
Income tax expenses				
Non-operating income	142,479,322.30	52,124,816.31	173.34	(30)

- (1) Monetary funds decreased by 28% as compared with the beginning of the year, mainly due to repayment of a portion of borrowings by the Company.
- (2) Held-for-trading financial assets decreased by 46.98% due to the future polling foreign exchange of Chenming (HK) Limited, a subsidiary of the Company.
- (3) Bills receivable decreased by 23.76%, mainly due to the decrease in discounted bills not yet due of the Company.
- (4) Accounts receivable increased by 18.35%, mainly due to the increase in revenue resulting from the increases in sales prices of the Company.
- (5) Other receivable increased by 24.63%, mainly due to the increase in security deposits for equipment.
- (6) Inventory increased by 40.91%, mainly due to the increase in inventory balance under the market condition.
- (7) Other current assets increased by 65.35%, mainly due to the increase in the input tax of non-credited value-added tax.
- (8) Construction in progress increased by 61.66%, mainly due to the increase in investments in construction projects during the current period.
- (9) Other non-current assets increased by 17.1%, mainly due to purchase and growing of timber assets and change in their fair value.
- (10) Short-term borrowings decreased by 49.15%, mainly due to the decrease in discounted bills not yet due of the Company and repayment of a portion of borrowings.
- (11) Held-for-trading financial liabilities decreased by 60%, mainly due to the future polling foreign exchange of the Company.
- (12) Bills payable decreased by 35.8%, mainly due to the effect of a decrease in the bills issued by the Company during the current period.
- (13) Accounts payable increased by 31.12%, mainly due to the increase in accounts payable in respect of raw materials of the Company during the current period.

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

XII. Supplementary information (continued)

4. Explanation on Irregular movements in major items of the accounting statements of the Company (continued)

- (14) Advance receipts decreased by 28.21%, mainly because less customers adopted the prepayment method due to market changes, resulting in a decrease in our balance of advances from customers.
- (15) Staff remuneration payables decreased by 25.26%, mainly due to the payment of prior year's annual salary by the Company during the current period.
- (16) Taxes payable decreased by 30.56%, mainly due to the decrease in value-added tax and income tax payables of the Company.
- (17) Interest payable increased by 892.17%, mainly due to the appropriation of the interests of the medium-term notes by the Company.
- (18) Other payables increased by 42.97%, mainly due to an increase in security deposits of the Company during the current period.
- (19) Non-current liabilities due within one year increased by 44.25%, mainly because a portion of borrowings were transferred from long-term borrowings to borrowings due within one year during the current period.
- (20) Deferred income tax liabilities increased by 23.02%, mainly due to provisions for deferred income tax liabilities on surplus of revaluation of timber assets.
- (21) Other non-current liabilities increased by 91.86%, mainly due to the issuance of medium-term debentures during the period.
- (22) Operating revenue increased by 22.49% as compared to the corresponding period of last year, mainly due to the substantial increase in sales prices as compared to the corresponding period of last year.
- (23) Operating costs increased by 13.63% as compared to the corresponding period of last year, mainly due to the increase in sales costs of products as compared to the corresponding period of last year.
- (24) Business taxes and surcharges increased by 46.26% as compared to the corresponding period of last year, mainly due to significant increase in value-added tax recorded in the current period as compared to the corresponding period of last year.
- (25) Selling and distribution expenses increased by 29.88% as compared to the corresponding period of last year, mainly because of the higher transportation costs resulting from an increase in export revenue and transportation costs as compared to the corresponding period of last year.
- (26) General and administrative expenses increased by 24.18% as compared to the corresponding period of last year, mainly due to the increase in the research and development costs as we put more efforts in research and development, and the increase in wages as compared to the corresponding period of last year.
- (27) Finance expenses decreased by 28.9% as compared to the corresponding period of last year, mainly due to the adoption of active financing method by the Company such as issuance of medium-term notes and short-term debentures.
- (28) Loss on impairment of assets increased by 96.14% as compared to the corresponding period of last year, mainly due to reversal of the allowance for inventories in 2008 during the corresponding period of last year.
- (29) Investment income increased by 145.37% as compared to the corresponding period of last year, mainly due to the higher profits of associated corporations for the current period as compared to the corresponding period of last year.
- (30) Income tax expenses increased by 173.34% as compared to the corresponding period of last year, mainly because gross profit margin and profits increased during the current period, resulting in an increase in the income tax expenses as compared to the corresponding period of last year.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Notes	Six months ended 30 June	
		2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Revenue	4	8,152,872	6,642,891
Cost of sales		(6,376,817)	(5,596,899)
Gross profit		1,776,055	1,045,992
Other income	6	99,084	100,780
Distribution expenses		(441,502)	(339,929)
Administrative expenses		(428,583)	(273,087)
Other expenses		(24,773)	(82,196)
Change in fair value of derivative financial instruments		(3,130)	6,993
Change in fair value less costs to sell of biological assets		11,488	1,993
Share of results of associates		4,325	(9,531)
Finance costs - interest		(136,677)	(195,044)
Profit before tax	7	856,287	255,971
Income tax expense	8	(142,479)	(52,125)
Profit for the period		713,808	203,846
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(124)	(11)
Total comprehensive income for the period		713,684	203,835
Profit for the period attributable to:			
Owners of the Company		621,367	170,987
Non-controlling interests		92,441	32,859
		713,808	203,846
Total comprehensive income for the period attributable to:			
Owners of the Company		621,243	170,976
Non-controlling interests		92,441	32,859
		713,684	203,835
Earnings per share	10		
– Basic		RMB0.30	RMB0.08
– Diluted		N/A	N/A

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	Notes	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	16,474,617	15,514,870
Prepaid lease payments	11	1,286,130	1,275,915
Investment properties		25,557	26,427
Interests in associates		61,458	57,133
Available-for-sale investments		24,851	23,851
Goodwill		20,284	20,284
Biological assets		581,642	496,725
Deferred tax assets		131,700	131,426
		18,606,239	17,546,631
Current assets			
Inventories		3,137,539	2,226,579
Trade and other receivables	12	5,050,112	5,380,105
Prepaid lease payments	11	34,899	38,571
Derivative financial instruments		7,900	14,900
Current tax recoverable		27,650	26,425
Restricted bank deposits	13	210,421	525,589
Bank balances and cash		1,872,556	2,367,334
		10,341,077	10,579,503
Current liabilities			
Trade and other payables	14	4,073,504	3,570,370
Borrowings	15	2,075,997	3,448,507
Debentures	16	1,515,723	—
Current tax payable		15,299	39,410
Dividend payable		—	79
Deferred income		20,598	24,349
Derivative financial instruments		2,580	6,450
		7,703,701	7,089,165
Net current assets		2,637,376	3,490,338
Total assets less current liabilities		21,243,615	21,036,969

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

	Notes	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Non-current liabilities			
Borrowings	15	4,222,359	5,087,424
Deferred income		343,129	339,938
Deferred tax liabilities		15,265	12,409
Debentures	16	2,282,198	1,189,484
		6,862,951	6,629,255
NET ASSETS			
		14,380,664	14,407,714
Capital and reserves			
Share capital	17	2,062,046	2,062,046
Reserves		10,612,607	10,609,969
Equity attributable to owners of the Company			
Equity attributable to owners of the Company		12,674,653	12,672,015
Non-controlling interests		1,706,011	1,735,699
TOTAL EQUITY			
		14,380,664	14,407,714

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Share capital	Capital reserve	Statutory surplus reserve	Discretionary surplus reserve	Translation reserve	Retained earnings	Attributable to owners of the Company	Non Controlling Interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2009	2,062,046	5,765,795	825,360	117	880	3,257,994	11,912,192	1,744,777	13,656,969
Total comprehensive income for the period	—	—	—	—	(11)	170,987	170,976	32,859	203,835
Dividends recognised as distribution	—	—	—	—	—	(103,102)	(103,102)	—	(103,102)
Transfer of reserves (note)	—	12,016	—	—	—	(12,016)	—	—	—
Distribution made by subsidiaries to non-controlling shareholders	—	—	—	—	—	—	—	(13,490)	(13,490)
At 30 June 2009	2,062,046	5,777,811	825,360	117	869	3,313,863	11,980,066	1,764,146	13,744,212
At 1 January 2010	2,062,046	5,783,856	906,812	117	859	3,918,325	12,672,015	1,735,699	14,407,714
Total comprehensive income for the period	—	—	—	—	(124)	621,367	621,243	92,441	713,684
Dividends recognised as distribution	—	—	—	—	—	(618,614)	(618,614)	—	(618,614)
Transfer of reserves (note)	—	9,029	—	—	—	(9,029)	—	—	—
Acquisition of additional interest in a subsidiary	—	9	—	—	—	—	9	(19)	(10)
Distribution made by subsidiaries to non-controlling shareholders	—	—	—	—	—	—	—	(122,110)	(122,110)
At 30 June 2010	2,062,046	5,792,894	906,812	117	735	3,912,049	12,674,653	1,706,011	14,380,664

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	1,189,723	(526,102)
Purchase of property, plant and equipment and lease payments on land use rights	(1,521,601)	(407,728)
Acquisition of additional interests in subsidiary from non-controlling shareholders of subsidiaries	(10)	—
Net cash outflow arising from acquisition of subsidiaries	—	(5,706)
Investment in available-for-sale investments	(1,000)	—
Investment in an associate	—	(6,000)
Decrease /(Increase) in restricted bank deposits	315,168	(1,340,014)
Proceeds on disposal of property, plant and equipment	20,129	19,421
Government grants received	—	47,990
NET CASH USED IN INVESTING ACTIVITIES	(1,187,314)	(1,692,037)
Net proceeds on issuance of debentures	2,584,100	—
Debentures repaid	—	(700,000)
New borrowings raised	2,475,825	6,483,131
Borrowings repaid	(4,713,400)	(3,546,592)
Dividend paid	(618,693)	—
Interest paid	(128,629)	(204,003)
Dividends paid to non-controlling shareholders of subsidiaries	(84,532)	(13,490)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(485,329)	2,019,046
DECREASE IN CASH AND CASH EQUIVALENTS	(482,920)	(199,093)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,367,334	2,687,579
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(11,858)	(1,379)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY	1,872,556	2,487,107
Bank and cash balances	1,872,556	2,487,107

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. GENERAL

Shandong Chenming Paper Holdings Limited (the “Company”) is a joint stock company incorporated in the People’s Republic of China (the “PRC”) in May 1993. The Company’s B shares and A shares have been listed on the Shenzhen Stock Exchange since 1997 and 2000 respectively, and its H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since June 2008. Its registered office is located at No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC.

The ultimate holding company of the Company is State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產管理局) and the parent company of the Company is Shandong Chenming Holdings Co., Ltd. which is also established in the PRC.

The Company and its subsidiaries (the “Group”) are principally engaged in manufacture and sales of paper and paper products, construction materials, chemical products, production of electricity and steam.

2. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2009 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009 except as stated below.



3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards; International Accounting Standards (“IAS”) and Interpretations. The adoption of these new and revised IFRS did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years except as stated below.

Consolidation

IAS 27 (Revised) “Consolidated and Separate Financial Statements” contains the following requirements:

Total comprehensive income is attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. The previous IAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses

Changes in the Company’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous IAS 27 does not have specific requirements for such transactions.

When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous IAS 27 does not have specific requirements for such fair value measurements.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. REVENUE

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Sale of paper products	7,746,143	6,366,257
Sale of construction materials	172,994	143,530
Sale of electricity and steam	175,788	108,740
Sale of chemical products	32,447	3,709
Others	25,500	20,655
	8,152,872	6,642,891

5. SEGMENT INFORMATION

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

Six months ended 30 June 2010

	Paper product RMB'000 (unaudited)	Construction materials RMB'000 (unaudited)	Electricity and steam RMB'000 (unaudited)	Others RMB'000 (unaudited)	Eliminations RMB'000 (unaudited)	Total RMB'000 (unaudited)
REVENUE						
External sales	7,746,143	172,994	175,788	57,947	—	8,152,872
Inter-segment sales	—	34,214	124,731	4,247	(163,192)	—
Total	7,746,143	207,208	300,519	62,194	(163,192)	8,152,872
Segment results	1,179,153	(10,204)	25,773	5,557	—	1,200,279
Unallocated expenses						(204,185)
Change in fair value of derivative financial instruments						(3,130)
Financial costs - interest						(136,677)
Profit before tax						856,287
Income tax charge						(142,479)
Profit for the period						713,808

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENT INFORMATION (continued)

Six months ended 30 June 2009

	Paper product RMB'000 (unaudited)	Construction materials RMB'000 (unaudited)	Electricity and steam RMB'000 (unaudited)	Other RMB'000 (unaudited)	Eliminations RMB'000 (unaudited)	Total RMB'000 (unaudited)
REVENUE						
External sales	6,366,257	143,530	108,740	24,364	—	6,642,891
Inter-segment sales	—	20,115	105,799	4,149	(130,063)	—
Total	6,366,257	163,645	214,539	28,513	(130,063)	6,642,891
Segment results	538,417	(12,261)	30,437	(14,262)	—	542,331
Unallocated expenses						(98,309)
Change in fair value of derivative financial instruments						6,993
Financial costs - interest						(195,044)
Profit before tax						255,971
Income tax charge						(52,125)
Profit for the period						203,846

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6. OTHER INCOME

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Government grants:		
Expansion grants (note a)	49,350	35,377
Value-added tax refund (note b)	9,565	7,597
	58,915	42,974
Interest income	14,026	27,045
Net exchange gain	8,150	257
Net gain from sales of scrap	—	5,828
Discount on acquisition of subsidiaries	—	3,026
Gain from disposal of property, plant and equipment	—	5,771
Others	17,993	15,879
	99,084	100,780

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. OTHER INCOME (continued)

Notes:

- (a) Government grants from the local municipal governments were granted to the Group in order to encourage development of the Group's business. According to the relevant government grant documents, the grants are 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.

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Gross rental income from investment properties	(665)	(1,242)
Less: Direct operating expenses from investment properties that generated rental income during the period	71	223
Net rental income from investment properties	(594)	(1,019)
Loss on suspension of production (note i)	23,773	82,196
Allowance for bad and doubtful debts	32,283	23,555
Reversal of allowance for inventories (note ii)	(3,027)	(12,952)
Release of lease payment charge	17,499	9,897
Depreciation of property, plant and equipment	561,450	591,219
Depreciation of investment properties	870	869
Loss/(Gain) on disposal of property, plant and equipment	1,431	(5,771)

Note:

- (i) As a result of the financial crisis in the second half of 2008, the Group's pulp production and construction materials business has 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 and staff cost. The production line for the pulp has been resumed in 2009. During the period under review, except for the production lines for construction materials of two subsidiaries, Qihe Chenming Panels Co., and Heze Chenming Panels Co., Ltd which are still suspended, the remaining production line for construction materials has been resumed.
- (ii) In 2008, the Group had written-down inventories for paper products to net realisable value. Since the selling price of paper products increased during the year 2009 and current period, the write-down of inventories has been reversed during current and prior period.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Current tax	139,897	56,622
Deferred tax charge/(credit)	2,582	(4,497)
	142,479	52,125

No provision for Hong Kong Profits Tax has been made in the financial statements since the Group's Hong Kong subsidiary has sufficient tax losses brought forward to set off against current period's estimated assessable profits.

Tax charge on the Company and its PRC subsidiaries have been calculated at the prevailing PRC Enterprise Income Tax rate, based on existing legislation, interpretation and practices in respect thereof.

9. DIVIDENDS

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Final Dividend declared for:		
- 2008 (RMB0.05 per share)	—	103,102
- 2009 (RMB0.3 per share)	618,614	—
	618,614	103,102

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the Group's profit for the period attributable to the owners of the Company of approximately RMB621,367,000 (2009: RMB170,987,000) and on the weighted average number of shares of 2,062,046,000 (2009: 2,062,046,000) in issue during the period.

The Group has no potential ordinary shares during each of the six months ended 30 June 2009 and 2010.

11. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group acquired property, plant and equipment amounting to approximately RMB1,556,926,000 (2009: RMB381,386,000) and made prepaid lease payments in relation to land use rights amounting to approximately RMB31,880,000 (2009: RMB26,342,000).

At 30 June 2010, the Group has pledged certain property, plant and equipment and prepaid lease payments on land use rights having carrying amounts of approximately RMB1,052,967,000 (31 December 2009: RMB1,083,390,000) and RMB72,250,000 (31 December 2009: RMB73,051,000) respectively to secure the loan facilities granted to the Group by certain banks and a non-controlling shareholder of a subsidiary of the Company.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Trade receivables aged:		
0 - 90 days	1,398,561	1,172,891
91 - 180 days	238,037	224,042
181 - 365 days	107,855	37,598
1 - 2 years	17,991	87,634
2 - 3 years	47,048	6,826
Total trade receivables	1,809,492	1,528,991
Bills receivable aged:		
0 - 90 days	1,421,919	1,658,656
91 - 180 days	640,266	1,046,143
Total bills receivable	2,062,185	2,704,799
Other receivables	223,630	145,543
Deposits and prepayment	954,805	1,000,772
	5,050,112	5,380,105

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.

At 30 June 2010, the Group has discounted bills with recourse with an aggregate amount of RMB1,127,345,000 (2009: RMB2,091,068,000). The Group continues to recognised the full carrying amount of such bills receivable and has recognised the cash received on such discounting as secured borrowings as set out in note 15.

13. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent the bank deposits pledged to banks to secure certain short-term bills facilities granted to the Group by certain banks amounting to RMB210,421,000 (2009: RMB525,589,000) and are therefore classified as current assets. The restricted bank deposits carry fixed interest rate of 1.98% (2009: 1.98%) per annum as at 30 June 2010. The pledged bank deposits will be released upon the settlement of relevant short-term bills issued.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE AND OTHER PAYABLES

An analysis of trade and other payables is as follows:

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Trade payables aged:		
0 - 90 days	2,058,059	1,206,281
91 - 180 days	267,019	574,416
181 - 365 days	220,051	104,682
1 - 2 years	137,622	155,634
2 - 3 years	48,816	52,666
Over 3 years	51,965	29,182
Total trade payables	2,783,532	2,122,861
Bills payable aged:		
0 - 90 days	206,311	428,218
91 - 180 days	143,297	116,314
Total bills payable	349,608	544,532
Other payables	722,906	618,649
Advances received from customers	167,354	233,124
Accrued charges	50,104	51,204
	4,073,504	3,570,370

Trade and bills payable principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period obtained for trade purchases is 90 days.

15. BORROWINGS

During the period, the Group obtained new bank and other loans in the amount of RMB2,475,825,000 and made repayments in the amount of RMB4,713,400,000. The loans bear interest at the range from 1.2% to 5.35% per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group.

16. DEBENTURES

The Company issued a debenture to the independent third party debenture holders with face value of RMB1,500,000,000 on 8 March 2010 which is detailed in the circular [2010] issued by the China Merchant's Banks in 2010. The debenture is unsecured, repayable one year after the issue date and interest bearing at 3.31% per annum.

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 and 1,100,000,000 on 2 December 2009 and 18 March 2010 respectively. The debenture is unsecured, repayable three years after the issue date and interest bearing at 5.05% and 4.59% respectively per annum.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL

	Number of shares '000	Restricted A Shares '000	Type of shares			Total RMB'000
			A Shares '000	B Shares '000	H Shares '000	
At 1 January 2009	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 a)	—	139	(139)	—	—	—
Transfer of restricted A Shares held by directors, supervisors and senior management to A Shares (note b)	—	(827)	827	—	—	—
At 31 December 2009	2,062,046	303,300	809,979	557,497	391,270	2,062,046
At 1 January 2010	2,062,046	303,300	809,979	557,497	391,270	2,062,046
Transfer of A shares held by directors, supervisors and senior management to restricted A shares (note a)	—	368	(368)	—	—	—
At 30 June 2010	2,062,046	303,668	809,611	557,497	391,270	2,062,046

Note: During the reporting period the restricted shares held by Senior Management changed by 368,123 shares from 10,295,148 shares to 10,663,271 shares. The reasons for such change were as follows :

- (1) During the reporting period, the shares held by three resigned Senior Management members of the Company remained restricted. As a result, 25% of the non-restricted RMB ordinary shares (A shares) held by the resigned Senior management changed to restricted shares and amounted to 182,938 shares;
- (2) During the reporting period, the nature of 185,185 shares held by two newly appointed Senior Management members changed from non-restricted RMB ordinary shares (A shares) to restricted shares held by Senior Management.

As a result, the restricted shares held by Senior Management increased by a total of 368,123 shares as compared with the end of last year.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CAPITAL COMMITMENTS

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
For acquisition of property, plant and equipment		
– Authorised but not contracted for	7,357,830	12,610,839
– Contracted but not provided for	7,733,879	5,553,398
	15,091,709	18,164,237

19. RELATED PARTY AND OTHER TRANSACTIONS

(a) *The Group has entered into the following significant transactions with its related and other parties during the period:*

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
<i>Associates:</i>		
Electricity charges received	4,076	3,896
Miscellaneous service charges received	103	99
<i>Non-controlling shareholders of subsidiaries:</i>		
Sales of finished products	46,692	57,161
Technology consultancy fee paid	802	812
Interest paid	2,031	4,448
Minimum operating lease payment in respect of property, plant and equipment	3,480	3,480

Other than the above transactions, the Group also makes payments or collect debts on behalf of certain related parties during the periods and the unsettled balance is included in the balance with the respective related parties as at the end of the reporting period.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY AND OTHER TRANSACTIONS (continued)

(b) *Balances with related and other parties (included in respective item in the statement of financial position)*

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
<i>Associates:</i>		
Other receivables	2,093	1,291
<i>Non-controlling shareholders of subsidiaries:</i>		
Trade receivables	—	31,980
Borrowings - secured	162,982	178,442

The amounts due from associates and non-controlling shareholders of subsidiaries are unsecured, and interest-free. The amounts due from associates are repayable and expected to be recovered within one year from the end of the respective reporting periods. Part of the borrowings of RMB36,218,000 from a non-controlling shareholder of a subsidiary are repayable within one year and borrowings of RMB126,764,000 from a non-controlling shareholder are repayable after one year from the end of the respective reporting periods.

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

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

(i) *Material transactions*

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Sales	3,622,975	1,807,550
Purchases	1,403,845	512,720
Construction work expenses paid	436,996	40,020

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY AND OTHER TRANSACTIONS (continued)

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

(ii) Material balances

	At 30 June 2010 RMB'000 (unaudited)	At 31 December 2009 RMB'000 (audited)
Bank balances and deposits	1,935,302	2,054,053
Trade and other receivables	1,233,043	1,244,943
Trade and other payables	353,236	469,813
Bank borrowings	5,856,610	6,170,348

(d) Compensation of key management personnel

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

	Six months ended 30 June	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Short-term employee benefits		
- Directors	2,072	978
- Other senior management	936	784
Sub-total	3,008	1,762
Post-employment benefits		
- Directors	62	97
- Other senior management	121	161
Sub-total	183	258
Total	3,191	2,020

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INTERIM
REPORT

21. APPROVAL OF INTERIM FINANCIAL INFORMATION

The interim financial information of the Company was approved by the Board of Directors on 20 August 2010.

IX. Documents Available for Inspection

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



山東晨鳴紙業集團股份有限公司
SHANDONG CHENMING PAPER HOLDINGS LIMITED*