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)

2011 Annual Report Summary

§1 Important Notice

1.1 The members of the board (the "Board") of directors (the "Directors"), the supervisory committee (the "Supervisory Committee") and the Directors, supervisors (the "Supervisors") and senior management (the "Senior Management") of Shandong Chenming Paper Holdings Limited (the "Company", "us", and "we") hereby warrant that there are no false representations, misleading statements or material omissions contained in this 2011 annual report summary (the "Report"), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents of the Report.

This report summary is extracted from the full text of the annual report, which is published at the same time on the website of CNINFO (www.cninfo.com.cn), the Company (www.chenmingpaper.com) and the Stock Exchange of Hong Kong Limited (www.hkex.com.hk). Investors should read the full text of the annual report for details. The Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

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

1.3 All directors except Mr. Zhang Zhiyuan, an independent director, who was on business trip and had appointed Mr. Wang Aiguo, another independent director, to be present on his behalf, were present at the Board meeting which considered and approved the annual report.

1.4 The financial statements of the Company for 2011 were audited by RSM China Certified Public Accountants, which issued a standard auditors' report with unqualified opinion.

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

§2 Company Information

2.1 Basic Information

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

2.2 Contact Persons and Contact Methods

	Secretary to the Board	Company Secretary, Hong Kong	Securities Affairs Representatives
Name	Hao Yun	Poon Shiu Cheong	Fan Yingjie
Correspondence address	No. 595 Shengcheng Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong	No. 595 Shengcheng Road, Shouguang City, Shandong Province
Telephone	0536-2158011	852-25010088	0536-2158011
Facsimile	0536-2158640	852-25010028	0536-2158640
Email address	chenmmingpaper@163.com	Kentpoon1009@yahoo.com.hk	chenmmingpaper@163.com

Disclosure as required by the CSRC

§3 Summary of Financial and Operating Results

3.1 Major financial data prepared in accordance with Accounting Standards for Business Enterprises

Unit: RMB

	2011	2010	Increase/ decrease (%)	2009
Total operating revenue	17,747,489,900.87	17,203,123,029.49	3.16%	14,884,629,349.50
Operating profit	376,046,838.92	1,433,750,743.06	-73.77%	982,565,828.49
Total profit	698,989,896.70	1,562,354,564.20	-55.26%	1,172,922,631.23
Net profit attributable to owners of the Company	608,271,256.29	1,163,341,066.21	-47.71%	835,947,981.16
Net profit after extraordinary gains or losses attributable to owners of the Company	285,121,911.63	1,034,233,761.46	-72.43%	715,103,042.84
Net cash flows from operating activities	-437,463,010.89	850,328,927.00	-151.45%	1,639,034,259.99
	As at 31 December 2011	As at 31 December 2010	Increase/ decrease (%)	As at 31 December 2009
Total assets	45,630,828,967.03	35,077,132,129.98	30.09%	28,213,084,875.02
Total liabilities	30,643,054,107.64	19,816,933,123.48	54.63%	13,476,024,052.87
Equity attributable to owners of the Company	13,528,622,319.91	13,535,785,794.54	-0.05%	12,991,904,321.68
Share capital (shares)	2,062,045,941.00	2,062,045,941.00	0	2,062,045,941.00

3.2 Major financial indicators

Unit: RMB

	2011	2010	Increase/ decrease (%)	2009
Basic earnings per share (RMB per share)	0.29	0.56	-48.21%	0.41
Diluted earnings per share (RMB per share)	Not applicable	Not applicable	Not applicable	Not applicable
Basic earnings per share after extraordinary gains or losses (RMB per share)	0.14	0.50	-72.00%	0.35
Rate of return on net assets on weighted average basis (%)	4.50%	8.80%	-4.30%	6.63%
Rate of return on net assets on weighted average basis after extraordinary gains or losses (%)	2.11%	7.87%	-5.76%	5.67%
Net cash flows per share from operating activities (RMB per share)	-0.21	0.41	-151.22%	0.79
	As at 31 December 2011	As at 31 December 2010	Increase/ decrease (%)	As at 31 December 2009
Net assets per share attributable to owners of the Company (RMB per share)	6.56	6.56	0	6.30
Gear ratio (%)	67.15%	56.50%	10.65%	47.77%

3.3 Extraordinary gains or losses items

√ Applicable □ Not applicable

Unit: RMB

Extraordinary gain or loss items	2011 Amount	Note (if applicable)	2010 Amount	2009 Amount
Except for effective hedging business conducted over the course of ordinary operation of the Company, gain or loss arising from held-for-trading financial assets			1,521,172.98	8,443,100.00
Reversal of impairment provision for accounts receivable undergoing impairment test individually				1,085,771.23
Gain or loss on disposal of non-current assets	26,249,093.41		-5,495,594.30	1,848,949.50
Government grants	236,198,625.29		96,530,256.72	140,290,327.67
Gain or loss on debt restructuring	-18,179,889.32		54,841.22	329,236.08
Gain or loss arising from change in fair value of consumable biological assets	48,173,926.26		54,752,250.58	9,868,745.48
Gain or loss arising from the entitled fair value of identifiable assets of investees when the investment cost for acquisition of subsidiaries is less than the acquisition investment	44,188,866.15			10,490,441.40
Other non-operating income and expenses other than the above items	31,840,643.86		5,913,389.74	17,948,671.99
Effect of income tax	-32,413,333.65		-4,961,885.60	-53,698,195.03
Effect of minority interests	-12,908,587.34		-19,207,126.59	-15,762,110.00
Total	323,149,344.66	—	129,107,304.75	120,844,938.32

§4 Table illustrating the shareholdings of shareholders

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

Unit: shares

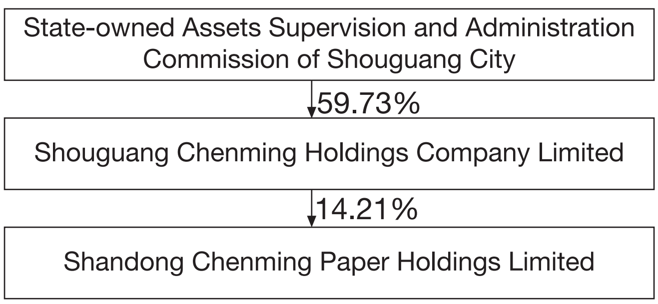
Total number of shareholders as at the end of 2011	The total number of shareholders was 166,389, of which 135,425 were holders of A shares,30,353 were holders of B shares and 611 were holders of H shares.	Total number of shareholders as at the end of the month before the publication of this annual report.	The total number of shareholders was 165,909, of which 134,316 were holders of A shares, 30,984 were holders of B shares and 609 were holders of H shares.

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held	Number of restricted shares held	Number of shares pledged or locked-up
HKSCC Nominees Limited	Overseas legal person	18.89%	389,619,000	0	Unknown
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	293,003,657	Nil
PLATINUM ASIA FUND	Overseas legal person	2.11%	43,480,377	0	Unknown
BILL & MELINDA GATES FOUNDATION TRUST	Overseas legal person	1.14%	23,460,302	0	Unknown
HTHK-MANULIFE CHINA VALUE FUND	Overseas legal person	1.11%	22,892,182	0	Unknown
MANULIFE GLOBAL FUND	Overseas legal person	0.99%	20,324,321	0	Unknown
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L -FH002 Shenzhen	Domestic non-state-owned legal person	0.86%	17,819,798	0	Unknown
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Overseas legal person	0.78%	16,068,072	0	Unknown
VALUE PARTNERS CLASSIC FUND	Overseas legal person	0.39%	8,143,633	0	Unknown
DRAGON BILLION CHINA MASTER FUND	Overseas legal person	0.34%	7,078,618	0	Unknown

Shareholding of the top ten shareholders of non-restricted shares		
Name of shareholders	**Number of non-restricted shares held**	**Class of shares**
HKSCC Nominees Limited	389,619,000	Overseas listed foreign shares
PLATINUM ASIA FUND	43,480,377	Domestic listed foreign shares
BILL & MELINDA GATES FOUNDATION TRUST	23,460,302	RMB ordinary shares
HTHK-MANULIFE CHINA VALUE FUND	22,892,182	Domestic listed foreign shares
MANULIFE GLOBAL FUND	20,324,321	Domestic listed foreign shares
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L-FH002 Shenzhen	17,819,798	RMB ordinary shares
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	16,068,072	Domestic listed foreign shares
VALUE PARTNERS CLASSIC FUND	8,143,633	Domestic listed foreign shares
DRAGON BILLION CHINA MASTER FUND	7,078,618	Domestic listed foreign shares
Chen Hongguo	6,334,527	RMB ordinary 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.	

4.2 Chart illustrating the ownership and control relationships between the Company and the beneficial controllers



§5 Directors' report

5.1 Summary of management discussion and analysis

I. Management discussion and analysis

(I) General overview during the reporting period

In 2011, the Board strived to regulate the operation of the Company in terms of corporate governance. According to the regulatory requirements, the corporate governance system was improved in a timely manner. The management systems such as *Behaviour Regulation and Information Enquiry System for Substantial Shareholders* and *Actual Controllers and the Derivative Products Investment Internal Control and Information Disclosure System* were formulated and improved. The legal person governance structure was improved to enable the special committees of the Board to fully play their role. The Board facilitated the Company's general meeting, the Board, the supervisory committee and the management in exercising their power in accordance with their respective statutory authorities and the rules of procedures. The Board also strengthened the establishment of the Company's management and control system, and actively promoted the implementation of internal control in the Company to further improve and perfect the relevant systems concerning internal control of the Company. In particular, the Board strengthened financial control and financial management. Having evaluated the Company's internal system, the Board of the Company considered that during the reporting period, the Company's internal control system was sound and effectively implemented, and no significant deficiencies in internal control design or implementation was identified in the Company.

For management, first, the internal control management system was enhanced. The Company implemented the Internal Control Basic Criteria to strengthen the establishment of internal control systems of the Company and its subsidiaries, enhance the organisational management structure and internal control management system of the subsidiaries, regulate the operating and management behaviour, and strengthen the Company's ability to withstand risk. Second, an appraisal system was set up for all staff, thus achieving efficiency and fairness. Through positive incentives, all staff were guided to continue their improvement, thus raising self-expectation and achieving self-enhancement. Third, purchase management was strengthened through implementing a model combining centralised purchasing at the group level and local and regional purchasing, thereby lowering the purchase cost by the centralised purchasing of raw materials in bulk and the supplies qualified to be purchased overseas and in bulk at the group level. Fourth, the Company strengthened financial management and expanded its finance channels through issue of medium-term notes and short-term debentures, thereby lowering the finance expenses.

For marketing, first, the Company firmly grasped efficiency management by implementing a proactive and flexible pricing policy which adjusted the product prices on a timely basis based on the market rates and its production cost to increase sales in the market. Second, the Company strengthened brand building by classifying existing product brands into different classes with repositioning, and building up the image of high end brands with improvement in quality and service. Third, the Company strengthened team building by adjusting the assessment methods of wages and salaries on a timely basis in the light of the sales focus, thereby stimulating incentives with policies. Under the extremely difficult market situation in 2011, the significant improvement in the marketing efforts of the Company brought about significant achievements in market expansion.

For projects, in face of the global financial crisis, the Company turned challenges into opportunities, and made more investments with a view to long term development. After two years of project construction, the Company reached a climax in project construction and operation in 2011, with various large-scale new construction projects such as the 800,000-tonne coated paper project, Zhanjiang Chenming 700,000-tonne chemical pulp project and the 450,000-tonne cultural paper project coming into operation one after another as scheduled. The Company achieved substantial enhancement in production capacity. At the same time, the Company continued to develop the raw materials bases to speed up the development of "forestry-pulp-paper integration", thereby optimising the raw materials structure and securing the leapfrogging development of the Company.

1. Overview of production and operation

During the reporting period, the Company completed machine-made paper production of 3.40 million tonnes, representing an increase of 50,000 tonnes or 1.49% as compared to 2010. Revenue from principal operations amounted to RMB17,747.4899 million, up by RMB544.3669 million or 3.16% from 2010. Costs of principal operations were RMB14,931.1532 million, up by RMB1,248.1517 million or 9.12% from 2010. Operating profit and net profit attributable to equity holders of the Company were RMB376.0468 million and RMB608.2713 million respectively, down by 73.77% and 47.71% respectively.

2. Progress of the Zhanjiang Pulp Project

(1) As undertaken in the prospectus, 91% of the proceeds from H share issue were used in the Zhanjiang pulp project. As of 31 December 2011, approximately RMB2,483 million were invested into the project. All proceeds have been utilised according to the use of proceeds. The Zhanjiang pulp project successfully came into operation on 29 August 2011. The Company published the Indicative Announcement on Operation of the Zhanjiang Chenming Pulp Project on 2 September 2011.

(2) As of the end of 2011, the Group had acquired 1.80 million mu of woodlands for raw materials and obtained legal forestry rights certificates for 1.68 million mu of woodlands, among which, the construction areas of the woodlands for paper making materials in Zhanjiang and its peripheral regions reached 820,000 mu already.

(II) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period

Unit: RMB

	2011		2010		
Items	**Closing balance**	**As a percentage of total assets in 2011**	Closing balance	As a percentage of total assets in 2010	Difference in the percentage of total assets
Monetary funds	3,529,938,211.47	7.74%	1,951,854,940.72	5.56%	2.18%
Bills receivable	2,444,508,997.74	5.36%	2,762,389,909.89	7.88%	-2.52%
Accounts receivable	2,886,437,754.69	6.33%	2,122,578,824.27	6.05%	0.28%
Inventories	5,586,472,121.37	12.24%	3,047,078,215.01	8.69%	3.55%
Other current assets	1,698,362,261.63	3.72%	658,572,125.34	1.88%	1.84%
Fixed assets	22,740,904,031.02	49.84%	12,882,358,381.56	36.73%	13.11%
Construction in progress	2,618,039,624.85	5.74%	7,871,512,563.84	22.44%	-16.70%
Consumable biological assets	959,061,500.85	2.10%	726,742,568.44	2.07%	0.03%

1. Major changes for the following items are detailed as follows:

(1) Monetary funds: demand for liquidity increased mainly due to new construction projects of the Company being gradually brought into operation and the greater expansion in the scale of production and operation as compared to the prior period.

(2) Bills receivable: bank acceptance bills received by the Company decreased mainly due to the effects of market changes.

(3) Accounts receivable: the sales revenue of the Company increased mainly due to the expanded scale of the Company arising from new construction projects being brought into operation.

(4) Inventory: the closing balance of finished goods and raw materials in stock increased mainly due to the effects of market conditions and the expanded scale of the Company upon operation of its projects.

(5) Other current assets: input tax of non-credited value added tax increased mainly due to investments in new construction projects.

(6) Fixed assets: construction in progress was transferred to fixed assets mainly due to gradual completion of new projects of the Company.

(7) Construction in progress: construction in progress was transferred to fixed assets mainly due to gradual completion of the Zhanjiang pulp project, the 800,000-tonne coated paper project and other expansion and improvement projects.

(8) Consumable biological assets: Consumable biological assets increased mainly due to the purchase and growing of timber assets by the Company and the change in their fair value.

2. **Nature of measurement adopted for the major assets of the Company:**

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

(1) Financial assets measured at fair value with any change in fair value recorded into profit or loss for the period

(2) Consumable biological assets (please refer to Note 14 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises)

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

Unit: RMB

Statement items	Item	Method of obtaining fair value	Balance as at 31 December 2011	Balance as at 31 December 2010	Effect on profit or loss for the year
Held-for-trading financial assets	Derivative financial instruments	Quotes from financial institutions			
Held-for-trading financial liabilities	Derivative financial instruments	Quotes from financial institutions			
Consumable biological assets	Consumable timber assets	Note	959,061,500.85	726,742,568.44	48,173,926.26

The Group adopted the following major methodologies and assumptions when estimating the fair value of held-for-trading financial assets and consumable biological assets measured at fair value at the balance sheet date:

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

(III) **Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period**

Unit: RMB

Item	Accrued during the year	Accrued during the prior year	Increase (+) Decrease (-)
Business taxes and surcharges	75,717,528.59	30,117,480.19	151.41%
General and administrative expenses	1,014,494,608.50	871,138,204.71	16.46%
Finance expenses	432,022,027.84	233,455,658.10	85.06%
Loss on impairment of assets	41,216,449.59	110,419,785.04	-62.67%
Gain on investments	7,871,420.17	-13,762,755.60	-157.19%
Non-operating revenue	364,826,920.31	179,418,037.60	103.34%
Total profit	698,989,896.70	1,562,354,564.20	-55.26%
Tax expenses	110,263,113.88	260,696,445.13	-57.70%
Net profit attributable to equity holders of the Company	608,271,256.29	1,163,341,066.21	-47.71%
Minority interests	-19,544,473.47	138,317,052.86	-114.13%

Major changes for the items are detailed as follows:

(1) Business taxes and surcharges increased by 151.41% as compared to the prior year mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises beginning from 1 December 2010;

(2) General and administrative expenses increased by 16.46% as compared to the prior year mainly due to a rise in investments in research and development by the Company;

(3) Finance expenses increased by 85.06% as compared to the prior year mainly due to the increase of bank borrowings resulting from an expanded scale of production and operation and project investments, as well as the substantial increase of interest expenses resulting from a rise in interest rate during the current period;

(4) Loss on impairment of assets decreased by 62.67% as compared to the prior year mainly due to (1) a change in the age of the amounts with customers arising from the efforts to collect amounts with customers of the prolonged credit period stepped up by the Company, which resulted in a decrease of RMB107 million bad debt provision in the current period as compared to the prior year; (2) RMB56 million inventory impairment provision made by the Company in the current period arising from changes in the market environment; (3) RMB22.48 million of impairment provision made in 2010 based on the balance between the recovery amount and the face value of the machinery and equipment related to the suspended production of subsidiaries, Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd;

(5) Gain on investments decreased by 157.19% as compared to the prior year mainly due to gain on investments generated from disposal of subsidiaries;

(6) Non-operating expenses increased by 103.34% as compared to the prior year mainly due to a substantial increase in government grant received during the year;

(7) Total profit, tax expenses and net profit attributable to equity holders of the Company decreased by 55.26%, 57.70% and 47.71% respectively as compared to the prior year mainly due to a decrease in the gross profit margin of the products of the Company resulting from a rise in the cost of raw materials;

(8) Minority interests decreased by 114.13% as compared to the prior year mainly due to a rise in the cost of raw materials, a decrease in the net profit of non-wholly-owned subsidiaries of the Company, as well as acquisition of the minority interests in Yanbian Chenming Paper Co., Ltd., a subsidiary, by the Company during the current period;

(IV) Cash flow generated from operating activities of the Company during the reporting period

Unit: RMB

Item	Amounts for the year	Amounts for the prior year	Increase (+) Decrease (-)
Net cash flow generated from operating activities	-437,463,010.89	850,328,927.00	-151.45%
Net cash generated from investment activities	-4,275,171,214.54	-6,384,678,439.51	33.04%
Net cash flow generated from financing activities	5,185,051,006.32	5,031,845,309.63	3.04%

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

Explanation on the main reasons leading to the changes:

(1) Net cash flow generated from operating activities decreased by 151.45% compared to the prior year mainly due to a significant increase in purchase payments for commodities purchased during the current period arising from the coming into operation of the coated paper project with 800,000 tonnes of production capacity, the Zhanjiang pulp project and the high-end culture paper project, which led to an expansion in the scale of the Company and an increase in the quantity of raw materials which were purchased at a higher price.

(2) Net cash flow generated from investment activities increased by 33.04% compared to the corresponding period of the previous year, mainly due to (1) the receipt of a relocation compensation of RMB0.66 billion by Jilin Chenming Paper Co., Ltd., a subsidiary; (2) the completion of the coated paper project with 800,000 tonnes of production capacity by Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company as well as the completion of the Zhanjiang pulp project and the high-end culture paper project during the reporting period, resulting in a decrease in investments as compared to the prior year.

(3) Net cash flow generated from financing activities increased by 3.04% as compared to the prior year mainly due to project investments and issue of debentures of RMB2 billion by the Company.

(V) Operation and results of major controlling subsidiaries of the Company

Unit: RMB'0000

Name of controlling subsidiary	Nature of activities	Shareholding percentage	Principal products manufactured	Registered capital	Asset size	Net profit
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Paper making	50.93%	Writing paper, news press paper	21,136.70	235,305.19	-8,989.05
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd	Paper making	100.00%	Paperboard, corrugated paper	37,620.00	149,788.53	715.55
Shandong Chenming Power Supply Holdings Co., Ltd.	Electricity and steam	86.71%	Generation and sales of electricity and steam	9,955.31	48,250.18	5,204.83
Jilin Chenming Paper Co., Ltd.	Paper making	100.00%	News press paper, light weight coated paper	150,000.00	277,604.49	-13,582.38
Jiangxi Chenming Paper Co., Ltd.	Paper making	51.00%	Coated paper	US$172,000,000	333,355.02	3,000.21
Yanbian Chenming Paper Co., Ltd.	Pulp	76.73%	Pulp and chemical product	8,163.30	37,291.98	5,918.33

(VI) Explanation on single subsidiaries with net profit (or investment income) accounting for over 10% of the net profit of the Company

Unit: RMB'0000

Name of company	Revenue from principal operations	Profit from principal operations	Net profit	Net profit attributable to the Company according to shareholding percentage	As a percentage of net profit of the Company
Jilin Chenming Paper Co., Ltd.	100,944.26	6,526.58	-13,582.38	-13,582.38	-22.33
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	190,180.11	13,903.52	-8,989.05	-4,578.12	-7.53

II. Prospect of the future developments of the Company

1. The development trend of the industry and the outlook of the Company's business

The industry to which the Company belongs is the paper making industry, which is a light industry. The paper making industry is an important basic raw materials industry which is closely related to the national economy and social development. The paper making industry features capital and skills intensive characteristics with prominent economy of scale. Its growth rate is strongly and positively correlated to that of GDP. The government will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will keep steadily and rapidly developing. Recently, the National Development and Reform Commission, Ministry of Industry and Communication and State Forestry Administration jointly issued the Twelfth Five-Year Plan for the Development of the Paper Making Industry, which clearly states the general direction of "controlling total volume, promoting concentration, optimising raw materials and reducing energy consumption and emission", from which the Company is expected to benefit in the long run.

In recent years, the Company is committed to the integrated development of forestry, pulp and paper with a longer industry chain and more comprehensive paper types. In 2011, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development is in line with the requirements of the development plan of the entire paper making industry. Although the industry undergo some short-term downturns, the Company will have exponential growth in performance once the industry recovers, and the Company's future performance is still much awaited.

2. The work of the Company will focus on the following areas in 2012:

Adhering to regulated operation, thereby continuing to enhance the standard of corporate governance and promoting the healthy development of Company.

The Company strictly adheres to domestic and international regulatory requirements for listing, regulates and perfects the management and operation systems of the Company, enhances the standard of regulated operation, avoids operation risks in listing, implements the Basic Criteria for Internal Control, strengthens the internal control systems of the Company and its subsidiaries, enhances the organisational management structure and internal control management system of subsidiaries, regulates operating and management behaviour, strengthens the Company's ability to withstand risk; strengthens information disclosure, endeavours to perfect investor relations management and safeguards the interests of shareholders and investors.

Intensifying capital operation to reduce the operating costs of the Company.

In 2012, the Company fully takes advantage of its role as a listed company and sets up a finance company as soon as possible, strengthening financial management, increasing efforts in centralised management of funds and managing the use of funds by all subsidiaries and sales companies through a quota system. The company broadens financing sources through methods such as issuance of corporate bonds and non-dedicated debt financing instruments to achieve direct financing at a low cost.

Strengthening the management of production, sales and procurement.

Strengthening production management. First, the Company adjusts the product structure. The Company strengthens the development of new products, adjusts the product structure as an important measure to respond to market changes, adheres to the two directions of high-end high value-added and low-end low cost to optimise the structure of product varieties and enhance market competitiveness. The Company keeps a close watch of the market, steps up efforts in new product development and explores new market opportunities. Second, the Company strengthens brand building, improves quality management with the utmost efforts, improves product quality with a view to being on an equal footing with world-class enterprises, creates renowned brand names, enhances enterprise competitiveness and value-added products. Third, the Company improves the level of equipment automation and information management to achieve a staff configuration according to international advanced enterprise standards.

Strengthening sales. First, the Company forms and leads teams to strengthen the execution ability of the sales teams and improve the ability to manage and control the market. Second, the Company changes the sales model, engages large agents, increases the business with manufacturers, merchants and banks, uses social resources to strengthen sales to make up for deficiencies of its own strength. Third, the Company strengthens the overseas market. Through the introduction of talents, the Company speeds up the exploration of the international market and strives to export 800,000 tonnes in the year.

Strengthening procurement management. The Company establishes import and export trading companies, implements market-oriented operation and optimises resource allocation. The Company establishes professional companies such as waste paper and coal companies to improve the waste paper recycling system, thereby stabilising the supplies and reducing costs.

Further strengthening enterprise culture. Through creating a "learning, happy and strict management" corporate culture as a goal, the Company enhances the standard of people-oriented management. First, the departments perform their departmental functions, and actively carry out the corporate culture work and creative activities, promote the building of an enterprise culture, and make efforts to achieve a high degree of integration of corporate governance and corporate culture. Second, the Company enriches the cultural life of its staff, provides comprehensive ancillary facilities and venues for staff activities, regularly organises sports activities and a variety of cultural and leisure activities so that employees can relax in their spare time, enhance their friendship and strengthen team cohesiveness.

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

The Company's new projects commence operation successively but they are unable to make profit on a timely basis due to market reasons. The company has higher leverage now. Fluctuation of the state deposit and lending interest rates will directly cause fluctuation of interests undertaken by the Company so as to affect the Company's profitability. Therefore, the Company specifies following measures: First, the Company will further improve its international marketing network, improve its organisation structure of its overseas companies, adjust its sales channels and make great efforts to expand its overseas market, especially for the coated paper products, high-end duplex press paper, electrostatic small paper and other high-end products, devote great efforts to exports and fund collection, and relieve domestic market pressure. Second, the Company will make full use of the financing platform of the Hong Kong market, seek the bonding point of Hong Kong and domestic businesses, increase Hong Kong Chenming's credit line and expand the business of Hong Kong Chenming. Third, the Company will actively apply for the establishment of the Group's finance company to enhance the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the Group's fund settlement, management, investment and financing ability, thereby reducing the financing cost.

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

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

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

(2) The Company will apply for the establishment of the Group's finance company to enhance the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the Group's fund settlement, management, investment and financing ability, thereby reducing the financing cost. The Company also enhances its financial internal control and management to increase the fund utilisation rate;

(3) The Company will endeavour to decrease its finance expenses by such financing methods as issue of medium-term notes and corporate bonds in 2012.

5.2 Principal activities by industry and by product

Unit: RMB'0000

Principal activities by industry						
By industry	Revenue from operations	Cost of sales	Gross profit margin (%)	Year-on-year increase / decrease in revenue from operations (%)	Year-on-year increase / decrease in cost of sales (%)	Year-on-year increase / decrease in gross profit margin (%)
Machine-made paper	1,634,009.71	1,387,458.59	15.09%	1.09%	7.66%	-5.18%
Electricity and steam	66,017.74	60,112.72	8.94%	48.36%	53.26%	-2.91%
Construction materials	37,699.53	28,569.27	24.22%	-3.08%	-6.86%	3.08%
Paper-making chemical products	9,921.04	7,083.67	28.60%	33.58%	39.28%	-2.92%
Hotel business	4,905.22	1,290.84	73.68%	3.93%	4.50%	-0.15%
Others	22,195.75	8,600.23	61.25%	164.81%	153.49%	1.73%
Total	1,774,748.99	1,493,115.32	15.87%	3.16%	9.12%	-4.59%
Principal activities by product						
By product	Revenue from operations	Cost of sales	Gross profit margin (%)	Year-on-year increase / decrease in revenue from operations (%)	Year-on-year increase / decrease in cost of sales (%)	Year-on-year increase / decrease in gross profit margin (%)
Light weight coated paper	129,616.94	116,051.60	10.47%	-4.00%	0.94%	-4.37%
Duplex press paper	231,813.19	205,353.98	11.41%	18.25%	26.24%	-5.61%
Writing paper	35,548.99	32,218.97	9.37%	-34.72%	-30.45%	-5.55%
Copperplate paper	374,238.75	320,225.82	14.43%	-11.30%	-1.12%	-8.81%
News press paper	165,454.88	141,132.52	14.70%	4.40%	4.93%	-0.43%
Paperboard	63,148.51	60,285.60	4.53%	-15.02%	-7.69%	-7.59%
White paper board	227,440.03	178,891.22	21.35%	-2.82%	4.46%	-5.47%

5.3 Explanation to material changes in profit structure, principal operations and their structure, and profitability of principal activities during the reporting period as compared to the prior year

√ Applicable ☐ Not applicable

The net profit of the Company was lower as compared to the prior period because the gross profit margin of the Company's paper products was lower due to a rise in the costs of raw materials and changes in the market environment.

§6 Finanical report

6.1 Detailed explanation of changes in accounting policies, accounting estimates and calculation method as compared to the previous annual report

□ Applicable √ Not applicable

6.2 Contents, amount corrected, reasons and effects of material accounting errors

□ Applicable √ Not applicable

6.3 Detailed explanation of changes in the scope of consolidation as compared to the previous annual report

√ Applicable □ Not applicable

On 25 August 2011, the Board approved the sale of the 20% and 31% of the equity interest in Chibi Chenming Paper Co., Ltd. respectively held by the Company and Wuhan Chenming Hanyang Paper Holding Co., Ltd., a controlling subsidiary of the Company, to Guangdong Huashen Investment Co., Ltd. at RMB66,000,200 and RMB102,300,300 respectively. The transferee was not related to the Company and the transfer of equity interest was completed on 16 November 2011. Upon completion of the transfer of the equity interest, the Company had no control over Chibi Chenming Paper Co., Ltd., which therefore was not included in the scope of consolidation since 16 November 2011.

On 25 August 2011, the Board approved the sale of the 100% of the equity interest in Xianning Chenming Aboriculture Co., Ltd. held by the Company to Guangdong Huashen Investment Co., Ltd. at RMB6,679,500. The transferee was not related to the Company and the transfer of equity interest was completed on 16 November 2011. Upon completion of the transfer of the equity interest, the Company no longer held equity interest in nor had control over that company, which therefore was not included in the scope of consolidation since 16 November 2011.

On 1 April 2011, Shandong Chenming Power Electricity Supply Holdings Co., Ltd., a secondary subsidiary of the Company, and Shandong Chenming Panels Co., Ltd., a tertiary subsidiary of the Company, disposed of 33% and 34% equity interest in Shandong Heze Chenming Panels Co., Ltd. held by them respectively to Jining Sunshine Wood Industry Co., Ltd. at RMB1. The transferee was not related to the Company and the transfer of equity interest was completed on 1 April 2011. Upon completion of the transfer of the equity interest, the Company had no control over Shandong Heze Chenming Panels Co., Ltd., which therefore was not included in the scope of consolidation since 1 April 2011.

On 1 April 2011, Shandong Chenming Panels Co., Ltd., a wholly-owned subsidiary of the Company, disposed of 67% equity interest in Shandong Lin Dun Wood Industry Co., Ltd. held by it to Jinning Sunshine Wood Industry Co., Ltd. at RMB4,500,000. The transferee was not related to the Company and the transfer of equity interest was completed on 1 April 2011. Upon completion of the transfer of the equity interest, the Company no longer held equity interest in nor had control over that company, which therefore was not included in the scope of consolidation since 1 April 2011.

The Company originally held 26.4% equity interest in Shouguang Liben Paper Making Co., Ltd. On 13 August 2011, Nippon Paper Industries Co., Ltd. and Japan Pulp and Paper Company Limited, the former shareholders of Shouguang Liben Paper Making Co., Ltd., transferred to the Company their respective 61.5% and 12.1% equity interest in Shouguang Liben Paper Making Co., Ltd. at RMB0. As of 13 August 2011, the Company held 100% equity interest in and was able to exercise control over Shouguang Liben Paper Making Co., Ltd., which was included in the scope of consolidation since 13 August 2011.

On 18 January 2011, the Company invested in and established Chenming International Co., Ltd., a wholly-owned subsidiary, in Los Angeles, USA. On 10 November 2011, the Company invested in and established Shouguang Hengfeng Storage Co., Ltd., a wholly-owned subsidiary. On 26 December 2011, the Company and Western Development Investment Management (Shanghai) Co., Ltd. established a joint venture, namely Shanghai Runchen Equity Investment Fund Co., Ltd., with registered capital of RMB305,000,000.00. The Company contributed RMB300,000,000.00 and held 98.36% equity interest in it. The Company invested in and established Shouguang Chenming Jiatai Property Management Co., Ltd., Shouguang Chenming Industrial Logistics Co., Ltd., Shouguang Chenming Import and Export Trading Co., Ltd., Shouguang Chenming Paper-making Machinery Co., Ltd., and Shouguang Chenming Hongxin Packaging Co., Ltd., wholly-owned subsidiaries, on 30 December 2011. The Company was able to exercise control over the above 8 companies since the establishment date, and they were included in the scope of consolidation since the establishment date.

6.4 Explanation by the Board and the Supervisory Committee on the "non-standard auditing report" issued the accounting firm

□ Applicable √ Not applicable

7. Disclosure as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

Consolidated Balance Sheet

As at 31 December 2011

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

Item	Note	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds		**3,529,938,211.47**	1,951,854,940.72
Held-for-trading financial assets			
Bills receivable		**2,444,508,997.74**	2,762,389,909.89
Accounts receivable	10(a)	**2,886,437,754.69**	2,122,578,824.27
Prepayments		**764,880,237.90**	924,354,545.55
Interest receivable			
Dividend receivable			
Other receivables		**325,550,913.72**	117,634,380.52
Inventory		**5,586,472,121.37**	3,047,078,215.01
Current assets due within one year			
Other current assets		**1,698,362,261.63**	658,572,125.34
Total current assets		**17,236,150,498.52**	11,584,462,941.30
NON-CURRENT ASSETS:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		**77,434,005.49**	67,201,931.89
Investment properties		**22,949,956.03**	24,688,212.07
Fixed assets		**22,740,904,031.02**	12,882,358,381.56
Construction in progress		**2,618,039,624.85**	7,871,512,563.84
Construction materials		**61,924,581.85**	116,481,086.12
Disposal of fixed assets			
Consumable biological assets		**959,061,500.85**	726,742,568.44
Oil and gas assets			
Intangible assets		**1,517,137,201.36**	1,459,453,227.94
Development expenditure			
Goodwill		**20,283,787.17**	20,283,787.17
Long-term prepaid expenses		**192,917,245.62**	176,436,950.42
Deferred income tax assets		**174,026,534.27**	147,510,479.23
Other non-current assets		**10,000,000.00**	
Total non-current assets		**28,394,678,468.51**	23,492,669,188.68
TOTAL ASSETS		**45,630,828,967.03**	35,077,132,129.98

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

Item	*Note*	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term borrowings		**12,086,984,606.69**	3,594,157,220.47
Held-for-trading financial liabilities		**—**	—
Bills payable		**615,327,402.85**	218,757,186.75
Accounts payable	10(b)	**4,685,585,997.60**	2,708,064,676.44
Advance receipts	10(c)	**231,428,013.45**	410,243,554.75
Staff remuneration payables		**147,063,891.65**	169,426,660.41
Taxes payable	10(e)	**68,240,005.91**	134,029,387.82
Interest payable		**106,854,702.74**	46,115,333.31
Dividend payable		**—**	—
Other payables		**763,621,538.95**	582,052,511.43
Non-current liabilities due within one year		**1,203,616,858.22**	1,432,841,463.15
Other current liabilities		**10,227,001.60**	3,366,378,582.57
Total current liabilities		**19,918,950,019.66**	12,662,066,577.10
NON-CURRENT LIABILITIES:			
Long-term borrowings	10(i)	**5,143,067,496.05**	4,725,628,719.05
Bonds payable	10(j)	**2,476,942,694.79**	
Long-term payables		**—**	—
Special accounts payable	10(k)	**660,000,000.00**	—
Estimated liabilities		**—**	—
Deferred income tax liabilities		**—**	1,340,281.66
Other non-current liabilities		**2,444,093,897.14**	2,427,897,545.67
Total non-current liabilities		**10,724,104,087.98**	7,154,866,546.38
TOTAL LIABILITIES		**30,643,054,107.64**	19,816,933,123.48
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital(or share capital)	10(l)	**2,062,045,941.00**	2,062,045,941.00
Capital reserves		**6,098,264,836.00**	6,093,493,004.71
Less: Treasury shares		**—**	—
Special reserves		**—**	—
Surplus reserves		**1,132,116,106.40**	1,046,510,680.99
General risk provisions		**—**	—
Retained profit	10(h)	**4,237,783,996.54**	4,333,731,947.96
Foreign currency translation differences		**-1,588,560.03**	4,219.88
Total equity attributable to equity holders of the company		**13,528,622,319.91**	13,535,785,794.54
Minority interests		**1,459,152,539.48**	1,724,413,211.96
Total owners' equity		**14,987,774,859.39**	15,260,199,006.50
TOTAL LIABILITIES AND OWNERS' EQUITY		**45,630,828,967.03**	35,077,132,129.98

Consolidated Income Statement
2011

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

Item		Note	Amounts during the year	Amounts during the prior year
I.	Total operating revenue		**17,747,489,900.87**	17,203,123,029.49
	Including: operating revenue	10(d)	**17,747,489,900.87**	17,203,123,029.49
II.	Total operating costs		**17,427,488,408.38**	15,801,911,781.41
	Including: operating costs	10(d)	**14,931,153,175.89**	13,683,001,460.32
	business taxes and surcharges	10(e)	**75,717,528.59**	30,117,480.19
	selling and distribution expenses		**932,884,617.97**	873,779,193.05
	general and administrative expenses		**1,014,494,608.50**	871,138,204.71
	finance expenses		**432,022,027.84**	233,455,658.10
	loss on impairment of assets		**41,216,449.59**	110,419,785.04
	Plus: gain on change in fair value ("-" denotes loss)		**48,173,926.26**	46,302,250.58
	investment income ("-" denotes loss)		**7,871,420.17**	-13,762,755.60
	Including: investment income from associates and joint ventures		**-3,246,150.00**	-13,863,141.44
III.	Operating profit ("-" denotes loss)		376,046,838.92	1,433,750,743.06
	Plus: non-operating income		**364,826,920.31**	179,418,037.60
	Less: non-operating expenses		**41,883,862.53**	50,814,216.46
	Including: loss on disposal of non-current assets		**5,791,866.58**	42,128,862.46
IV.	Total profit ("-" denotes total loss)		**698,989,896.70**	1,562,354,564.20
	Less: income tax expenses	10(f)	**110,263,113.88**	260,696,445.13
V.	Net profit ("-" denotes net loss)		**588,726,782.82**	1,301,658,119.07
	Net profit attributable to equity holders of the Company		**608,271,256.29**	1,163,341,066.21
	Minority interests		**-19,544,473.47**	138,317,052.86
VI.	Earnings per share:			
	(I) Basic earnings per share	10(g)	**0.29**	0.56
	(II) Diluted earnings per share	10(g)	**0.29**	0.56
VII.	Other comprehensive income		**-1,592,779.91**	-855,013.84
VIII.	Total comprehensive income		**587,134,002.91**	1,300,803,105.23
	Total comprehensive income attributable to equity holders of the Company		**606,678,476.38**	1,162,486,052.37
	Total comprehensive income attributable to minority interests		**-19,544,473.47**	138,317,052.86

8. Adoption of China Accounting Standards for Business Enterprises

According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2010, Mainland incorporated companies listed in Hong Kong are allowed to prepare financial statements in accordance with the China Accounting Standards for Business Enterprises to fulfill the financial reporting requirements of the Stock Exchange. At the 2010 Annual General Meeting held on 18 May 2011, the Company considered and approved a proposal on the appointment of auditors for 2011 to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2011. In auditing the financial statements of the 2011 financial year prepared by the Company in accordance with the China Accounting Standards for Business Enterprises, RSM China Certified Public Accountants adopted the Chinese Auditing Standards only and published the auditors' report.

9. Basis of Preparation of the Financial Statements

The Company's financial statements have been prepared based on the going concern assumption. 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 15 February 2006 and 38 specific accounting standards, the subsequently promulgated application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as "ASBEs"), and 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 in 2010) of China Securities Regulatory Commission.

The Group's financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments and consumable biological assets, the financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

The financial statements have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 31 December 2011 and relevant information such as the operating results and cash flows of the Company and the Group of 2011. 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 in 2010 and the notes thereto.

10. Notes to the Consolidated Financial Statements for the period from January to December 2011

(a) Accounts receivable

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

Age	Closing balance	Opening balance
Within 1 year	2,872,638,580.01	2,102,828,155.97
1 to 2 years	9,869,976.13	15,885,146.97
2 to 3 years	3,929,198.55	3,865,521.33
Total	2,886,437,754.69	2,122,578,824.27

The following is an aging analysis of the overdue and uncollected accounts receivable beyond the credit period, net of impairment:

Age	Closing balance	Opening balance
Within 1 year	520,677,251.23	600,910,005.58
1 to 2 years	9,869,976.13	15,885,146.97
2 to 3 years	3,929,198.55	3,865,521.33
Total	534,476,425.91	620,660,673.88

Based on the accounts receivable collection experience of the Group, the accounts receivable of over 3 years generally are uncollectable so the Group makes impairment provisions in full for the overdue receivables of over 3 years. The above overdue accounts receivable are not provided for impairment in full as the Group recognises the subsequent repayment performance and credibility of the related customers, except the individually impaired upon impairment tests.

(b) Accounts payable

(1) Breakdown of accounts payable:

Item	Closing balance	Opening balance
Within 1 year	4,420,184,816.30	2,516,618,611.43
1-2 years	117,265,142.92	71,824,074.09
2-3 years	67,792,980.94	64,607,259.87
Over 3 years	80,343,057.44	55,014,731.05
Total	4,685,585,997.60	2,708,064,676.44

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

(c) Advance receipts

(1) Breakdown of advance receipts

Item	Closing balance	Opening balance
Within 1 year	211,879,347.81	400,171,708.36
1-2 years	19,548,665.64	10,071,846.39
Total	231,428,013.45	410,243,554.75

(2) The Company does not receive any advance from any shareholders holding over 5% (5% inclusive) of the Company's shares.

(d) Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amounts during the year	Amounts during the prior year
Operating revenue from principal operations	17,535,452,305.79	17,129,820,871.55
Other operating revenue	212,037,595.08	73,302,157.94
Total operating revenue	17,747,489,900.87	17,203,123,029.49
Operating costs from principal operations	14,851,342,511.80	13,651,586,236.61
Other operating costs	79,810,664.09	31,415,223.71
Total operating costs	14,931,153,175.89	13,683,001,460.32

(e) Taxes payables

Item	Closing balance	Opening balance
Enterprise income tax	21,030,687.55	63,216,459.39
Value added tax	8,847,121.90	22,409,317.62
Business tax	6,510,523.22	4,809,383.74
Land use tax	14,021,262.09	13,840,227.24
Property tax	5,382,575.62	5,578,174.83
Urban maintenance and construction tax	2,669,994.50	5,088,049.71
Educational surcharges and others	2,775,009.93	6,402,114.55
Individual income tax	5,201,988.58	10,532,914.69
Stamp duty	1,800,842.52	2,152,746.05
Total	68,240,005.91	134,029,387.82

(f) Income tax expenses

(1) Breakdown of income tax expenses

Item	Amounts during the year	Amounts during the prior year
Current income tax calculated according to tax laws and relevant rules	138,729,714.22	287,849,279.19
Adjustment on deferred income tax	-28,466,600.34	-27,152,834.06
Total	110,263,113.88	260,696,445.13

(2) The relationship between income tax expenses and total profit is as follows

Item	Amounts during the year	Amounts during the prior year
Profit before tax	698,989,896.70	1,562,354,564.20
Income tax calculated according to the statutory tax rate	174,747,474.18	390,588,641.05
Plus: effect of non-deductible costs, expenses and losses	41,288,716.07	63,400,531.33
Less: effect of tax concessions	133,431,268.73	151,629,531.81
Less: Tax effect of utilisation of deductible tax losses and deductible temporary differences previously not recognised	9,975,239.81	19,273,555.40
Plus: effect of deductible tax losses and deductible temporary differences not recognised during the current year	37,633,432.17	-22,389,640.04
Income tax expenses	110,263,113.88	260,696,445.13

(g) Basic earnings per share and diluted earnings per share

The basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders of the Company by the number of weighted average ordinary shares in issue. The number of newly issued ordinary shares is confirmed starting from the day of consideration receivables (generally the offering date of stock) according to the specific terms in the offering agreement.

The numerator of the diluted earnings per share is the net profit for the period attributable to ordinary shareholders of the Company, which is confirmed after adjusting the following factors: (1) interests of diluted potential ordinary shares recognised as expenses for the period; (2) gains or expenses arising from the transfer of diluted potential ordinary shares; and (3) effect of income tax due to the above adjustment.

The denominator of diluted earnings per share is the sum of the followings: (1) weighted average number of ordinary shares in issue of the parent company in the basic earnings per share; and (2) average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares.

For the purpose of calculating the average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares in issue, diluted potential ordinary shares issued during the prior period were assumed to be transferred as at the beginning of the current period while diluted potential ordinary shares issued in the current period were assumed to be transferred on offering date.

(1) Basic earnings per share and diluted earnings per share over the periods

Profit during the reporting period	**Amounts during the year**		**Amounts during the prior year**	
	Basic earnings per share	**Diluted earnings per share**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to ordinary shareholders	0.29	0.29	0.56	0.56
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.14	0.14	0.5	0.5

(2) Calculation of earnings per share and diluted earnings per share

During the reporting period, the Company did not have any potential diluted ordinary shares. Therefore, diluted earnings per share are equal to basic earnings per share.

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

RMB

Item	Amounts during the year	Amounts during the prior year
Net profit for the period attributable to ordinary shareholders	608,271,256.29	1,163,341,066.21
Of which: net profit attributable to continued operations	608,271,256.29	1,163,341,066.21
net profit attributable to discontinued operations	—	—
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	285,121,911.63	1,034,233,761.46
Of which: net profit attributable to continued operations	285,121,911.63	1,034,233,761.46
net profit attributable to discontinued operations	—	—

(2) For the purpose of calculating earnings per share, the denominator is the weighted average of outstanding ordinary shares. The calculation is as follows:

Item	Amounts during the year	Amounts during the prior year
Number of outstanding ordinary as at the beginning of the period	2,062,045,941.00	2,062,045,941.00
Add: number of weighted ordinary shares issued during the period	—	—
Less: number of weighted ordinary shares repurchased during the period	—	—
Number of outstanding ordinary as at the end of the period	2,062,045,941.00	2,062,045,941.00

(h) Retained profit

(1) Information on the change of retained profit

Item	Amounts during the year	Amounts during prior year	Proportion of appropriation or allocation
Retained profit of prior period before adjustment	4,333,731,947.96	3,928,586,297.55	
Adjustment of the aggregate retained profit as at the beginning of the period (increase after adjustment +, decrease after adjustment -)	—	—	
Retained profit as at the beginning of the period after adjustment	4,333,731,947.96	3,928,586,297.55	
Add : Net profit of the current period attributable to equity holders of the Company	608,271,256.29	1,163,341,066.21	
Less : Withdrawn statutory surplus reserves	85,605,425.41	139,581,633.50	10% of net profit of the Company
Ordinary shares dividend payable	618,613,782.30	618,613,782.30	
Retained profit as at the end of the period	4,237,783,996.54	4,333,731,947.96	

(2) Information on the breakdown of profit distribution

According to the profit distribution plan for 2010 approved by 2011 Annual General Meeting of the Company on 8 May 2011, the Company declared cash dividends of RMB0.30 (2010: RMB0.3) per share to all shareholders, totalling RMB618,613,782.30 (2010: RMB618,613,782.30), which was calculated based on the 2,062,045,941 shares in issue.

Pursuant to PRC tax laws, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

(3) Breakdown of the transfer to surplus reserve of subsidiaries during the reporting period

The transfer to surplus reserve of subsidiaries in 2011 was RMB13,534,568.82, of which RMB10,787,697.00 was attributable to the parent company.

(i) Long-term borrowings

Types of long-term borrowings

Item	Closing balance	Opening balance
Pledged loans	126,018,000.00	
Secured borrowings	120,891,118.33	199,066,146.26
Guarantee loans	5,034,728,300.00	3,746,230,300.00
Credit loans	1,065,046,935.94	2,213,173,735.94
Less: long-term borrowings due within one year	1,203,616,858.22	1,432,841,463.15
Total	5,143,067,496.05	4,725,628,719.05

Note: 1. Guarantee loans were the loans obtained by the subsidiaries of the Company from financial institutions when the Company acted as their guarantee, among which the loans of RMB3,518,920,330.00 were also secured real estate and machinery and equipment as collateral;

2. Long-term borrowings due within one year amounted to RMB1,203,616,858.22. Long-term borrowings due over one year but within two years amounted to RMB1,232,657,500.00. Long-term borrowings due over two years but within five years amounted to RMB390,797,660.11. Long-term borrowings due over five years amounted to RMB3,519,612,335.94.

(j) Bonds payable

Bond name	Face value	Issue date	Term	Issued amount	Issue expenses amortised during the year	Closing balance
11 Chenming debt	2,000,000,000.00	2011.7.16	5 year	1,982,000,000.00	1,425,123.62	1,983,425,123.62
11 Chenming Hong Kong debt	500,000,000.00	2011.4.13	5 year	491,750,000.00	1,767,571.17	493,517,571.17
Sub-total	2,500,000,000.00			2,473,750,000.00	3,192,694.79	2,476,942,694.79

(k) Special accounts payable

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance	Note
Relocation of Jilin Chenming due to environmental reason	—	660,000,000.00	—	660,000,000.00	
Total	—	660,000,000.00	—	660,000,000.00	

Note: Jilin Chenming Paper Co., Ltd. and Jilin Paper Manufacturing Co., Ltd. were required to relocate their plants according to the environmental requirements and Jilin urban construction planning. A parcel of land of 1304.8 mu being occupied by them was collected by Jilin Investment Co., Ltd. of State Development and Investment Corporation on behalf of People's Government of Jilin City. Jilin Investment Co., Ltd of State Development and Investment Corporation shall make a payment amounting to RMB2,200,000,000 to Jilin Investment Co., Ltd. of State Development and Investment Corporation fees, loss on relocation of all the fixed assets ancillary to the land, relocation fees and staff relocation fees. As stipulated in the agreement, Jilin Investment Co., Ltd. of State Development and Investment Corporation was to pay Jilin Chenming Paper Co., Ltd. 30% of the compensation, i.e. RMB660,000,000 within 10 days from the date of the agreement. In September 2011, Jilin Chenming Paper Co., Ltd. obtained compensation of RMB660,000,000 which was accounted for as special accounts payable.

(l) Share capital

	Opening balance		Change during the year (Increase/decrease)					Closing balance	
Item	Amounts	Percentage	New issue	Bonus shares	Shares transfer from reserve	Others	Sub-total	Amounts	Percentage
I. Restricted shares									
1. State-owned shares									
2. State-owned legal person shares	293,003,657	14.21						293,003,657	14.21
3. Other domestic shares:	10,008,315	0. 48				-800,715	-800,715	9,207,600	0.45
Of Which: Domestic natural person shares	10,008,315	0. 48						9,207,600	0.45
Total number of restricted shares	303,011,972	14.69				-800,715	-800,715	302,211,257	14.66
II. Non-restricted shares									
1. RMB ordinary shares	810,266,484	39.30				800,715	800,715	811,067,199	39.33
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
Total number of non-restricted shares	1,759,033,969	85.31				800,715	800,715	1,759,033,969	85.34
III. Total shares	2,062,045,941	100						2,062,045,941	100

Note: A capital review report named as Zhong Rui Yue Hua Yan Zi [2008] No. 2189 was published for the certification of the review.

11. Purchase, sale and redemption of shares

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

12. Compliance with the Code on Corporate Governance Practices

Mr. Chen Hongguo performs the roles of the chairman and the general Manager for the overall management of the Company. This constitutes a deviation from the principles and code provisions under Appendix 14 to Hong Kong Listing Rules. However, the Directors of the Company believes that Mr. Chen as the chairman and the general manager will enable the Company to more effectively plan and implement the business strategies so that the Group can effectively and rapidly seize business opportunities. As all major decisions will be made after consultation with other members of the Board, the Company believes that the supervision of the Board and independent non-executive directors will strike a sufficient balance of power and authority.

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

13. Securities transactions by Directors

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

14. Sufficiency of Public Float

During the year ended 31 December 2011, the Company had maintained sufficient public float.

15. Pre-emptive rights

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

16. Dividend

The Board are pleased to recommend a final dividend of RMB1.5 per 10 share for the year (tax inclusive) to its shareholders. Subject to the approval of shareholders of the Company at the annual general meeting on 29 May 2012, the final dividend will be paid to the H Share shareholders whose names appear on the H Share registrar of the members of the Company on 11 June 2012.

17. Audit committee

The audit committee of the Company discussed with the management of the Company the accounting standards and practices adopted by the Company and discussed and reviewed the annual results, including the review of the financial statements of the Company for the year ended 31 December 2011 prepared in accordance with Accounting Standards for Business Enterprises of China.

18. Closure of register of H share shareholders

The register of members of the Company will be temporarily closed from 28 April 2012 to 29 May 2012 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of H shares shareholders of the Company for attending the annual general meeting. The last lodgment for the transfer of the H Shares of the Company should be made on 27 April 2012 at Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, at not later than 4:30 p.m., Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The H Share register of members of the Company will be closed from 5 June 2012 to 11 June 2012 (both days inclusive),during which period no transfer of shares will be registered. In order to be entitled to the dividend, H Share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on 4 June 2012.

By Order of the Board
Shandong Chenming Paper Holdings Limited
Chen Hongguo
Chairman

28 March 2012

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

* *For identification purposes only*