# 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)**

## 2012 Interim Report Summary

## I. IMPORTANT NOTICE

The board of directors of Shandong Chenming Paper Holdings Limited (the "Company") (the "Board"), its supervisory committee (the "Supervisory Committee"), its directors (the "Directors"), its supervisors (the "Supervisors") and its senior management (the "Senior Management") 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 the contents of the Report. The Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

Chen Hongguo, the chairman of the Company (the "Chairman"), 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 2012 interim report.

All Directors were present through means of communication in the thirteen meeting of the sixth session of the Board of the Company at which this interim report was reviewed and approved.

The interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012, which was prepared in accordance with Accounting Standards for Business Enterprises, were unaudited.

# II. COMPANY OVERVIEW

## (I) Overview

| | | | | | |
|---|---|---|---|---|---|
| A share stock code | 000488 | B share stock code | 200488 | H share stock code | 1812 |
| A share stock abbreviation | 晨鳴紙業 | B share stock abbreviation | 晨鳴B | H share stock abbreviation | Chenming Paper |
| Stock exchanges of listed shares | Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") | | | | |
| Legal name in Chinese of the Company | 山東晨鳴紙業集團股份有限公司 | | | | |
| Legal short name in Chinese of the Company | 晨鳴紙業 | | | | |
| Legal name in English of the Company | SHANDONG CHENMING PAPER HOLDINGS LIMITED | | | | |
| Legal short name in English of the Company | SCPH | | | | |
| Legal representative of the Company | Chen Hongguo | | | | |
| 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 | | | | |
| International website of the Company | http://www.chenmingpaper.com | | | | |
| Email address | chenmmingpaper@163.com | | | | |

## (II) Major financial data and indicators

### 1. Major accounting data and financial indicators

Retrospective adjustments to the financial statements of prior reporting periods

☐ Yes ☑ No

| | As at the end of the reporting period | As at the end of the prior year | Increase/ decrease as at the end of the reporting period compared to the end of the prior year |
|---|---|---|---|
| Total assets (RMB) | 46,856,345,791.89 | 45,630,828,967.03 | 2.69% |
| Equity attributable to shareholders of the Company (RMB) | 13,313,408,004.75 | 13,528,622,319.91 | -1.59% |
| Share capital (shares) | 2,062,045,941 | 2,062,045,941 | 0% |
| Net assets per share attributable to shareholders of the Company (RMB/share) | 6.46 | 6.56 | -1.52% |
| Gearing ratio (%) | 68.68% | 67.15% | 1.53% |
| | **The reporting period (January to June)** | **The same period of the prior year** | **Increase/ decrease for the reporting period compared to the same period of the prior year** |
| Total revenue (RMB) | 9,964,451,535.04 | 8,917,455,355.14 | 11.74% |
| Operating profit (RMB) | -208,643,946.44 | 473,928,647.41 | -144.02% |
| Total profit (RMB) | 12,518,767.02 | 593,538,893.05 | -97.89% |
| Net profit attributable to shareholders of the Company (RMB) | 94,244,962.85 | 483,549,691.4 | -80.51% |
| Net profit after extraordinary gains or losses attributable to shareholders of the Company (RMB) | -103,989,811.77 | 382,038,739.41 | -127.22% |
| Basic earnings per share (RMB/share) | 0.05 | 0.23 | -78.26% |
| Diluted earnings per share (RMB/share) | 0.05 | 0.23 | -78.26% |
| Weighted average return on net assets (%) | 0.7% | 3.51% | -2.81% |

| | The reporting period (January to June) | The same period of the prior year | Increase/ decrease for the reporting period compared to the same period of the prior year |
|---|---|---|---|
| Weighted average return on net assets after extraordinary gains or losses (%) | -0.77% | 2.78% | -3.55% |
| Net cash flows from operating activities (RMB) | 661,084,701.87 | 737,643,905.04 | -10.38% |
| Net cash flows per share from operating activities (RMB/share) | 0.32 | 0.36 | -11.11% |

## 2. Extraordinary gains or losses items

☑ Applicable ☐ Not applicable

| Extraordinary gain or loss item | Amounts for the beginning of the year and the end of the reporting period (RMB) | Reason |
|---|---|---|
| Profit or loss from disposal of non-current assets | 1,931,468.26 | |
| Tax rebate or tax concessions with ultra vires approval and without official approval documents | | |
| 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) | 175,517,398.94 | |
| Fees charged to profit or loss for the current period received from non-financial institutions for utilisation of funds | | |
| Gain arising from investment costs for acquisition of subsidiaries, associates and joint-ventures by the corporation being less than its share of fair value of identifiable net assets of the investees on acquisition | | |
| Gain or loss on non-monetary asset swap | | |
| Gain or loss on assets invested or managed under entrustment | | |

| Extraordinary gain or loss item | Amounts for the beginning of the year and the end of the reporting period (RMB) | Reason |
|---|---|---|
| Impairment provisions for various assets due to force majeure such as natural disasters | | |
| Net gains and losses from debt restructuring | 10,000,000 | |
| Corporate restructuring fees such as expenses for severance payments for staff and consolidation fees | | |
| Profit or loss in excess of the fair value portion arising from transactions with obvious unfair transaction prices | | |
| Net profit or loss arising from subsidiaries formed from business combination under common control from the beginning of the year to the combination date | | |
| Profit or loss arising from contingent items unrelated to the normal course of business 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 | | |
| Reversal of impairment provision on receivables tested for impairment on individual basis | | |
| Gain or loss on externally entrusted loans | | |
| Gains or losses from changes in fair value of investment property adopting fair value method for subsequent measurements | | |
| Effect on profit or loss for the current period from one-off adjustments to profit or loss for the current period made pursuant to taxation and accounting laws and regulations, etc. | | |
| Entrustment fees received from entrusted business | | |

| Extraordinary gain or loss item | Amounts for the beginning of the year and the end of the reporting period (RMB) | Reason |
|---|---|---|
| Non-operating gains and losses other than the above items | 29,518,387.76 | |
| Other profit or loss items within the definition of non-recurrent profit or loss | 15,457,198.72 | |
| Effect of minority interests | -992,841.11 | |
| Effect of income tax | -33,196,837.95 | |
| Total | 198,234,774.62 | — |

**3. Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report:**

☐ Applicable ☑ Not applicable

**4. Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report:**

☐ Applicable ☑ Not applicable

## III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### (I) Table illustrating changes in share capital

☑ Applicable ☐ Not applicable

| | Opening balance | | Change during the reporting period (Increase/decrease) | | | | | Closing balance | |
|---|---|---|---|---|---|---|---|---|---|
| | Amounts | Percentage | New issue | Bonus shares | Shares transferred from reserve | Others | Sub-total | Amounts | Percentage |
| I. Restricted shares | 302,211,557 | 14.66% | – | – | – | -110,025 | -110,025 | 302,101,532 | 14.65% |
| 1. State-owned shares | – | – | – | – | – | – | – | – | – |
| 2. State-owned legal person shares | 293,003,657 | 14.21% | – | – | – | – | – | 293,003,657 | 14.21% |
| 3. Other domestic shares | – | – | – | – | – | – | – | – | – |
| of which: Domestic legal person shares | – | – | – | – | – | – | – | – | – |
| Domestic natural person shares | – | – | – | – | – | – | – | – | – |
| 4. Foreign shares | – | – | – | – | – | – | – | – | – |
| of which: Overseas legal person shares | – | – | – | – | – | – | – | – | – |
| Overseas natural person shares | – | – | – | – | – | – | – | – | – |
| 5. Shares held by the senior management | 9,207,900 | 0.45% | – | – | – | -110,025 | -110,025 | 9,097,875 | 0.44% |
| II. Non-restricted shares | 1,759,834,384 | 85.34% | – | – | – | 110,025 | 110,025 | 1,759,944,409 | 85.35% |
| 1. RMB ordinary shares | 811,066,899 | 39.33% | – | – | – | 110,025 | 110,025 | 811,176,924 | 39.34% |
| 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% |
| 4. Others | – | – | – | – | – | – | – | – | – |
| III. Total number of shares | 2,062,045,941 | 100% | – | – | – | – | – | 2,062,045,941 | 100% |

## (II) Table illustrating the shareholdings of the top ten shareholders and top ten shareholders of non-restricted shares/tradable shares

**Table illustrating the shareholdings of the top ten shareholders and the top ten shareholders of non-restricted shares**

| Total number of shareholders | | | | | | 162,293 |
|---|---|---|---|---|---|---|
| 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 | Shares pledged or locked-up: Status of shares | Shares pledged or locked-up: Number |
| HKSCC Nominees Limited | Overseas legal person | 18.9% | 389,710,500 | 0 | | 0 |
| Shouguang Chenming Holdings Company Limited | State-owned leagl person | 14.21% | 293,003,657 | 293,003,657 | | 0 |
| PLATINUM ASIA FUND | Overseas legal person | 2.11% | 43,480,377 | 0 | | 0 |
| TAIFOOK SECURITIES COMPANY LIMITED-ACCOUNT CLIENT | Overseas legal person | 2.09% | 43,173,883 | 0 | | 0 |
| BILL & MELINDA GATES FOUNDATION TRUST | Domestic non-state-owned leagl person | 1.36% | 28,121,967 | 0 | | 0 |
| China Life Insurance Company Limited - Dividend - Individual Dividend - 005L -FH002 Shenzhen | Domestic non-state-owned leagl person | 0.86% | 17,819,798 | 0 | | 0 |
| Caisse de dépôt et placement du Québec | Domestic non-state-owned leagl person | 0.35% | 7,308,567 | 0 | | 0 |
| Chen Hongguo | Domestic natural person | 0.31% | 6,334,527 | 4,750,895 | | 0 |
| LSV EMERGING MARKETS EQUITY FUND, L.P. | Overseas legal person | 0.3% | 6,102,800 | 0 | | 0 |
| VICTORIAN FUNDS MANAGEMENT CORPORATION ATF VFM EMGMKTS TRT | Overseas legal person | 0.3% | 6,086,106 | 0 | | 0 |

| Shareholdings of the top ten shareholders of non-restricted shares | | | |
|---|---|---|---|
| Name of shareholders | Number of non-restricted shares held | Class and number of shares | |
| | | Class | Number |
| HKSCC Nominees Limited | 389,710,500 | H share | 389,710,500 |
| PLATINUM ASIA FUND | 43,480,377 | B share | 43,480,377 |
| TAIFOOK SECURITIES COMPANY LIMITED-ACCOUNT CLIENT | 43,173,883 | B share | 43,173,883 |
| BILL & MELINDA GATES FOUNDATION TRUST | 28,121,967 | A share | 28,121,967 |
| China Life Insurance Company Limited - Dividend - Individual Dividend -005L-FH002 Shenzhen | 17,819,798 | A share | 17,819,798 |
| Caisse de dépôt et placement du Québec | 7,308,567 | A share | 7,308,567 |
| Chen Hongguo | 6,334,527 | A share | 6,334,527 |
| LSV EMERGING MARKETS EQUITY FUND, L.P. | 6,102,800 | B share | 6,102,800 |
| VICTORIAN FUNDS MANAGEMENT CORPORATION ATF VFM EMGMKTS TRT | 6,086,106 | B share | 6,086,106 |
| GE Asset Management Incorporated - GEAM China A Share Trust Fund | 5,944,347 | A share | 5,944,347 |
| **Connected relationship or concert-party relationship among the above shareholders** | Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the shareholders above. It is not a person acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. It is not aware whether any other shareholders of tradable shares are persons acting in concert and is also not aware whether any other shareholders of tradable shares are connected with each other. | | |

## (III) Change of controlling shareholders and beneficial controllers

☐ Applicable ☑ Not applicable

## IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### (I) Changes in shareholdings of directors, supervisors and senior management

| Name | Position | Shares held as at the beginning of the period (shares) | Increase in the number of shares held (shares) | Decrease in the number of shares held (shares) | Shares held as at the end of the period (shares) | Of which: number of restricted shares held (shares) | Number of share options held as at the end of the period (shares) | Reason for change |
|---|---|---|---|---|---|---|---|---|
| Chen Hongguo | Chairman and general manager | 6,334,527 | 0 | 0 | 6,334,527 | 4,750,895 | 0 | |
| Yin Tongyuan | Vice chairman | 2,423,640 | 0 | 0 | 2,423,640 | 1,817,730 | 0 | |
| Li Feng | Director, deputy general manager and deputy marketing director | 471,818 | 0 | 0 | 471,818 | 353,863 | 0 | |
| Geng Guanglin | Director and deputy general manager | 437,433 | 0 | 0 | 437,433 | 328,075 | 0 | |
| Tan Daocheng | Director | 185,700 | 0 | 0 | 185,700 | 139,275 | 0 | |
| Hou Huancai | Director | 628,915 | 0 | 0 | 628,915 | 471,686 | 0 | |
| Zhou Shaohua | Director | 123,007 | 0 | 0 | 123,007 | 92,255 | 0 | |
| Cui Youping | Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Xiaoqun | Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Fengrong | Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Zhang Zhiyuan | Independent Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Aiguo | Independent Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Zhang Hong | Independent Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Yumei | Independent Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Xiangfei | Independent Director | 0 | 0 | 0 | 0 | 0 | 0 | |
| Gao Junjie | Supervisor | 39,606 | 0 | 0 | 39,606 | 29,704 | 0 | |
| Wang Ju | Supervisor | 0 | 0 | 0 | 0 | 0 | 0 | |
| Yang Hongqin | Supervisor | 0 | 0 | 0 | 0 | 0 | 0 | |
| Yin Qixiang | Supervisor | 0 | 0 | 0 | 0 | 0 | 0 | |

| Name | Position | Shares held as at the beginning of the period (shares) | Increase in the number of shares held (shares) | Decrease in the number of shares held (shares) | Shares held as at the end of the period (shares) | Of which: number of restricted shares held (shares) | Number of share options held as at the end of the period (shares) | Reason for change |
|---|---|---|---|---|---|---|---|---|
| Guo Guangyao | Supervisor | 0 | 0 | 0 | 0 | 0 | 0 | |
| Li Xueqin | Deputy general manager | 429,348 | 0 | 0 | 429,348 | 322,011 | 0 | |
| Hao Yun | Deputy general manager and secretary to the Board | 708,441 | 0 | 0 | 708,441 | 531,331 | 0 | |
| Wang Shihong | Deputy general manager | 0 | 0 | 0 | 0 | 0 | 0 | |
| Zhang Yanjun | Deputy general manager | 102,393 | 0 | 0 | 102,393 | 76,795 | 0 | |
| Hu Changqing | Deputy general manager | 1,238 | 0 | 0 | 1,238 | 0 | 0 | |
| Zhang Chunlin | Deputy general manager | 245,674 | 0 | 0 | 245,674 | 184,255 | 0 | |
| Chang Liting | Deputy general manager | 0 | 0 | 0 | 0 | 0 | 0 | |
| Xia Jigang | Deputy general manager | 0 | 0 | 0 | 0 | 0 | 0 | |
| Li Zhenzhong | Deputy general manager | 0 | 0 | 0 | 0 | 0 | 0 | |
| Wang Chunfang | Financial controller | 0 | 0 | 0 | 0 | 0 | 0 | |
| Poon Shiu Cheong | Company secretary | 0 | 0 | 0 | 0 | 0 | 0 | |

## V. DIRECTORS' REPORT

### (I) Management discussion and analysis

### 1. General overview during the reporting period

In the first half of 2012, the paper industry was affected by the macroeconomic environment due to the significant slowdown of the national economic growth. Imbalance in supply and demand resulted from a slump in many industries and the continuously weak market demand with excess new production capacity of some paper products made available. The paper industry remained in the doldrums, and both the price of raw materials and the price of products fell. Compared to the same period of last year, the profitability of the principal activities declined during the reporting period, and the gross profit margin of paper products was lower than that of the same period of last year.

### 2. Production and operation

During the reporting period, the Company achieved machine-made paper production of 2.04 million tonnes and sales of 1.92 million tonnes, an increase of 22.42% and 22.41% over the same period of last year respectively. Revenue from operations amounted to RMB9.965 billion, an increase of 11.74% over the same period of last year. Operating profit was RMB-209 million, a decrease of 144.02% over the same period of last year. Net profit attributable to shareholders of the Company was RMB94 million, a decrease of 80.51% over the same period of last year. It was mainly due to a decline in the gross profit margin of the products during the reporting period over the same period of last year arising from the doldrums in the industry in the first half of 2012.

**Analysis of the Company's assets and liabilities during the reporting period**

Unit: RMB

| Item | 2012.6.30 | 2011.12.31 | Change (%) | Reason for the change |
|---|---|---|---|---|
| Prepayments | 1,045,146,661.71 | 764,880,237.90 | 36.64% | (1) |
| Other receivables | 238,050,762.42 | 325,550,913.72 | -26.88% | (2) |
| Construction in progress | 3,491,069,182.47 | 2,618,039,624.85 | 33.35% | (3) |
| Construction materials | 83,223,466.14 | 61,924,581.85 | 34.39% | (3) |
| Deferred income tax assets | 257,330,993.15 | 174,026,534.27 | 47.87% | (4) |
| Bills payable | 1,654,218,054.43 | 615,327,402.85 | 168.84% | (5) |
| Advance receipts | 351,160,489.96 | 231,428,013.45 | 51.74% | (6) |
| Staff remuneration payable | 196,886,749.84 | 147,063,891.65 | 33.88% | (7) |
| Interest payable | 172,073,207.37 | 106,854,702.74 | 61.03% | (8) |
| Dividend payable | 309,306,891.20 | — | 100.00% | (9) |
| Non-current liabilities due within one year | 1,785,251,433.52 | 1,203,616,858.22 | 48.32% | (10) |
| Other non-current liabilities | 3,542,607,521.90 | 2,444,093,897.14 | 44.95% | (11) |

Explanation leading to the major changes:

(1) Prepayments increased by 36.64% as compared to the beginning of the year mainly due to an increase in the advance payment for materials made by the Company.

(2) Other receivables decreased by 26.88% as compared to the beginning of the year mainly due to receipt of proceeds from disposal of Chibi Chenming and Xianning Chenming in the year 2011 in accordance with the provisions of the contracts during that reporting period.

(3) Construction in progress increased by 33.35% as compared to the beginning of the year, and construction materials increased by 34.39% as compared to the beginning of the year mainly due to the investments in the white coated linerboard project and the demolition and relocation of Jilin Chenming by the Company.

(4) Deferred income tax assets increased by 47.87% as compared to the beginning of the year mainly due to market downturn at the macroeconomic level and in the paper making industry level. Some companies generated deferred income tax, which could be used for offsetting for losses.

(5) Bills payable increased by 168.84% as compared to the beginning of the year mainly due to an increase in bank acceptance bills issued by the Company for payment for goods during the reporting period.

(6) Advance receipts increased by 51.74% as compared to the beginning of the year mainly due to an increase in advance receipts for goods resulting from an increase in market development efforts by the Company.

(7) Staff remuneration payables increased by 33.88% as compared to the beginning of the year mainly due to an increase in unpaid staff remuneration.

(8) Interest payable increased by 61.03% as compared to the beginning of the year mainly due to the provision of interest on medium-term notes and corporate bonds by the Company.

(9) The closing balance of dividend payable was RMB309,306,891.20 mainly due to the payment of unpaid dividend declared by the Company.

(10) Non-current liabilities due within one year increased by 48.32% as compared to the beginning of the year mainly due to an increase in long-term borrowings due within one year by the Company.

(11) Other non-current liabilities increased by 44.95% mainly due to the issue of medium-term notes of RMB1.1 billion during the reporting period.

**Analysis and explanation of the major changes in the profit and loss indicators during the reporting period as compared to the same period last year**

Unit: RMB

| Item | 2012.6.30 | 2011.6.30 | Change (%) | Reason for the change |
|---|---|---|---|---|
| Revenue from operations | 9,964,451,535.04 | 8,917,455,355.14 | 11.74% | (1) |
| Operating costs | 8,500,512,936.03 | 7,382,759,124.49 | 15.14% | (2) |
| Selling and distribution expenses | 535,959,288.53 | 438,518,128.62 | 22.22% | (3) |
| General and administrative expenses | 562,794,713.60 | 471,238,564.30 | 19.43% | (4) |
| Finance expenses | 541,285,654.45 | 153,592,178.50 | 252.42% | (5) |
| Loss on impairment of assets | 13,436,773.17 | -21,425,466.16 | 162.71% | (6) |
| Gain on change in fair value | 15,457,198.72 | 3,715,429.62 | 316.03% | (7) |
| Investment income | -2,716,529.31 | 9,553,661.98 | -128.43% | (8) |
| Non-operating income | 223,467,731.90 | 145,947,362.89 | 53.12% | (9) |
| Non-operating expenses | 2,305,018.44 | 26,337,117.25 | -91.25% | (10) |
| Total profit | 12,518,767.02 | 593,538,893.05 | -97.89% | (11) |
| Income tax | -12,866,933.23 | 96,723,898.32 | -113.30% | (11) |
| Net profit | 25,385,700.25 | 496,814,994.73 | -94.89% | (11) |
| Net profit attributable to shareholders of the Company | 94,244,962.85 | 483,549,691.40 | -80.51% | (11) |
| Minority shareholders interests | -68,859,262.60 | 13,265,303.33 | -619.09% | (11) |

Explanation leading to the major changes:

(1) Revenue from operations increased by 11.74% as compared to the same period of last year mainly due to an increase in revenue caused by growth in sales resulting from an expansion in the scale of the Company.

(2) Operating costs increased by 15.14% as compared to the same period of last year mainly due to an increase in revenue caused by growth in sales resulting from an expansion in the scale of the Company.

(3) Selling and distribution expenses increased by 22.22% as compared to the same period of last year mainly due to an increase in transportation costs as a result of growth in sales.

(4) General and administrative expenses increased by 19.43% as compared to the same period of last year mainly due to an increase in technology research and development expenses resulting from an increase in investments in research and development by the Company.

(5) Finance expenses increased by 252.42% as compared to the same period of last year mainly due to the capitalised interest of the original loan being expensed during the reporting period upon completion of the 800,000-tonne coated paper project and the Zhanjiang pulp project of the Company.

(6) Loss on impairment of assets increased by 162.71% as compared to the same period of last year mainly due to an increase in the bad debt provisions during the reporting period as compared to same period of last year as a result of a change in the accounts receivable.

(7) Gain on change in fair value increased by 316.03% as compared to the same period of last year mainly due to a change in the fair value of timber assets.

(8) Investment income decreased by 128.43% as compared to the same period of last year mainly due to the income of RMB13.31 million arising from disposal of Heze Chenming Panels and Lindun Forestry in the prior period.

(9) Non-operating income increased by 53.12% as compared to the same period of last year mainly due to receipt of more government grants during the reporting period as compared to the prior period.

(10) Non-operating expenses decreased by 91.25% as compared to the same period of last year mainly due to a debt restructuring loss of RMB19.89 million on disposal of Heze Chenming Panels.

(11) Total profit, income tax, net profit, net profit attributable to shareholders of the Company, minority shareholders interests decreased by 97.89%, 113.3%, 94.89%, 80.51% and 619.09% respectively as compared to the same period of last year mainly due to: an decrease in, among other things, profit and income tax as affected by the lower gross profit margin of paper products as compared to the prior period as a result of the market downturn at the national and macroeconomic, and in the paper making industry level, and a greater decrease in minority shareholders interests as compared to the prior period as a result of the loss of non-wholly-owned subsidiaries of the Company.

**Cash flow generated from operating activities of the Company during the reporting period**

Unit: RMB

| Item | 2012.6.30 | 2011.6.30 | Change (%) |
|---|---|---|---|
| Net cash flow generated from operating activities | 661,084,701.87 | 737,643,905.04 | -10.38% |
| Net cash generated from investment activities | -850,464,656.26 | -2,602,316,539.31 | 67.32% |
| Net cash flow generated from financial activities | 466,200,304.36 | 1,787,918,250.48 | -73.92% |

Explanation leading to the major changes:

(1) Net cash flow generated from operating activities decreased by 10.38% as compared to the same period of last year mainly due to more outstanding bills being discounted and an increase in staff remuneration payment.

(2) Net cash flow generated from investment activities increased by 67.32% as compared to the same period of last year mainly due to fewer project investments made during the reporting period upon completion of, among other things, the 800,000-tonne coated paper project and the Zhanjiang pulp project of the Company.

(3) Net cash flow generated from financial activities decreased by 73.92% as compared to the same period of last year mainly due to a decrease in the net flow of bank borrowings during the reporting period over the same period of last year as a result of project investment.

**3. 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 material industry which is closely related to the national economy and social development. The paper making industry is characterised as being capital intensive and skill intensive as well as having prominent economies of scale. Its growth rate is strongly and positively correlated to GDP. The government will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will enjoy steady and rapid development. The development conditions of the paper making industry are gradually improved. Recently, the National Development and Reform Commission, Ministry of Industry and Communication and State Forestry Administration have 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 a more comprehensive paper product mix. The Company carried out a series of capacity expansion on paper products with better prospects. The Company's direction of development is in line with the requirements of the development plan of the paper making industry as a whole. Although the industry undergo short-term downturn to a certain extent, the Company will have exponential growth in performance once the industry recovers, and the Company's future performance is still much anticipated.

**4. The work of the Company will focus on the following areas in the second half of 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 listing requirements, regulates and perfects the management and operation system 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.** 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, and 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.

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

The demand for capital of the Company is ever increasing as the Company continuously develops with a 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. It 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 costs. The Company also enhances its financial internal control and management to increase the fund utilisation rate;

(3) The Company will endeavour to lower its finance expenses through financing like the issue of medium-term notes and corporate bonds.

## (II) Principal activities by industry and by product

Unit: RMB

| Principal activities by industry | | | | | | |
|---|---|---|---|---|---|---|
| By industry | Revenue from operations | Operating costs | Gross profit margin (%) | Year-on-year increase/ decrease in revenue from operations (%) | Year-on-year increase/ decrease in operating costs (%) | Year-on-year increase/ decrease in gross profit margin (%) |
| I. Machine-made paper | 9,216,139,824.7 | 7,909,765,293.16 | 14.17% | 12.58% | 16.58% | -2.95% |
| II. Electricity and steam | 415,231,784.63 | 360,583,271.43 | 13.16% | 0.14% | -7.48% | 7.15% |
| III. Construction materials | 163,649,151.64 | 134,290,206.98 | 17.94% | -15.95% | -7.96% | -7.12% |
| IV. Paper-making chemical products | 40,108,732.97 | 31,277,925.63 | 22.02% | 1.37% | -2.68% | 3.25% |
| V. Hotel | 24,253,681.15 | 6,367,047.37 | 73.75% | -4.49% | 0.73% | -1.36% |
| VI. Others | 3,326,240.34 | 2,293,200.11 | 31.06% | -55.35% | -64.39% | 17.51% |
| Principal activities by product | | | | | | |
| By product | Revenue from operations | Operating costs | Gross profit margin (%) | Year-on-year increase/ decrease in revenue from operations (%) | Year-on-year increase /decrease in operating costs (%) | Year-on-year increase/ decrease in gross profit margin (%) |
| Light weight coated paper | 599,263,279.24 | 546,228,892.26 | 8.85% | -8.79% | -4.99% | -3.65% |
| Duplex press paper | 1,520,629,992.03 | 1,325,662,646.62 | 12.82% | 37.8% | 37.34% | 0.29% |
| Writing paper | 152,926,898.85 | 146,337,134.17 | 4.31% | 5.6% | 10.85% | -4.53% |
| Coated paper | 2,146,633,544.01 | 2,044,364,500.36 | 4.76% | 4.2% | 21.63% | -13.66% |
| News press paper | 878,669,387.09 | 671,377,990.27 | 23.59% | 13.59% | -0.21% | 10.56% |
| Paperboard | 293,356,674.72 | 283,499,896.76 | 3.36% | 7.39% | 10.58% | -2.78% |
| White paper board | 979,292,604.55 | 801,231,392.96 | 18.18% | -19.69% | -15.28% | -4.27% |
| Other machine-made paper | 2,645,367,444.21 | 2,091,062,839.76 | 20.95% | 35.35% | 34.31% | 0.61% |

### Reason for the greater change of gross profit margin as compared to the same period of last year

In the first half of 2012, the gross profit margin during the reporting period was lower as compared to the same period of last year due to the economic environment of the industry.

## (III) Principal activities by geographical areas

Unit: RMB

| Geographical areas | Revenue from operations | Year-on-year increase/decrease in revenue from operations (%) |
|---|---:|---:|
| PRC | 8,429,732,938.38 | 12.91% |
| Hong Kong | 85,042,051.22 | 46.02% |
| United States | 74,652,473.46 | -51.33% |
| Japan | 99,795,928.67 | -0.37% |
| South East Asia | 128,741,768.46 | -13.8% |
| Middle East | 203,094,484.24 | -25.78% |
| Europe | 129,403,908.38 | -22.11% |
| South Africa | 123,402,201.61 | 196.03% |
| Other countries and regions | 588,843,661.01 | 28.24% |

## (IV) Explanation of material changes in principal activities and their structure

☐ Applicable ☑ Not applicable

## (V) Explanation of material changes in profitability (gross profit margin) of principal activities as compared year on year

☑ Applicable ☐ Not applicable

The gross profit margin was lower as compared to the same period of last year mainly due to the lower selling price as compared to the same period of last year as a result of the market downturn at the national and macroeconomic level and in the paper making industry level.

## (VI) Analysis of reasons for material changes in profit structure as compared year on year

☐ Applicable ☑ Not applicable

## (VII) Particulars of use of proceeds

### 1. Changes in particulars of use of proceeds

☐ Applicable ☑ Not applicable

### 2. Particulars of change in project financed by the proceeds

☐ Applicable ☑ Not applicable

## (VIII) Intended amendments to operating plans in the second half of the year by the Board

☐ Applicable ☑ Not applicable

## (IX) Estimate of the operating results for January to September 2012

Warning of cumulative net profit for the period between the beginning of the year to the end of the next reporting period being projected to be at a loss or expected to have material changes as compared year on year and its explanation

☐ Applicable ☑ Not applicable

## (X) Opinions of the Board of Directors regarding the "modified auditor's report" for the reporting period issued by the accountants

☐ Applicable ☑ Not applicable

## (XI) Particulars provided by the Company's Board of Directors regarding the changes and handling of the matters involved in the "modified auditor's report" for last year issued by the accountants

☐ Applicable ☑ Not applicable

## VI. IMPORTANT MATTERS

### (I) Acquisition and disposal of assets and asset restructuring

### 1. Acquisition of assets

☐ Applicable ☑ Not applicable

### 2. Disposal of assets

☐ Applicable ☑ Not applicable

### 3. Developments of the matter and the impact on the operating results and financial conditions for the reporting period since the publication of the asset restructuring report or announcements of acquisition/disposal of assets

☐ Applicable ☑ Not applicable

### (II) Guarantees

☑ Applicable ☐ Not applicable

Unit: RMB'0000

| External guarantees provided by the Company (excluding guarantees provided for subsidiaries) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of obligor | Date 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) | | | | Total amount of external guarantee provided during the reporting period (A2) | | | | |
| Total amount of external guarantee approved as at the end of the reporting period (A3) | | | | Total balance of external guarantee provided as at the end of the reporting period (A4) | | | | |

| Guarantees provided by the Company for subsidiaries | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of obligor | Date 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 |
| Zhanjiang Chenming Paper Pulp Co., Ltd. | 27 July 2006 | 564,020 | 25 March 2008 | 354,872.85 | Guarantee | 15 | No | No |
| Zhanjiang Chenming Paper Pulp Co., Ltd. | 30 March 2011 | 200,000 | 19 July 2011 | 0 | Guarantee | 1 | Yes | No |
| Zhanjiang Chenming Paper Pulp Co., Ltd. | 28 March 2012 | 300,000 | 27 June 2012 | 53,336.5 | Guarantee | 1 | No | No |
| Jiangxi Chenming Paper Co., Ltd. | 16 December 2009 | 45,000 | 10 December 2009 | 45,000 | Guarantee | 3 | No | No |
| Jiangxi Chenming Paper Co., Ltd. | 17 March 2003 | 103,600 | 11 December 2003 | 0 | Guarantee | 10 | Yes | No |
| Huanggang Chenming Arboriculture Co., Ltd. | 27 May 2009 | 10,000 | 2 June 2009 | 0 | Guarantee | 3 | Yes | No |
| Huanggang Chenming Arboriculture Co., Ltd. | 25 February 2010 | 16,000 | 8 July 2010 | 2,000 | Guarantee | 3 | No | No |
| Huanggang Chenming Arboriculture Co., Ltd. | 25 February 2010 | 16,000 | 29 April 2010 | 2,990 | Guarantee | 3 | No | No |
| Huanggang Chenming Arboriculture Co., Ltd. | 30 March 2011 | 20,000 | 19 September 2011 | 3,000 | Guarantee | 3 | No | No |
| Huanggang Chenming Arboriculture Co., Ltd. | 28 March 2012 | 20,000 | 27 June 2012 | 2,600 | Guarantee | | No | No |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd. | 30 March 2011 | 30,000 | | 0 | Guarantee | | Yes | No |
| Shouguang Meilun Paper Co., Ltd. | 24 August 2010 | 79,473 | 10 September 2010 | 75,898.8 | Guarantee | 5 | No | No |
| Shouguang Meilun Paper Co., Ltd. | 29 October 2010 | 600,000 | 14 January 2011 | 16,324.9 | Guarantee | 3 | No | No |
| Shouguang Meilun Paper Co., Ltd. | 29 October 2010 | 600,000 | 26 March 2012 | 33,673.25 | Guarantee | 0.5 | No | No |
| Shouguang Chenming Art Paper Co., Ltd. | 30 March 2011 | 10,000 | | 0 | Guarantee | | Yes | No |
| Shouguang Chenming Art Paper Co., Ltd. | 28 March 2012 | 10,000 | | 0 | Guarantee | | No | No |
| Jilin Chenming Paper Co., Ltd. | 30 March 2011 | 30,000 | 25 May 2011 | 0 | Guarantee | 1 | Yes | No |
| Jilin Chenming Paper Co., Ltd. | 28 March 2012 | 100,000 | | 0 | Guarantee | 1 | No | No |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | 30 March 2011 | 20,000 | 1 November 2011 | 0 | Guarantee | 1 | No | No |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | 28 March 2012 | 20,000 | | 0 | Guarantee | | No | No |
| Chenming (HK) Limited | 29 October 2010 | 50,000 | 13 April 2011 | 50,000 | Guarantee | 3 | No | No |
| Chenming (HK) Limited | 30 March 2011 | 329,300 | | 0 | Guarantee | | Yes | No |
| Chenming (HK) Limited | 28 March 2012 | 500,000 | | 0 | Guarantee | | No | No |
| Shandong Chenming Paper Sales Company Limited | 29 October 2010 | 200,000 | 11 August 2011 | 165,498.34 | Guarantee | 1 | No | No |
| Shandong Chenming Paper Sales Company Limited | 27 October 2011 | 200,000 | 15 March 2012 | 144,950.75 | Guarantee | 1 | No | No |
| Yanbian Chenming Paper Co., Ltd. | 29 November 2011 | 30,000 | | | Guarantee | | No | No |
| Shouguang Chenming Import and Export Trade Co., Ltd. | 28 March 2012 | 200,000 | | | Guarantee | | No | No |

| Guarantees provided by the Company for subsidiaries | | | |
|---|---|---|---|
| Total amount of guarantee provided for subsidiaries approved during the reporting period (B1) | 1,150,000 | Total amount of guarantee provided for subsidiaries during the reporting period (B2) | 262,158.93 |
| Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3) | 2,974,493 | Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4) | 950,145.39 |
| **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) | 1,150,000 | Total amount of guarantee provided during the reporting period (A2+B2) | 262,158.93 |
| Total amount of guarantee approved as at the end of the reporting period (A3+B3) | 2,974,493 | Total balance of guarantee provided as at the end of the reporting period (A4+B4) | 950,145.39 |
| The percentage of total amount of guarantee provided (A4+B4) to the net assets of the Company | | | 71.37% |
| 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) | | | 905,145.39 |
| Total amount of guarantee provided in excess of 50% of net assets (E) | | | 45,000.00 |
| Sum of the above three amount of guarantee (C+D+E) | | | 950,145.39 |
| Explanation of possible joint obligation on outstanding guarantees provided | | | Nil |
| Explanation of external guarantees in breach of the specified procedures | | | Nil |

### (III) Non-operating related creditors' rights and liabilities transactions

☐ Applicable ☑ Not applicable

Unit: RMB'0000

| Related party | Financing to related parties | | Financing to the Company by related parties | |
|---|---|---|---|---|
| | Amounts during the period | Balance | Amounts during the period | Balance |
| Shouguang Chenming Holdings Company Limited | | | 2,100 | 2,400 |
| Total | | | 2,100 | 2,400 |

In which, the provision of use of capital by the Company to the controlling shareholder and its subsidiaries during the reporting period amounted to RMB0 million and the closing balance amounted to RMB0 million.

### (IV) Material litigation and arbitration

☐ Applicable ☑ Not applicable

## (V) Other material matters and their effects and analysis of the solutions

☑ Applicable ☐ Not applicable

1. Qihe Chenming Panels Co., Ltd. ("Qihe Panels") suspended its production since June 2008. As at the end of June 2012, its net assets amounted to RMB-7,248,484.56. It is held by Qihe Paperboard Co., Ltd. and Shandong Chenming Panels Co., Ltd., controlling subsidiaries of the Company, as to 51% and 49% respectively. Qihe Paperboard Co., Ltd. disposed of and transfered its 51% equity interest in Qihe Panels to Shandong Chenming Panels Co., Ltd. to adjust its strategic positioning and to facilitate the corporate management. Upon completion of the transfer of the equity interests, Qihe Paperboard Co., Ltd. will not hold any equity interest in Qihe Panels and Shandong Chenming Panels Co., Ltd. will hold 100% equity interest in Qihe Panels. The transfer of the equity interest had no effect on the profit of the Company for the two quarters.

2. Huanggang Chenming Arboriculture Co., Ltd. ("Huanggang Chenming") is a wholly-owned subsidiary of the Company. Taking the need for production and operation of Huanggang Chenming into account, the Company made contribution to Huanggang Chenming with its own capital. The registered capital of Huanggang Chenming increased from RMB10.00 million to RMB70.00 million and the increased registered capital would be solely used for the establishment of the production and operation of Huanggang Chenming and would improve its asset and liability structure, thereby laying a solid foundation for further direct financing of Huanggang Chenming.

**1. Investment in securities**

☐ Applicable ☑ Not applicable

**2. Shareholdings in other listed companies**

☐ Applicable ☑ Not applicable

**3. Capital appropriation and repayment progress during the reporting period**

☐ Applicable ☑ Not applicable

As of the end of the reporting period, the Board had proposed a plan to fix the responsibilities for the unfinished settlement of the non-operating capital appropriation of the Company.

☐ Applicable ☑ Not applicable

**4. Performance of undertakings**

Undertakings of the related parties such as the Company, its directors, its supervisors, its senior management, its shareholders with more than 5% shareholding in the Company and their beneficial controllers during or up to the reporting period were as follows

☐ Applicable ☑ Not applicable

**5. Proposal of the Board on this profit distribution or transfer of capital reserves into share capital**

☐ Applicable ☑ Not applicable

## 6. Other comprehensive income items

Unit: RMB

| Item | | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| 1. | Gains (losses) from available-for-sale financial assets | | |
| | Less: Income tax effect from available-for-sale financial assets | | |
| | Transfer to profit or loss of other comprehensive income recognised previously in the current period, net | | |
| | Sub-total | | |
| 2. | Share of the comprehensive income of the investees accounted for using the equity method | | |
| | Less: Income tax effect from share of the comprehensive income of the investees accounted for using the equity method | | |
| | Transfer to profit or loss of other comprehensive income recognised previously in the current period, net | | |
| | Sub-total | | |
| 3. | Gains or (losses) from cash flow hedging instruments | | |
| | Less: Income tax effect from cash flow hedging instruments | | |
| | Transfer to profit or loss of other comprehensive income recognised previously in the current period, net | | |
| | Adjustment on initial recognition of items transferred to hedged items | | |
| | Sub-total | | |

| Item | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|
| 4. Translation difference of financial statements denominated in foreign currency | -152,386.81 | -277,876.30 |
| Less: Transfer to profit or loss on disposal of foreign operations in the period, net | | |
| Sub-total | -152,386.81 | -277,876.30 |
| 5. Others | | |
| Less: Income tax effect from others recognised in other comprehensive income | | |
| Transfer to profit or loss of others recognised in other comprehensive income previously in the current period, net | | |
| Sub-total | | |
| Total | -152,386.81 | -277,876.30 |

## (VI) Registration Report on Reception Of Research Investigations, Communications And Interviews During The Reporting Period

| Date of reception | Place of reception | Manner of reception | Class of the parties accommodated | Parties accommodated | Main topics of discussion and information provided |
|---|---|---|---|---|---|
| 09 January 2012 | Shouguang, Shandong | On-site research investigation | Institution | Everbright Securities | Production and operation of the Company |
| 08 February 2012 | Shouguang, Shandong | On-site research investigation | Institution | Galaxy AMC, Zheshang Securities and Huatai Securities | Production and operation of the Company |
| 30 March 2012 | Shouguang, Shandong | On-site research investigation | Institution | Guotai Junan and Bosera Asset Management | Production and operation of the Company |
| 27 April 2012 | Shouguang, Shandong | On-site research investigation | Institution | Atlantis Investment Management (Hong Kong) Limited | Production and operation of the Company |
| 15 May 2012 | Shouguang, Shandong | On-site research investigation | Institution | Dongxing Securities Co., Ltd. | Production and operation of the Company |
| 18 May 2012 | Shouguang, Shandong | Conference Call | Institution | FIL Investment Management | Production and operation of the Company |
| 21 June 2012 | Shouguang, Shandong | On-site research investigation | Institution | Daiwa Securities of Japan | Production and operation of the Company |
| 26 June 2012 | Shouguang, Shandong | Conference Call | Institution | Atlantis Investment Management (Hong Kong) Limited | Production and operation of the Company |
| 28 June 2012 | Shouguang, Shandong | On-site research investigation | Institution | Bank of America Merrill Lynch and Prime Capital Management | Production and operation of the Company |

# VII. FINANCIAL REPORT

## (I) Auditors' opinions

Whether the interim report is audited or not?

☐ Yes ☑ No

## (II) Financial statements

Consolidated financial statements need to be prepared:

☐ Yes ☑ No

## 1. Consolidated balance sheet

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Item | Note | Closing balance | Opening balance |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Monetary funds | | 3,577,575,965.34 | 3,529,938,211.47 |
| Balances with clearing companies | | | |
| Loans to banks and other financial institutions | | | |
| Held-for-trading financial assets | | | |
| Bills receivable | | 2,300,338,786.78 | 2,444,508,997.74 |
| Accounts receivable | 11(a) | 3,416,046,386.88 | 2,886,437,754.69 |
| Prepayments | 11(b) | 1,045,146,661.71 | 764,880,237.9 |
| Premium receivable | | | |
| Receivables from reinsurers | | | |
| Reinsurance contract reserves receivable | | | |
| Interest receivable | | | |
| Dividend receivable | | | |
| Other receivables | | 238,050,762.42 | 325,550,913.72 |
| Financial assets purchased under agreements to resell | | | |
| Inventory | | 5,431,835,346.37 | 5,586,472,121.37 |
| Non-current assets due within one year | | | |
| Other current assets | | 1,825,128,528.24 | 1,698,362,261.63 |
| **Total current assets** | | 17,834,122,437.74 | 17,236,150,498.52 |

| **Item** | **Note** | **Closing balance** | **Opening balance** |
|---|---|---|---|
| **NON-CURRENT ASSETS:** | | | |
| Entrusted loans and advances to customers | | | |
| Available-for-sale financial assets | | | |
| Held-to-maturity investments | | | |
| Long-term receivables | | | |
| Long-term equity investments | | 94,717,476.18 | 77,434,005.49 |
| Investment properties | | 22,080,828.01 | 22,949,956.03 |
| Fixed assets | | 21,753,715,858.92 | 22,740,904,031.02 |
| Construction in progress | | 3,491,069,182.47 | 2,618,039,624.85 |
| Construction materials | | 83,223,466.14 | 61,924,581.85 |
| Disposal of fixed assets | | 547,643,828.15 | 0 |
| Productive biological assets | | 1,053,117,556.55 | 959,061,500.85 |
| Oil and gas assets | | | |
| Intangible assets | | 1,497,565,370.87 | 1,517,137,201.36 |
| Development expenditure | | | |
| Goodwill | | 20,283,787.17 | 20,283,787.17 |
| Long-term prepaid expenses | | 191,475,006.54 | 192,917,245.62 |
| Deferred income tax assets | | 257,330,993.15 | 174,026,534.27 |
| Other non-current assets | | 10,000,000 | 10,000,000 |
| **Total non-current assets** | | 29,022,223,354.15 | 28,394,678,468.51 |
| **TOTAL ASSETS** | | 46,856,345,791.89 | 45,630,828,967.03 |

| Item | Note | Closing balance | Opening balance |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings | | 11,624,585,358.08 | 12,086,984,606.69 |
| 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 | | | |
| Bills payable | | 1,654,218,054.43 | 615,327,402.85 |
| Accounts payable | 11(c) | 3,669,255,907.28 | 4,685,585,997.6 |
| Advance receipts | 11(d) | 351,160,489.96 | 231,428,013.45 |
| Assets sold under agreements to repurchase | | | |
| Handling charges and commission payable | | | |
| Staff remuneration payables | | 196,886,749.84 | 147,063,891.65 |
| Taxes payable | 11(e) | 63,459,793.15 | 68,240,005.91 |
| Interest payable | | 172,073,207.37 | 106,854,702.74 |
| Dividend payable | | 309,306,891.2 | |
| Other payables | | 870,620,863.94 | 763,621,538.95 |
| Due to reinsurers | | | |
| Insurance contract reserves | | | |
| Customer brokerage deposits | | | |
| Securities underwriting brokerage deposits | | | |
| Non-current liabilities due within one year | | 1,785,251,433.52 | 1,203,616,858.22 |
| Other current liabilities | | 11,943,381.96 | 10,227,001.6 |
| **Total current liabilities** | | 20,708,762,130.73 | 19,918,950,019.66 |

| Item | Note | Closing balance | Opening balance |
|---|---|---|---|
| **NON-CURRENT LIABILITIES:** | | | |
| Long-term borrowings | 11(f) | 4,800,684,896.98 | 5,143,067,496.05 |
| Bonds payable | | 2,479,860,934.3 | 2,476,942,694.79 |
| Long-term payables | | | |
| Special payables | | 650,074,924.05 | 660,000,000 |
| Estimated liabilities | | | |
| Deferred income tax liabilities | | | |
| Other non-current liabilities | | 3,542,607,521.9 | 2,444,093,897.14 |
| **Total non-current liabilities** | | 11,473,228,277.23 | 10,724,104,087.98 |
| **TOTAL LIABILITIES** | | 32,181,990,407.96 | 30,643,054,107.64 |
| **OWNERS' INTEREST (OR SHAREHOLDERS' INTEREST):** | | | |
| Paid-up capital (or share capital) | | 2,062,045,941 | 2,062,045,941 |
| Capital reserves | | 6,098,264,836 | 6,098,264,836 |
| Less: Treasury shares | | | |
| Special reserves | | | |
| Surplus reserves | | 1,132,116,106.4 | 1,132,116,106.4 |
| General risk provisions | | | |
| Retained profit | 11(g) | 4,022,722,068.19 | 4,237,783,996.54 |
| Foreign currency translation differences | | -1,740,946.84 | -1,588,560.03 |
| **Total equity attributable to shareholders of the Company** | | 13,313,408,004.75 | 13,528,622,319.91 |
| **Minority shareholders' interests** | | 1,360,947,379.18 | 1,459,152,539.48 |
| **Total owners' interest (or Shareholders' interest)** | | 14,674,355,383.93 | 14,987,774,859.39 |
| **TOTAL LIABILITIES AND OWNERS' INTEREST (OR SHAREHOLDERS' INTEREST)** | | 46,856,345,791.89 | 45,630,828,967.03 |

Legal Representative: Chen Hongguo    Financial controller: Wang Chunfang    Head of the financial department: Liu Jun

## 2. Balance sheet of the Company

Unit: RMB

| **Item** | **Note** | **Closing balance** | **Opening balance** |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Monetary funds | | 1,762,696,493 | 1,747,384,563.57 |
| Held-for-trading financial assets | | | |
| Bills receivable | | 1,511,259,019.35 | 1,432,408,267.82 |
| Accounts receivable | | 546,208,077.45 | 1,743,034,281.97 |
| Prepayments | | 1,466,547,462.67 | 664,693,619.26 |
| Interest receivable | | | |
| Dividend receivable | | 10,487,270.13 | |
| Other receivables | | 8,070,165,092.64 | 6,928,079,845.18 |
| Inventory | | 1,326,792,835.07 | 1,173,839,484.91 |
| Non-current assets due within one year | | 200,000,000 | 50,000,000 |
| Other current assets | | 86,300,706.02 | 15,216,230.82 |
| **Total current assets** | | 14,980,456,956.33 | 13,754,656,293.53 |

| **Item** | **Note** | **Closing balance** | **Opening balance** |
|---|---|---|---|
| **NON-CURRENT ASSETS:** | | | |
| Available-for-sale financial assets | | | |
| Held-to-maturity investments | | 300,000,000 | 500,000,000 |
| Long-term receivables | | | |
| Long-term equity investments | | 8,835,293,283.52 | 8,748,703,461.63 |
| Investment properties | | 22,080,828.01 | 22,949,956.03 |
| Fixed assets | | 5,167,336,101.19 | 5,264,187,852.03 |
| Construction in progress | | 401,841,093.49 | 422,232,622.4 |
| Construction materials | | 2,627,319.91 | 3,589,906.68 |
| Disposal of fixed assets | | | |
| Productive biological assets | | | |
| Oil and gas assets | | | |
| Intangible assets | | 318,210,213.09 | 322,623,412.83 |
| Development expenditure | | | |
| Goodwill | | | |
| Long-term prepaid expenses | | | |
| Deferred income tax assets | | 41,271,213.9 | 41,388,325.93 |
| Other non-current assets | | 10,000,000 | 10,000,000 |
| **Total non-current assets** | | 15,098,660,053.11 | 15,335,675,537.53 |
| **TOTAL ASSETS** | | 30,079,117,009.44 | 29,090,331,831.06 |

| Item | Note | Closing balance | Opening balance |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings | | 6,096,366,224.7 | 8,080,716,020.88 |
| Held-for-trading financial liabilities | | | |
| Bills payable | | 1,506,586,112.66 | 346,418,281.23 |
| Accounts payable | | 1,059,169,091.98 | 1,698,958,458.63 |
| Advance receipts | | 1,001,660,468.78 | 119,723,590.83 |
| Staff remuneration payables | | 105,350,758.91 | 79,433,205.74 |
| Taxes payable | | 6,079,255.16 | 21,270,847.19 |
| Interest payable | | 168,915,277.78 | 103,910,194.44 |
| Dividend payable | | 309,306,891.2 | |
| Other payables | | 198,473,547.86 | 211,491,763.93 |
| Non-current liabilities due within one year | | 775,938,740 | 543,009,000 |
| Other current liabilities | | 1,813,538.4 | 1,345,288.4 |
| **Total current liabilities** | | 11,229,659,907.43 | 11,206,276,651.27 |
| **NON-CURRENT LIABILITIES:** | | | |
| Long-term borrowings | | 659,813,195.94 | 648,055,935.94 |
| Bonds payable | | 1,985,081,805.64 | 1,983,425,123.62 |
| Long-term payables | | | |
| Special payables | | | |
| Estimated liabilities | | | |
| Deferred income tax liabilities | | | |
| Other non-current liabilities | | 3,400,467,117.98 | 2,314,615,977.46 |
| **Total non-current liabilities** | | 6,045,362,119.56 | 4,946,097,037.02 |
| **TOTAL LIABILITIES** | | 17,275,022,026.99 | 16,152,373,688.29 |

| Item | Note | Closing balance | Opening balance |
|---|---|---|---|
| **OWNERS' INTEREST (OR SHAREHOLDERS' INTEREST):** | | | |
| Paid-up capital (or share capital) | | 2,062,045,941 | 2,062,045,941 |
| Capital reserves | | 6,184,215,988.77 | 6,184,215,988.77 |
| Less: Treasury shares | | | |
| Special reserves | | | |
| Surplus reserves | | 1,119,926,524.49 | 1,119,926,524.49 |
| Retained profit | | 3,437,906,528.19 | 3,571,769,688.51 |
| Foreign currency translation differences | | | |
| **Total owners' interest (or Shareholders' interest)** | | 12,804,094,982.45 | 12,937,958,142.77 |
| **TOTAL LIABILITIES AND OWNERS' INTEREST (OR SHAREHOLDERS' INTEREST)** | | 30,079,117,009.44 | 29,090,331,831.06 |

## 3. Consolidated Income Statement

Unit: RMB

| Item | Note | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| **I. Total revenue** | 11(h) | 9,964,451,535.04 | 8,917,455,355.14 |
| Including: Revenue | | 9,964,451,535.04 | 8,917,455,355.14 |
| Interest income | | | |
| Earned premium | | | |
| Handling charges and commission income | | | |
| **II. Total operating costs** | | 10,185,836,150.89 | 8,456,795,799.33 |
| Including: Operating costs | | 8,500,512,936.03 | 7,382,759,124.49 |
| 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 | | 31,846,785.11 | 32,113,269.58 |
| Selling and distribution expenses | | 535,959,288.53 | 438,518,128.62 |
| General and administrative expenses | | 562,794,713.6 | 471,238,564.3 |
| Finance expenses | | 541,285,654.45 | 153,592,178.5 |
| Loss on impairment of assets | | 13,436,773.17 | -21,425,466.16 |
| Plus: Gain on change in fair value ("-" denotes loss) | | 15,457,198.72 | 3,715,429.62 |
| Investment income ("-" denotes loss) | | -2,716,529.31 | 9,553,661.98 |
| Including: Investment income from associates and joint ventures | | -2,716,529.31 | -3,755,501.39 |
| Foreign exchange gains ("-" denotes loss) | | | |

| Item | Note | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| **III. Operating profit ("-" denotes loss)** | | -208,643,946.44 | 473,928,647.41 |
| Plus: Non-operating income | | 223,467,731.9 | 145,947,362.89 |
| Less: Non-operating expenses | | 2,305,018.44 | 26,337,117.25 |
| Including: Loss on disposal of non-current assets | | 909,346.99 | 923,387.79 |
| **IV. Total profit ("-" denotes total loss)** | | 12,518,767.02 | 593,538,893.05 |
| Less: Income tax expenses | 11(i) | -12,866,933.23 | 96,723,898.32 |
| **V. Net profit ("-" denotes net loss)** | | 25,385,700.25 | 496,814,994.73 |
| Including: Net profit achieved by the acquiree before business combination | | | |
| Net profit attributable to shareholders of the Company | | 94,244,962.85 | 483,549,691.4 |
| Minority interests | | -68,859,262.6 | 13,265,303.33 |
| **VI. Earnings per share:** | | — | — |
| (I) Basic earnings per share | 11(j) | 0.05 | 0.23 |
| (II) Diluted earnings per share | 11(j) | 0.05 | 0.23 |
| **VII. Other comprehensive income** | | -152,386.81 | -277,876.3 |
| **VIII. Total comprehensive income** | | 25,233,313.44 | 496,537,118.43 |
| Total comprehensive income attributable to shareholders of the Company | | 94,092,576.04 | 483,271,815.1 |
| Total comprehensive income attributable to minority interests | | -68,859,262.6 | 13,265,303.33 |

For the business combination under common control during the current period, the net profit achieved by the acquiree before business combination was RMB0.00.

Legal Representative: Chen Hongguo    Financial controller: Wang Chunfang    Head of the financial department: Liu Jun

## 4. Income statement of the Company

Unit: RMB

| Item | Note | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| **I. Revenue** | | 4,087,223,643.12 | 4,110,859,712.15 |
| Less: Operating costs | | 3,448,243,509.14 | 3,325,675,097.46 |
| Business taxes and surcharges | | 16,665,654.21 | 13,912,091.01 |
| Selling and distribution expenses | | 125,030,947.56 | 135,529,408.44 |
| General and administrative expenses | | 264,784,924.4 | 211,532,488.08 |
| Finance expenses | | 244,992,432.75 | 125,413,016.82 |
| Loss on impairment of assets | | -7,044,869.23 | -38,465,504.04 |
| Plus: Gain on change in fair value ("-" denotes loss) | | | |
| Investment income ("-" denotes loss) | | 42,792,407.91 | 140,407,977.15 |
| Including: Investment income from associates and joint ventures | | -2,716,529.31 | -3,755,501.39 |
| **II. Operating profit ("-" denotes loss)** | | 37,343,452.2 | 477,671,091.53 |
| Plus: Non-operating income | | 152,611,810.82 | 100,848,267.1 |
| Less: Non-operating expenses | | 151,132.48 | 22,727,730.47 |
| Including: Loss on disposal of non-current assets | | 126,486.38 | 443,271.23 |
| **III. Total profit ("-" denotes total loss)** | | 189,804,130.54 | 555,791,628.16 |
| Less: Income tax expenses | | 14,360,399.66 | 58,452,362.47 |
| **IV. Net profit ("-" denotes net loss)** | | 175,443,730.88 | 497,339,265.69 |
| **V. Earnings per share:** | | — | — |
| (I) Basic earnings per share | | 0.09 | 0.24 |
| (II) Diluted earnings per share | | | |
| **VI. Other comprehensive income** | | | |
| **VII. Total comprehensive income** | | 175,443,730.88 | 497,339,265.69 |

## 5. Consolidated cash flow statement

Unit: RMB

| Item | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|
| **I. Cash flows from operating activities:** | | |
| Cash received from sales of goods and rendering of services | 8,768,879,634.98 | 7,854,858,051.86 |
| 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 | 4,195,458.5 | 15,888,429.59 |
| Cash received relating to other operating activities | 282,265,076.77 | 895,946,310.86 |
| **Subtotal of cash inflows from operating activities** | 9,055,340,170.25 | 8,766,692,792.31 |
| Cash paid for goods and services | 6,789,505,489.23 | 5,917,115,598.43 |
| 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 | | |

| Item | | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| | Cash paid to and for employees | 477,021,702.85 | 426,234,308.06 |
| | Payments of taxes and surcharges | 677,026,381.95 | 846,940,819.17 |
| | Cash paid relating to other operating activities | 450,701,894.35 | 838,758,161.61 |
| | **Subtotal of cash outflows from operating activities** | 8,394,255,468.38 | 8,029,048,887.27 |
| | **Net cash flows from operating activities** | 661,084,701.87 | 737,643,905.04 |
| **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 | 278,250.65 | 21,052,642.46 |
| | Net cash received from disposal of subsidiaries and other business units | | 3,467,152.31 |
| | Cash received relating to other investing activities | 23,142,607.18 | 5,834,492.06 |
| | **Subtotal of cash inflows from investing activities** | 23,420,857.83 | 30,354,286.83 |
| | Cash paid for purchase of fixed assets, intangible assets and other long-term assets | 853,885,514.09 | 2,632,670,826.14 |
| | Cash paid on investments | 20,000,000 | |
| | Net increase in pledged loans | | |
| | 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** | 873,885,514.09 | 2,632,670,826.14 |
| | **Net cash flows from investing activities** | -850,464,656.26 | -2,602,316,539.31 |

| Item | Amounts for the reporting period | Amounts for the prior period |
|---|---:|---:|
| **III. Cash flows from financing activities:** | | |
| Cash received from capital contribution | | |
| Including: cash received from minority interest contribution to subsidiaries | | |
| Cash received from borrowings | 10,931,730,380.78 | 7,669,027,263.45 |
| Cash received from bond issue | | |
| Cash received relating to other financing activities | 1,308,110,040.62 | 491,750,000 |
| **Subtotal of cash inflows from financing activities** | 12,239,840,421.4 | 8,160,777,263.45 |
| Cash repayments of amounts borrowed | 11,154,877,653.16 | 3,811,506,924.57 |
| Cash paid for dividend and profit distribution or interest payment | 618,762,463.88 | 780,814,563.65 |
| Including: dividend and profit paid to minority interests by subsidiaries | 11,577,192 | |
| Cash paid relating to other financing activities | | 1,780,537,524.75 |
| Subtotal of cash outflows from financing activities | 11,773,640,117.04 | 6,372,859,012.97 |
| Net cash flows from financing activities | 466,200,304.36 | 1,787,918,250.48 |
| **IV. Effect of foreign exchange rate changes on cash and cash equivalents** | -4,572,555.48 | -13,615,852.06 |
| **V. Net increase in cash and cash equivalents** | 272,247,794.49 | -90,370,235.85 |
| Plus: Balance of cash and cash equivalents as at the beginning of the period | 2,317,048,619.53 | 1,855,235,979.8 |
| **VI. Balance of cash and cash equivalents as at the end of the period** | 2,589,296,414.02 | 1,764,865,743.95 |

## 6. Cash flow statement of the Company

Unit: RMB

| Item | | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| **I.** | **Cash flows from operating activities:** | | |
| | Cash received from sales of goods and rendering of services | 4,945,717,360.44 | 3,651,680,690.25 |
| | Tax rebates received | | |
| | Cash received relating to other operating activities | 149,176,538.97 | 127,620,327.96 |
| | **Subtotal of cash inflows from operating activities** | 5,094,893,899.41 | 3,779,301,018.21 |
| | Cash paid for goods and services | 2,646,840,470.86 | 1,804,333,442.64 |
| | Cash paid to and for employees | 187,446,352.99 | 152,867,010.05 |
| | Payments of taxes and surcharges | 327,460,414.34 | 391,818,527.42 |
| | Cash paid relating to other operating activities | 932,284,647.01 | -452,537,261.41 |
| | **Subtotal of cash outflows from operating activities** | 4,094,031,885.2 | 1,896,481,718.7 |
| | **Net cash flows from operating activities** | 1,000,862,014.21 | 1,882,819,299.51 |
| **II.** | **Cash flows from investing activities:** | | |
| | Cash received from investments | 50,000,000 | 240,022,705.39 |
| | Cash received from investment income | 35,021,667.09 | 176,215,492.04 |
| | Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 49,702.28 | 59,083.56 |
| | Net cash received from disposal of subsidiaries and other business units | | |
| | Cash received relating to other investing activities | | |
| | **Subtotal of cash inflows from investing activities** | 85,071,369.37 | 416,297,280.99 |

| Item | | Amounts for the reporting period | Amounts for the prior period |
|---|---|---|---|
| | Cash paid for purchase of fixed assets, intangible assets and other long-term assets | 58,643,789.68 | 276,561,700.64 |
| | Cash paid on investments | 69,465,450 | 1,719,533,425 |
| | 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** | 128,109,239.68 | 1,996,095,125.64 |
| | **Net cash flows from investing activities** | -43,037,870.31 | -1,579,797,844.65 |
| **III.** | **Cash flows from financing activities:** | | |
| | Cash received from capital contribution | | |
| | Cash received from borrowings | 5,960,484,091.71 | 4,197,471,624.39 |
| | Cash received relating to other financing activities | 1,083,500,000 | |
| | **Subtotal of cash inflows from financing activities** | 7,043,984,091.71 | 4,197,471,624.39 |
| | Cash repayments of amounts borrowed | 7,700,146,887.89 | 2,188,125,261.03 |
| | Cash paid for dividend and profit distribution or interest payment | 285,015,256.06 | 652,004,766.37 |
| | Cash paid relating to other financing activities | 490,664,036.03 | 1,708,401,563.04 |
| | **Subtotal of cash outflows from financing activities** | 8,475,826,179.98 | 4,548,531,590.44 |
| | **Net cash flows from financing activities** | -1,431,842,088.27 | -351,059,966.05 |
| **IV.** | **Effect of foreign exchange rate changes on cash and cash equivalents** | -1,334,162.23 | -1,249,163.22 |
| **V.** | **Net increase in cash and cash equivalents** | -475,352,106.6 | -49,287,674.41 |
| | Plus: Balance of cash and cash equivalents as at the beginning of the period | 1,290,039,078.57 | 662,209,607.29 |
| **VI.** | **Balance of cash and cash equivalents as at the end of the period** | 814,686,971.97 | 612,921,932.88 |

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## 7. Consolidated statement of changes in owners' equity

### Amounts for the reporting period

Unit: RMB

| Item | Amounts for the reporting period | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to shareholders of the Company | | | | | | | | | |
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Others | Minority interests | Total owners' equity |
| **I. Balance as at the end of the prior year** | 2,062,045,941 | 6,098,264,836 | | | 1,132,116,106.4 | | 4,237,783,996.54 | -1,588,560.01 | 3,459,152,539.14 | 16,987,774,859.39 |
| Plus: accounting policy change | | | | | | | | | | |
| Corrections of prior period errors | | | | | | | | | | |
| Others | | | | | | | | | | |
| **II. Balance as at the beginning of the year** | 2,062,045,941 | 6,098,264,836 | | | 1,132,116,106.4 | | 4,237,783,996.54 | -1,588,560.01 | 3,459,152,539.14 | 16,987,774,859.39 |
| **III. Changes in the period ("-" denotes decrease)** | | | | | | | -215,061,928.35 | -152,386.81 | -98,205,160.33 | -313,419,475.46 |
| (I) Net profit | | | | | | | 94,244,962.85 | | -68,859,262.6 | 25,385,700.25 |
| (II) Other comprehensive income | | | | | | | | -152,386.81 | | -152,386.81 |
| Sub-total of (I) and (II) above | | | | | | | 94,244,962.85 | -152,386.81 | -68,859,262.6 | 25,233,313.44 |
| (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 | | | | | | | | | | |

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| Item | Amounts for the reporting period | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to shareholders of the Company | | | | | | | |
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Other |
| (IV) Profit distribution | | | | | | | -309,306,891.2 | |
| 1. Transfer to surplus reserves | | | | | | | | |
| 2. Transfer to general risk provision | | | | | | | | |
| 3. Distribution to owners (shareholders) | | | | | | | -309,306,891.2 | |
| 4. Others | | | | | | | | |
| (V) 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 | | | | | | | | |
| (VI) Special reserves | | | | | | | | |
| 1. Appropriated in the period | | | | | | | | |
| 2. Used in the period | | | | | | | | |
| (VII) Others | | | | | | | | |
| **IV. Balance as at the end of the period** | 2,062,045,941 | 6,098,264,836 | | | 1,132,116,106.4 | | 4,022,722,068.19 | -1,740,946.8 |

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## Amounts for the prior year

Unit: RMB

| Item | Amounts for the prior year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to shareholders of the Company | | | | | | | | Minority interests | Total owners' equity |
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Others | | |
| **I. Balance as at the beginning of the prior year** | 2,062,045,941.00 | 1,093,493,004.71 | | | 1,046,510,680.99 | | 4,333,731,947.96 | 4,219.88 | 874,413,211.96 | 9,410,199,006.5 |
| Plus: Retrospective adjustments arising from business combination under common control | | | | | | | | | | |
| Plus: accounting policy changes | | | | | | | | | | |
| Corrections of prior period errors | | | | | | | | | | |
| Others | | | | | | | | | | |
| **II. Balance as at the beginning of the year** | 2,062,045,941.00 | 1,093,493,004.71 | | | 1,046,510,680.99 | | 4,333,731,947.96 | 4,219.88 | 874,413,211.96 | 9,410,199,006.5 |
| **III. Changes in the period ("-" denotes decrease)** | | 4,771,831.29 | | | 85,605,425.41 | | -95,947,951.42 | -1,592,779.91 | -265,260,672.48 | -272,424,147.11 |
| (I) Net profit | | | | | | | 608,271,256.29 | | -19,544,473.47 | 588,726,782.82 |
| (II) Other comprehensive income | | | | | | | | -1,592,779.91 | | -1,592,779.91 |
| Sub-total of (I) and (II) | | | | | | | 608,271,256.29 | -1,592,779.91 | -19,544,473.47 | 587,134,002.91 |
| (III) Capital paid in and reduced by owners | | 4,771,831.29 | | | | | | | -216,438,980.57 | -211,667,149.28 |
| 1. Capital paid in by owners | | | | | | | | | 5,000,000 | 5,000,000 |
| 2. Amounts of share-based payments recognised in owners' equity | | | | | | | | | | |
| 3. Others | | 4,771,831.29 | | | | | | | -221,438,980.57 | -216,667,149.28 |

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| Item | Amounts for the prior year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to shareholders of the Company | | | | | | | |
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Other |
| (IV) Profit distribution | | | | | 85,605,425.41 | | -704,219,207.71 | |
| 1. Transfer to surplus reserves | | | | | 85,605,425.41 | | -85,605,425.41 | |
| 2. Transfer to general risk provision | | | | | | | | |
| 3. Distribution to owners (shareholders) | | | | | | | -618,613,782.3 | |
| 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 | | | | | | | | |
| (VII) Other | | | | | | | | |
| **IV. Balance as at the end of the period** | 2,062,045,941 | 6,098,264,836 | | | 1,132,116,106.4 | | 4,237,783,996.54 | -1,588,560.0 |

## 8. Statement of changes in owners' equity of the Company

### Amounts for the reporting period

Unit: RMB

| Item | Amounts for the reporting period | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Total owners' equity |
| **I. Balance as at the end of the prior year** | 2,062,045,941 | 6,184,215,988.77 | | | 1,119,926,524.49 | | 3,571,769,688.51 | 12,937,958,142.77 |
| Plus: accounting policy change | | | | | | | | |
| Corrections of prior period errors | | | | | | | | |
| Others | | | | | | | | |
| **II. Balance as at the beginning of the year** | 2,062,045,941 | 6,184,215,988.77 | | | 1,119,926,524.49 | | 3,571,769,688.51 | 12,937,958,142.77 |
| **III. Changes in the period ("-" denotes decrease)** | | | | | | | -133,863,160.32 | -133,863,160.32 |
| (I) Net profit | | | | | | | 175,443,730.88 | 175,443,730.88 |
| (II) Other comprehensive income | | | | | | | | |
| Sub-total of (I) and (II) above | | | | | | | 175,443,730.88 | 175,443,730.88 |
| (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 | | | | | | | -309,306,891.2 | -309,306,891.2 |
| 1. Transfer to surplus reserves | | | | | | | | |
| 2. Transfer to general risk provision | | | | | | | | |
| 3. Distribution to owners (shareholders) | | | | | | | -309,306,891.2 | -309,306,891.2 |
| 4. Others | | | | | | | | |

| Item | Amounts for the reporting period | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Total owners' equity |
| (V) 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 | | | | | | | | |
| (VI) Special reserves | | | | | | | | |
| 1. Appropriated in the period | | | | | | | | |
| 2. Used in the period | | | | | | | | |
| (VII) Others | | | | | | | | |
| **IV. Balance as at the end of the period** | 2,062,045,941 | 6,184,215,988.77 | | | 1,119,926,524.49 | | 3,437,906,528.19 | 12,804,094,982.45 |

## Amounts for the prior year

Unit: RMB

| Item | Amounts for the prior year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Total owners' equity |
| **I. Balance as at the beginning of the prior year** | 2,062,045,941 | 6,184,215,988.77 | | | 1,034,321,099.08 | | 3,419,934,642.1 | 12,700,517,670.95 |
| Plus: accounting policy changes | | | | | | | | |
| Corrections of prior period errors | | | | | | | | |
| Others | | | | | | | | |
| **II. Balance as at the beginning of the year** | 2,062,045,941 | 6,184,215,988.77 | | | 1,034,321,099.08 | | 3,419,934,642.1 | 12,700,517,670.95 |
| **III. Changes in the period ("-" denotes decrease)** | | | | | 85,605,425.41 | | 151,835,046.41 | 237,440,471.82 |
| (I) Net profit | | | | | | | 856,054,254.12 | 856,054,254.12 |
| (II) Other comprehensive income | | | | | | | | |
| Sub-total of (I) and (II) | | | | | | | 856,054,254.12 | 856,054,254.12 |
| (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 | | | | | 85,605,425.41 | | -704,219,207.71 | -618,613,782.3 |
| 1. Transfer to surplus reserves | | | | | 85,605,425.41 | | -85,605,425.41 | |
| 2. Transfer to general risk provision | | | | | | | | |
| 3. Distribution to owners (shareholders) | | | | | | | -618,613,782.3 | -618,613,782.3 |
| 4, Others | | | | | | | | |

| Item | Amounts for the prior year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Paid-up capital (or share capital) | Capital reserves | Less: treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit | Total owners' equity |
| (V) owners' equity structure | | | | | | | | |
| 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 | | | | | | | | |
| (VII) Other | | | | | | | | |
| **IV. Balance as at the end of the period** | 2,062,045,941 | 6,184,215,988.77 | | | 1,119,926,524.49 | | 3,571,769,688.51 | 12,937,958,142.77 |

## 9. Basis of preparation

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.

## 10. Accounting standards

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 for the six months period ended 30 June 2012 and relevant information such as the operating results and cash flows of the Company and the Group of the first six months of 2012. 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.

## 11. Notes to financial statements

### (a) Accounts receivable

### (1) Disclosure of accounts receivable according to classification

Unit: RMB

| Category | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Book balance | | Bad debt provision | | Book balance | | Bad debt provision | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Accounts receivable which are individually significant and individually provided for bad debt | 51,145,706.12 | 1.39% | 51,145,706.12 | 100% | 56,089,509.86 | 1.79% | 56,089,509.86 | 100% |
| Accounts receivable collectively provided for bad debt | | | | | | | | |
| No-risk portfolio | 469,063,226.74 | 12.78% | | | 241,485,698.41 | 7.72% | | |
| General-risk portfolio | 3,150,254,255.95 | 85.83% | 203,271,095.81 | 6.45% | 2,831,411,794.16 | 90.49% | 186,459,737.88 | 6.59% |
| Sub-total | 3,619,317,482.69 | 98.61% | 203,271,095.81 | 5.62% | 3,072,897,492.57 | 98.21% | 186,459,737.88 | 6.07% |
| Accounts receivable which are not individually significant but individually provided for bad debt | | | | | | | | |
| Total | 3,670,463,188.81 | – | 254,416,801.93 | – | 3,128,987,002.43 | – | 242,549,247.74 | – |

Explanatory note to the categories of accounts receivable:

Accounts receivable of more than RMB1 million are recognised as accounts receivable individually significant. A no-risk portfolio is the accounts receivable which are individually significant or have certain specific risk features and are determined by the management to be not impaired as at the balance sheet date upon subject to impairment tests separately. A general-risk portfolio is the accounts receivable for which bad debts are provided under credit risk portfolio as they are not qualified to be subject to impairment tests separately (individually significant or have certain specific risk features) and are classified into some portfolios based on the credit risk features such as age and the percentage of bad debt provision of each portfolio is determined against the common risk features of each portfolio by the management. Accounts receivable of less than RMB1 million but individually provided for bad debt are recognised as accounts receivable not individually significant but individually provided for bad debt.

**Accounts receivable individually significant and individually provided for bad debt as at end of the period**

☑ Applicable ☐ Not applicable

Unit: RMB

| Accounts receivable | Book balance | Bad debt provision | Percentage of provision | Reason |
|---|---|---|---|---|
| Payment for goods | 51,145,706.12 | 51,145,706.12 | 100% | Most of which were payment for goods aged over 3 years and unlikely to be recovered |
| Total | 51,145,706.12 | 51,145,706.12 | — | |

In respect of portfolio, the measurement of bad debt provision for portfolio is based on the aging method:

☑ Applicable ☐ Not applicable

Unit: RMB

| Aging | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Book balance | | Bad debt provision | Book balance | | Bad debt provision |
| | Amount | Percentage (%) | | Amount | Percentage (%) | |
| Within 1 year | | | | | | |
| Of which: | — | — | — | — | — | — |
| Within 1 year | 3,075,138,786.68 | 97.62% | 153,756,939.36 | 2,769,702,335.26 | 97.82% | 138,485,116.77 |
| Sub-total of within 1 year | 3,075,138,786.68 | 97.62% | 153,756,939.36 | 2,769,702,335.26 | 97.82% | 138,485,116.77 |
| 1 to 2 years | 24,188,101.69 | 0.77% | 2,418,810.17 | 10,895,154.72 | 0.38% | 1,089,515.48 |
| 2 to 3 years | 4,790,026.63 | 0.15% | 958,005.33 | 4,911,498.2 | 0.18% | 982,299.65 |
| Over 3 years | 46,137,340.95 | 1.46% | 46,137,340.95 | 45,902,805.98 | 1.62% | 45,902,805.98 |
| 3 to 4 years | | | | | | |
| 4 to 5 years | | | | | | |
| Over 5 years | | | | | | |
| Total | 3,150,254,255.95 | — | 203,271,095.8 | 2,831,411,794.16 | — | 186,459,737.88 |

In respect of portfolio, the measurement of bad debt provision for portfolio is based on the percentage of total accounts receivable method:

☐ Applicable ☑ Not applicable

In respect of portfolio, the measurement of bad debt provision for portfolio is based on other methods:

☐ Applicable ☑ Not applicable

Accounts receivable not individually significant but individually provided for bad debt as at end of the period:

☐ Applicable ☑ Not applicable

**(b) Prepayments**

**1) Prepayments stated according to aging**

Unit: RMB

| Aging | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | 836,824,876.99 | 80.07% | 582,653,900.45 | 76.18% |
| 1 to 2 years | 208,321,784.72 | 19.93% | 182,226,337.45 | 23.82% |
| 2 to 3 years | | | | |
| Over 3 years | | | | |
| Total | 1,045,146,661.71 | — | 764,880,237.9 | — |

Explanatory note to the aging of prepayments:

The significant prepayments of aging over 1 year mainly are the prepaid amounts of purchasing for which the Group does not require the delivery of goods due to the operating plan and arrangement of the Group.

### (c) Accounts payable

Unit: RMB

| Item | Closing balance | Opening balance |
|---|---|---|
| Within 1 year | 3,416,686,728.73 | 4,420,184,816.3 |
| 1 to 2 years | 131,098,073.97 | 117,265,142.92 |
| 2 to 3 years | 40,319,036.98 | 67,792,980.94 |
| Over 3 years | 81,152,067.6 | 80,343,057.44 |
| Total | 3,669,255,907.28 | 4,685,585,997.6 |

### (d) Advance receipts

Unit: RMB

| Item | Closing balance | Opening balance |
|---|---|---|
| Within 1 year | 342,820,898.32 | 211,879,347.81 |
| 1 to 2 years | 8,339,591.64 | 19,548,665.64 |
| Total | 351,160,489.96 | 231,428,013.45 |

## (e) Taxes payable

Unit: RMB

| Item | Closing balance | Opening balance |
|---|---:|---:|
| Value added tax | 562,356.21 | 8,847,121.9 |
| Excise tax | | |
| Business tax | 1,347,330.9 | 6,510,523.22 |
| Enterprise income tax | 45,695,572.23 | 21,030,687.55 |
| Individual income tax | 757,566.7 | 5,201,988.58 |
| Urban maintenance and construction tax | 764,613.84 | 2,669,994.5 |
| Land use tax | 5,692,929.42 | 14,021,262.09 |
| Property tax | 5,326,045.41 | 5,382,575.62 |
| Educational surcharges and others | 1,209,544.89 | 2,775,009.93 |
| Stamp duty | 2,103,833.55 | 1,800,842.52 |
| Total | 63,459,793.15 | 68,240,005.91 |

## (f) Long-term borrowings

### Types of long-term borrowings

Unit: RMB

| Item | Closing balance | Opening balance |
|---|---|---|
| Pledged borrowings | 126,498,000 | 126,018,000 |
| Secured borrowings | 100,772,894.56 | 120,891,118.33 |
| Guarantee borrowings | 4,999,211,500 | 5,034,728,300 |
| Credit borrowings | 1,359,453,935.94 | 1,065,046,935.94 |
| Less: long-term borrowings due within one year | -1,785,251,433.52 | -1,203,616,858.22 |
| Total | 4,800,684,896.98 | 5,143,067,496.05 |

Explanatory note to long-term borrowings:

1. Guarantee borrowings were the borrowings obtained by the subsidiaries of the Company from financial institutions when the Company acted as their guarantee, among which the borrowings of RMB3,282,756,500.00 were also secured by real estate and machinery and equipment as collateral;

2. Pledged borrowings included pledged bank deposits borrowings of the Company amounting to RMB126,498,000.00, of which certificates of time deposits of RMB136,100,000.00 were the pledge for the bank loans of US$20,000,000.00 from J.P. Morgan for a term from 19 July 2011 to 18 July 2013；

3. Long-term borrowings due within one year amounted to RMB1,785,251,433.52. Long-term borrowings due over one year but within two years amounted to RMB996,210,295.94. Long-term borrowings due over two years but within five years amounted to RMB521,718,101.04. Long-term borrowings due over five years amounted to RMB3,282,756,500.00.

## (g) Retained profit

Unit: RMB

| Item | Amounts | Proportion of appropriation or allocation |
|---|---|---|
| Retained profit of prior year before adjustment | 4,237,783,996.54 | — |
| Adjustment of the aggregate retained profit as at the beginning of the year (increase after adjustment +, decrease after adjustment -) | | — |
| Retained profit as at the beginning of the year after adjustment | 4,237,783,996.54 | — |
| Plus : Net profit of the current year attributable to shareholders of the Company | 94,244,962.85 | — |
| Less : Withdrawn statutory surplus reserves | | |
| Transfer to discretionary surplus Reserve | | |
| Transfer to general risk provision | | |
| Ordinary dividend payable | 309,306,891.20 | |
| Ordinary dividend converted to share capital | | |
| Retained profit as at the end of the period | 4,022,722,068.19 | — |

Adjustments to the retained profit breakdown as at the beginning of the year:

1. The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the retained profit as at the beginning of the year amounted to RMB0.

2. The effect of changes in accounting policies on the retained profit as at the beginning of the year amounted to RMB0.

3. The effect of corrections of significant accounting errors on the retained profit as at the beginning of the year amounted to RMB0.

4. The effect of the change of the scope of combination under common control on the retained profit as at the beginning of the year amounted to RMB0.

5. The effect of other adjustments on the retained profit as at the beginning of the year amounted to RMB0.

**(h) Revenue and operating costs**

**(1) Revenue and operating costs**

Unit: RMB

| Item | Amounts during the reporting period | Amounts during the prior period |
|---|---|---|
| Revenue from principal activities | 9,862,709,415.43 | 8,867,913,416.05 |
| Revenue from other activities | 101,742,119.61 | 49,541,939.09 |
| Operating costs | 8,500,512,936.03 | 7,382,759,124.49 |

**(2) Principal activities (by industry)**

☑ Applicable ☐ Not applicable

Unit: RMB

| Industry name | Amounts during the reporting period | | Amounts during the prior period | |
|---|---|---|---|---|
| | Revenue | Operating costs | Revenue | Operating costs |
| I. Machine-made paper | 9,216,139,824.7 | 7,909,765,293.16 | 8,186,161,306.83 | 6,784,659,561.49 |
| II. Electricity and steam | 415,231,784.63 | 360,583,271.43 | 414,633,495.26 | 389,718,244.42 |
| III. Building materials | 163,649,151.64 | 134,290,206.98 | 194,707,888.55 | 145,906,730.77 |
| IV. Paper chemicals | 40,108,732.97 | 31,277,925.63 | 39,567,408.7 | 32,139,830.2 |
| V. Hotel | 24,253,681.15 | 6,367,047.37 | 25,394,309.98 | 6,320,942.59 |
| VI. Others | 3,326,240.34 | 2,293,200.11 | 7,449,006.73 | 6,439,641.14 |
| Total | 9,862,709,415.43 | 8,444,576,944.68 | 8,867,913,416.05 | 7,365,184,950.61 |

### (3) Principal activities (by product)

☑ Applicable ☐ Not applicable

Unit: RMB

| Product name | Amounts during the reporting period | | Amounts during the prior period | |
|---|---|---|---|---|
| | Revenue | Operating costs | Revenue | Operating costs |
| Light weight coated paper | 599,263,279.24 | 546,228,892.26 | 657,033,033.83 | 574,932,181.53 |
| Duplex press paper | 1,520,629,992.03 | 1,325,662,646.62 | 1,103,544,255.25 | 965,222,375.87 |
| Writing paper | 152,926,898.85 | 146,337,134.17 | 144,823,190.92 | 132,016,212.06 |
| Coated paper | 2,146,633,544.01 | 2,044,364,500.36 | 2,060,127,936.87 | 1,680,746,018.02 |
| News press paper | 878,669,387.09 | 671,377,990.27 | 773,572,610.55 | 672,761,966.99 |
| Paperboard | 293,356,674.72 | 283,499,896.76 | 273,165,462.2 | 256,384,451.47 |
| White paper board | 979,292,604.55 | 801,231,392.96 | 1,219,419,198.6 | 945,705,748.07 |
| Other machine-made paper | 2,645,367,444.21 | 2,091,062,839.76 | 1,954,475,618.61 | 1,556,890,607.48 |
| Electricity and steam | 415,231,784.63 | 360,583,271.43 | 414,633,495.26 | 389,718,244.42 |
| Construction materials | 163,649,151.64 | 134,290,206.98 | 194,707,888.55 | 145,906,730.77 |
| Paper-making chemical products | 40,108,732.97 | 31,277,925.63 | 39,567,408.7 | 32,139,830.2 |
| Hotel | 24,253,681.15 | 6,367,047.37 | 25,394,309.98 | 6,320,942.59 |
| Others | 3,326,240.34 | 2,293,200.11 | 7,449,006.73 | 6,439,641.14 |
| Total | 9,862,709,415.43 | 8,444,576,944.68 | 8,867,913,416.05 | 7,365,184,950.61 |

## (4) Principal activities (by geographical areas)

☑ Applicable ☐ Not applicable

Unit: RMB

| Geographical area name | Amounts during the reporting period | | Amounts during the prior period | |
|---|---|---|---|---|
| | Revenue | Operating costs | Revenue | Operating costs |
| PRC | 8,429,732,938.38 | 7,047,508,278.17 | 7,466,152,102.15 | 6,038,757,296.77 |
| Hong Kong | 85,042,051.22 | 82,802,641.61 | 58,239,166.05 | 55,846,279.75 |
| United States | 74,652,473.46 | 70,989,361.06 | 153,370,094.99 | 149,004,934.47 |
| Japan | 99,795,928.67 | 97,186,265.13 | 100,167,928.68 | 95,567,635.37 |
| South East Asia | 128,741,768.46 | 125,361,950.58 | 149,359,989.66 | 138,524,656.07 |
| Middle East | 203,094,484.24 | 201,948,291.67 | 273,648,100.79 | 258,498,802.65 |
| Europe | 129,403,908.38 | 124,403,235.71 | 166,133,876.02 | 155,927,193.15 |
| South Africa | 123,402,201.61 | 120,069,947.66 | 41,686,106.64 | 35,893,611.81 |
| Other countries and regions | 588,843,661.01 | 574,306,973.09 | 459,156,051.07 | 437,164,540.57 |
| Total | 9,862,709,415.43 | 8,444,576,944.68 | 8,867,913,416.05 | 7,365,184,950.61 |

## (i) Income tax expenses

Unit: RMB

| Item | Amounts during the reporting period | Amounts during the prior period |
|---|---|---|
| Current income tax calculated according to tax laws and relevant rules | 70,437,525.65 | 87,178,859.01 |
| Adjustment to deferred income tax | -83,304,458.88 | 9,545,039.31 |
| Total | -12,866,933.23 | 96,723,898.32 |

**(j) Calculation of basic 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:

| Item | Amounts for the reporting period | Amounts for the prior period |
|---|---:|---:|
| Net profit for the period attributable to ordinary shareholders | 94,244,962.85 | 483,549,691.40 |
| Of which: net profit attributable to continued operations | 94,244,962.85 | 483,549,691.40 |
| net profit attributable to discontinued operations | | |
| Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company | -103,989,811.77 | 382,038,739.41 |
| Of which: net profit attributable to continued operations | -103,989,811.77 | 382,038,739.41 |
| 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 for the reporting period | Amounts for the prior period |
|---|---:|---:|
| Number of outstanding ordinary shares as at the beginning of the period | 2,062,045,941.00 | 2,062,045,941.00 |
| Plus: number of weighted ordinary shares issued during the period | | |
| Less: number of weighted ordinary shares repurchased during the period | | |
| Number of outstanding ordinary shares as at the end of the period | 2,062,045,941.00 | 2,062,045,941.00 |

**(III) Notes to these financial statements**

**1. Changes in significant accounting policies and accounting estimates and corrections and effects of material accounting errors**

**(1) Changes in accounting policies**

Any changes in significant accounting policies during the reporting period

☐ Yes ☑ No

**(2) Changes in accounting estimates**

Any changes in significant accounting estimates during the reporting period

☐ Yes ☑ No

**(3) Corrections of accounting errors**

Any prior accounting errors identified during the reporting period

☐ Yes ☑ No

**2. Reason for change in scope of consolidation for the consolidated financial statements**

The Company invested and established a wholly-owned subsidiary, Japan Chenming Paper Company Limited in Tokyo, Japan on 18 January 2012. On 8 February 2012, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a controlling subsidiary of the Company, invested and established a wholly-owned subsidiary, Wuhan Xingzhilian Company Limited. The Company is able to exercise control over the two companies since their date of establishement and they are consolidated upon their date of establishment.

**3. The matters involved in the non-standard auditing report and the related notes**

Nil

**VIII. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## IX. CORPORATE GOVERNANCE

The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value. Saved as disclosed below, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the reporting period, in compliance with the Code on Corporate Governance Practice/Corporate Governance Code, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Hong Kong Listing Rules").

The chairman and general manager of the Company is Mr. Chen Hongguo.

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 believe that Mr. Chen Hongguo 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.

## X. SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Hong Kong Listing Rules as the code of conduct for Directors' securities transactions, and in response to the specific enquiries to all Directors by the Company, all Directors confirmed that they had complied with the requirements as set out in the Model Code during the six month period ended 30 June 2012.

## XI. AUDIT COMMITTEE

The audit committee discussed with the management of the Company the accounting standards and practices adopted by the Company and discussed and reviewed the interim results and the interim report of the Company for the six month period ended 30 June 2012 prepared in accordance with the accounting standards.

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

Shandong, the PRC
21 August 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*