Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The Board of Directors (the "Board") of Shandong Chenming Paper Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2012. This announcement, containing the full text of the 2012 annual report ("Annual Report") of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's Annual Report will be delivered to the shareholders of the Company on or about 5 April 2013 and available on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.chenmingpaper.com for perusal on 27 March 2013.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The audit committee of the Company discussed with the management of the Company the accounting standards and practices adopted by the Company and discussed and reviewed the annual results, including the review of the financial statements of the Company for the year ended 31 December 2012 prepared in accordance with Accounting Standards for Business Enterprises in China.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.6 cents per 10 share (tax inclusive) for the year ended 31 December 2012 to its shareholders.

Subject to the approval of shareholders at the annual general meeting to be held on 15 May 2013 (the "AGM"), the final dividend will be paid to the shareholders whose names appear on the H Share registrar of the members of the Company on 29 May 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 April 2013 to 15 May 2013 (both days inclusive) for the purpose of determining the right to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, H Share Shareholders should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration not later than 4:30 p.m. on 11 April 2013.

Besides, the register of members of the Company will also be closed from 23 May 2013 to 29 May 2013 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2012 (subject to the approval of shareholders at the AGM). In order to be qualified for the proposed final dividend, H Share Shareholders should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with Company's H share registrar for registration not later than 4:30 p.m. on 22 May 2013.

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

Shandong, the PRC, 27 March 2013

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*

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

ANNUAL REPORT 2012

* For identification purposes only

I Important Notice, Table of Contents and Definitions

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

Chen Hongguo, head of the Company, Wang Chunfang, head in charge of accounting and Dong Lianming, head of the accounting department (Accounting Officer), declare that they warrant the truthfulness, accuracy and completeness of the financial statements in the annual report.

All Directors were present at the Board meeting to consider and approve this annual report except the following directors:

Name of the Director failing to attend in person	Capacity of the Director failing to attend in person	Reason for failure to attend in person	Name of his/her proxy
Zhang Zhiyuan	Independent Director	Failure to attend due to business commitments	Wang Aiguo
Wang Xiangfei	Independent Director	Failure to attend due to business commitments	Zhang Hong

The proposed profit distribution plan of the Company was considered and passed by the Board: based on the number of the shares as at the dividend distribution registration date, a dividend of RMB0.6 (tax inclusive) per 10 shares was to be paid and no bonus shares (tax inclusive) were to be delivered to all shareholders without increase of share capital from reserves.

This annual report, including forward-looking statements such as future plans, does not constitute a substantial commitment of the Company to investors. Investors should note the investment risk.

I Important Notice, Table of Contents and Definitions

Table of contents

2012 Annual Report

I	Important Notice, Table of Contents and Definitions	1
II	Company Profile	5
III	Summary of Accounting Data and Financial Indicators	7
IV	Chairman's Statement	9
V	Directors' Report	12
VI	Material Matters	50
VII	Changes in Share Capital and Shareholders	72
VIII	Directors, Supervisors, Senior Management and Staff	78
IX	Corporate Governance	88
X	Internal Control	106
XI	Financial Report	112
XII	Documents Available for Inspection	280

I Important Notice, Table of Contents and Definitions

Definitions

Item	means	Definition
Company or Chenming Paper	means	Shandong Chenming Paper Holdings Limited
Group	means	Shandong Chenming Paper Holdings Limited and its subsidiaries
Chenming Holdings	means	Shouguang Chenming Holdings Company Limited
Shenzhen Stock Exchange	means	Shenzhen Stock Exchange
Stock Exchange	means	The Stock Exchange of Hong Kong
CSRC	means	China Securities Regulatory Commission
Shandong CSRC	means	Shandong branch of China Securities Regulatory Commission
SAPPI	means	SAPPI LIMITED
IFC	means	International Finance Corporation
Jiangxi Chenming	means	Jiangxi Chenming Paper Co., Ltd.
Shouguang Henglian	means	Shouguang Henglian Enterprise Investment Co. Ltd.
Guangyuan Real Property	means	Shouguang Chenming Guangyuan Real Property Company Limited
Shouguang Hengtai	means	Shouguang Hengtai Enterprise Investment Company Limited
Wuhan Chenming	means	Wuhan Chenming Hanyang Paper Holdings Co., Ltd.
Hailaer Chenming	means	Hailaer Chenming Paper Co., Ltd.
Moorim Paper	means	Moorim Paper Co., Ltd.
Sappi China	means	Sappi China Holdings BV
Chenming (HK)	means	Chenming (HK) Limited
Zhanjiang Huirui	means	Zhanjiang Huirui Investment Co., Ltd.
Guangdong Huirui	means	Guangdong Huirui Investment Co., Ltd.
Southwest Securities	means	Southwest Securities Company Ltd.
Haiming Mining	means	Haicheng Haiming Mining Company Limited
BeiHai Group	means	Liaoning BeiHai Industries Group Co. Ltd.
Juancheng Chenming	means	Juancheng Chenming Panels Co., Ltd.
Qihe Chenming	means	Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.
Jianghe Paper	means	Henan Jianghe Paper Co., Ltd.
Qihe Panels	means	Qihe Chenming Panels Co., Ltd.
Zhanjiang Chenming	means	Zhanjiang Chenming Paper Pulp Co., Ltd.

Definitions *(Cont'd)*

Jilin Chenming	means	Jilin Chenming Paper Co., Ltd.
Chenming Power	means	Shandong Chenming Power Supply Holdings Co., Ltd.
Yanbian Chenming	means	Yanbian Chenming Paper Co., Ltd.
Shouguang Meilun	means	Shouguang Meilun Paper Co., Ltd.

Important Risk Notice

The Company has described in detail the risk factors facing the Company in this report. You are advised to refer to the risk factors likely to be faced and the measures to be taken to address them in the outlook on the future development of the Company which is set out in Directors' Report.

II Company Profile

I. Company information

A share stock abbreviation	晨鳴紙業	Stock Code	000488
B share stock abbreviation	晨鳴B	Stock Code	200488
H share stock abbreviation	Chenming Paper	Stock Code	1812
Stock exchanges on which the shares are listed	Shenzhen Stock Exchange and The Stock Exchange of Hong Kong		
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 (if any)	SHANDONG CHENMING PAPER HOLDINGS LIMITED		
Legal short name in English of the Company (if any)	SCPH		
Legal representative of the Company	Chen Hongguo		
Registered address	No. 595 Shengcheng Road, Shouguang City, Shandong Province		
Postal code of registered address	262700		
Office address	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province		
Postal code of office address	262705		
Website of the Company	http://www.chenmingpaper.com		
Email address	chenmmingpaper@163.com		

II. Contact persons and contact methods

	Secretary to the Board	Securities Affairs Representative	Hong Kong Company Secretary
Name	Wang Chunfang	Fan Yingjie	Poon Siu Cheong
Correspondence Address	No. 2199 East Nongsheng Road, Shouguang City, Shandong Province	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong
Telephone	(86)-0536-2158008	(86)-0536-2158008	(852)-2501 0088
Facsimile	(86)-0536-2158977	(86)-0536-2158977	(852)-2501 0028
Email address	chenmmingpaper@163.com	chenmmingpaper@163.com	kentpoon_1009@yahoo.com.hk

III. Information disclosure and places for inspection

Designated newspapers for information disclosure	China Securites Journal, Shanghai Securities News, Securities Times and Hong Kong Commercial Daily
Designated websites for the publication of the Annual Report as approved by CSRC	Domestic: http://www.cninfo.com.cn; Overseas: http://www.hkex.com.hk
Places for inspection of the Company's Annual Report	Capital operation department of the Company

II Company Profile

IV. Change in registration

	Date of Registration	Address of Registration	Legal Person Business License Registration Number	Taxation Registration Number	Organisation Code
First Registration	05 May 1993	No. 595 Shengcheng Road, Shouguang City, Shandong Province	16568230-2	370783613588986	61358898-6
Registration at the end of the reporting period	27 September 2008	No. 595 Shengcheng Road, Shouguang City, Shandong Province	370000400001170	370783613588986	61358898-6
Change of principal activities since its listing (if any)		No			
Change of the controlling shareholder (if any)		Please refer to III. Company Overview of section XI of this report.			

V. Other relevant information

CPAs engaged by the Company

Name of CPAs	RSM China Certified Public Accountants (Special General Partnership)
CPAs' Office Address	8-9/F, Block A, Corporation Building, No. 35 Finance Street, Xicheng District, Beijing
Name of the Certified Public Accountants as the signatories	Wang Chuanshun and Jing Chuanxuan

Sponsors engaged by the Company to continuously perform its supervisory function during the reporting period

☐ Applicable √ Not applicable

Financial Advisors engaged by the Company to continuously perform its supervisory function during the reporting period

☐ Applicable √ Not applicable

III Summary of Accounting Data and Financial Indicators

I. Major accounting data and financial indicators

Retrospective adjustment to or restatement of the accounting data for prior years by the Company due to change of accounting policies and correction of accounting errors

□Yes √ No

	2012	2011	Increase/ decrease (%)	2010
Revenue (RMB)	19,761,679,230.05	17,747,489,900.87	11.35%	17,203,123,029.49
Net profit attributable to shareholders of the Company (RMB)	221,034,822.54	608,271,256.29	-63.66%	1,163,341,066.21
Net profit after extraordinary gains or losses attributable to shareholders of the Company (RMB)	-159,777,900.37	285,121,911.63	-156.04%	1,034,233,761.46
Net cash flows from operating activities (RMB)	1,956,866,477.99	-437,463,010.89	547.32%	850,328,927.00
Basic earnings per share (RMB per share)	0.11	0.29	-62.07%	0.56
Diluted earnings per share (RMB per share)	0.11	0.29	-62.07%	0.56
Rate of return on net assets on weighted average basis (%)	1.63%	4.50%	-2.87%	8.80%

	As at the end of 2012	As at the end of 2011	Increase/ decrease (%)	As at the end of 2010
Total assets (RMB)	47,725,421,927.39	45,630,828,967.03	4.59%	35,077,132,129.98
Net assets attributable to shareholders of the Company (RMB)	13,759,496,179.85	13,528,622,319.91	1.71%	13,535,785,794.54

II. Differences in accounting data under domestic and overseas accounting standards

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

Unit: RMB

	Net profit attributable to shareholders of the Company		Net assets attributable to shareholders of the Company	
	Amounts for the year	Amounts for the prior year	Closing balance	Opening balance
Under China accounting standards	221,034,822.54	608,271,256.29	13,759,496,179.85	13,528,622,319.91
Items and amounts adjusted under international accounting standards				
Under international accounting standards	221,034,822.54	608,271,256.29	13,759,496,179.85	13,528,622,319.91

III Summary of Accounting Data and Financial Indicators

III. Items and amounts of extraordinary gains or losses

Unit: RMB

Item	Amounts for 2012	Amounts for 2011	Amounts for 2010	Explanation
Profit or loss from disposal of non-current assets (including write-off of provision for assets impairment)	26,092,788.22	26,249,093.41	-5,495,594.30	
Government grants (except for the government grants closely related to the normal operation of the company and granted constantly at a fixed amount or quantity in accordance with a certain standard based on state policies) accounted for in profit or loss for the current period	235,157,521.57	236,198,625.29	96,530,256.72	
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		44,188,866.15		
Profit or loss from debt restructuring	941,444.43	-18,179,889.32	54,841.22	
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			1,521,172.98	
Profit or loss arising from changes in fair value of consumable biological assets	47,882,076.87	48,173,926.26	54,752,250.58	
Non-operating gains and losses other than the above items	114,342,091.81	31,840,643.86	5,913,389.74	
Effect of income tax	40,604,179.01	32,413,333.65	4,961,885.60	
Effect of minority interests (after tax)	2,999,020.98	12,908,587.34	19,207,126.59	
Total	380,812,722.91	323,149,344.66	129,107,304.75	—

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses defined as its recurring gain or loss items

□Applicable √ Not Applicable

IV Chairman's Statement

Dear shareholders,

It is my pleasure to present the financial report for the year ended 31 December 2012 to all shareholders and express my gratitude, on behalf of the board of directors, for all shareholders' concern and support to Chenming Paper.

2012 had seen the smooth operation of the 600,000 tonne white coated linerboard project of the Company, as well as the normal operation of Zhanjiang Chenming's pulp project and Meilun's 800,000 tonne coated paper project. The Company's production capacity achieved leapfrog growth. Meanwhile, the Company also invested in magnesite mining and Zhanjiang waterfront regulation works to increase the sustainable profitability of the Company, thereby expanding the industry chain of the Company.

The papermaking industry was confronted with oversupply in the short run due to sluggish market demand and the availability of the production capacity of some paper products released at the same time against the backdrop of the industry downturn brought about by the macroeconomic situation. The new capacity of the Company was unable to improve the results of the Company in the short run. Compared to the prior year, the profitability of the Company declined.

I. Operating Results

During the reporting period, the Company completed machine-made paper production of 3.93 million tonnes, representing an increase of 530,000 tonnes or 15.59% as compared with 3.40 million tonnes in 2011. The Company's revenue amounted to RMB19,761.6792 million, up by RMB2,014.1893 million or 11.35% from 2011. The operating costs were RMB16,693.7683 million, up by RMB1,762.6151 million or 11.80% from 2011. The operating profit and net profit attributable to equity holders of the Company were RMB-416.2283 million and RMB221.0348 million respectively, down by 210.69% and 63.66% respectively.

II. Corporate Governance

During the reporting period, the Company regulated its operation and kept on improving and optimising its legal person governance structure under the requirements of Companies Law, Securities Law, Code of Corporate Governance for Listed Companies, Rules Governing Listing of Stocks on Shenzhen Stock Exchange, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the related provisions of CSRC. The Board considered the state of the Company's corporate governance was substantially in compliance with the requirements and requests of the regulatory documentation such as Code of Corporate Governance for Listed Companies.

In 2012, the Board strived to regulate the operation of the Company by improving corporate governance. It improved corporate governance practice in a timely manner and formulated and optimised management systems including the revised version of Articles of Association, Insider Registration System, Procedural Rules for General Meetings and the Management System of the Information Disclosure in the Interbank Bond Market in accordance with the regulatory requirements.

III. Dividend Distribution

Consistent with our long-term goal of pursuing the maximisation of corporate values, the Group had always placed much emphasis on shareholders' benefits and returns. In view of the operating results realised in 2012 and after considering the financial position and cash flow condition of the Group as a whole, the Board recommended a proposed profit distribution plan for 2012 as follows: based on the number of the shares as at the dividend distribution registration date, a cash dividend of RMB0.6 (tax inclusive) was to be paid to all shareholders for every 10 shares held. Based on the total share capital of 2,062,045,941 shares of the Company as at 31 December 2012, cash dividend for 2012 amounted to RMB123,722,756.46 (tax inclusive), which represented 55.97% of the net profit attributable to shareholders of the Company as set out in the 2012 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises. After such profit distribution, the undistributed profit would be rolled over for distribution in subsequent years. As always, the Group will continue to stay focused on its long-term development and maximise returns for shareholders by delivering even better results.

IV. Future Development

The industry to which the Company belongs is the paper making industry, which is a light industry. The business sentiments of the industry are highly related to the macroeconomic growth. The papermaking industry was affected by the slowdown in the macroeconomic growth in 2012. However, in the long run, the development conditions of the paper making industry gradually improve. 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 more comprehensive paper types. In 2012, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development is in line with the requirements of the development plan of the entire paper making industry. Meanwhile, the Company has expanded its industry chain with a more rationalised industry positioning, which further strengthens the Company's competitiveness and development potential. As the economy and industry gradually recover, it is expected that the result of the Company will record stable growth. The Company's future performance is what the market can look forward to.

In 2013, the Company will deal with the following major areas based on the strategic objectives formulated by the Company.

(1) **Adhere to strategy guidelines and making a blueprint for development plan.** We shall focus on project establishment at first. The establishment and upgrading of the projects of Jilin Chenming, Zhanjiang Chenming, Wuhan Chenming and Shouguang 100,000-tonne papermaking additive are our high priorities. Moreover, we will promote technology upgrading. In respect of the technology upgrade projects such as Shouguang 120,000-tonnes art coated printing paper energy saving and upgrade project and Wuhan Chenming 4,800 cultural paper machine (for glassine paper) upgrade project, we will make verification and pick up the pace to ensure high quality and good results. Thirdly, we will make more efforts to conduct scientific research. We optimise the combination of production, learning, research and utilisation in both channel and system, and developing the surface enhancement technology and finished paper ash content technology with great effort. Meanwhile, we will comply with environmental protection policies, apply new technology and skills, promote the recycle economy, enhance comprehensive utilisation of resources and improve energy saving and emission reduction.

(2) **Strengthen innovation management and enhancing working efficiency.** First of all, we optimise purchase management. Advanced management mode is introduced, to step into the futures and spot markets, establish strategic cooperative relationships with quality customers, the mode named "purchase on demand" was put on trial. Secondly, we will enhance financial management. A finance company is established to intensify the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the fund settlement, management, investment and financing ability. We make full use of the financing platform of the Hong Kong market. The capital of Chenming (HK) is increased in order to increase its credit line and expand its business scope, thereby lowering our financial costs and improve our profitability. Thirdly, we strengthened quality management. Quality is the essence of a corporation. Adhering to the object of improving quality and increasing economic benefits, the Company will strive to realise "all staff, whole process and the entire corporation" quality management. Fourthly, we enhance the internal control construction. We optimise flow of internal control, bring risk-prevention management system into perfection, intensify and promote the transformation of internal audit into management audit and risk audit, perfect corporate legal risk-prevention mechanism and strengthen process oversights and management and control over significant risks.

IV. Future Development *(Cont'd)*

(3) **Adjust product portfolio and explore new markets.** The Company will enhance product quality management, increase the development on high value-added products, produce popular products as well as increase the market competitiveness of products. Focusing on efficiency, the Company endeavour to develop its products into high-end and high value-added products. It also endeavours to produce low-end products at low cost in order to meet client's needs, leverage on its low-cost edge and increase the efficiency. The Company will put more efforts in direct marketing and expand its overseas sales channels. The Company will target on major direct clients. Meanwhile, the Company will explore cooperation opportunities with strong major distributors, and increase the overseas market exposure of products via their sales channels. The Company will expand the marketing channels for its brand. The Company will organise promotion activities such as new products presentation based on the marketing needs of products, the Company and region. Hence, the recognition of Chenming brand will increase, which will fully enhance the brand image and influence of the Company.

(4) **Strengthen team-building and improve staff quality.** Human resources are the "major essential" for corporate development. First, the Company will develop an innovative staff development programme. Based on the development needs, the Company will recruit talents who possess advance and new technology knowledge, and management talents. The Company endeavours to develop a high quality team with the same philosophy as the Company and adaptable to the strategic development needs. Secondly, the Company will focus on its recruitment and training works. It aims to maintain a fair staff system and adhere to recruit talented staff with high moral standard while improving the structure of management team. Thirdly, the Company will enhance its staff training. The Company will conduct a people-oriented training. The Company will also increase its training efforts and enhance the technical standard of various position, aiming to develop as a learning and knowledgeable enterprise. A good working and living environment will be established, which strengthens staff's loyalty and unity to the Company.

(5) **Build up Chenming corporate culture and promote culture promotion and implementation.** The Company adheres to the establishment of corporate culture. It regulates the staff's conduct, strives to "achieve a high degree of integration of corporate governance and corporate culture" as well as ensures proper internal cooperation with all works conducted orderly. The Company will strengthen the establishment of culture system, its promotion and implementation, aiming to make all staff have a deeper understanding on Chenming corporate culture. Hence, the staff will voluntarily incorporate corporate culture into their works. In addition, this can promote incorporation of culture into thought and management and make corporate culture as a direction of all works, which can improve the quality and execution ability of staff. Hence, a brand new Chenming corporate culture is established.

Chen Hongguo
Chairman

27 March 2013

V Directors' Report

I. Overview

The paper industry was adversely affected by the lacklustre macroeconomic situation in 2012. The papermaking market was confronted with oversupply in the short run due to an ongoing slowdown in demand growth in the paper industry and the availability of the new production capacity. Therefore, imbalance in supply and demand resulted from the continuously weak market demand with excess new production capacity of some paper products made available. Inventory accumulation at a higher level during the rapid development of the Company in the prior years led to a great pressure on the Company when demand fell. The decrease in the overall economic benefits of the industry resulted in a narrowed profit margin. Compared to the prior year, the profitability of the principal activities of the Company declined during the reporting period, and the gross profit margin of paper products was lower than that of the same period of last year.

II. Analysis of principal operations

1. Overview

During the reporting period, the Company's revenue amounted to RMB19,761.6792 million, up by RMB2,014.1893 million or 11.35% from 2011. The operating costs were RMB16,693.7683 million, up by RMB1,762.6151 million or 11.80% from 2011. Operating profit and net profit attributable to equity holders of the Company were RMB-416.2283 million and RMB221.0348 million respectively, down by 210.69% and 63.66% respectively. During the reporting period, the expenses for the period hit RMB 3,347.4962 million, up by RMB968.0949 or 40.69%; from 2011. Investments in research and development amounted to RMB293.6983 million, up by RMB20.8352 million or 7.64% from 2011. Net cash flows were RMB26.5016 billion, down by 435.3111 million or 94.26% from 2011.

Review of the development strategy disclosed before and the progress of the operating plan during the reporting period

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

Currently, 96% of the civil engineering works and the installation works of the project were completed. Trial production commenced at the end of 2012. As at the end of the reporting period, the project was not reclassified as fixed assets and the accumulated investment amounted to RMB2,489 million.

Whether the Company's actual operation results were lower or higher than the publicly disclosed profit forecast for the year by more than 20%:

☐ Applicable √ Not Applicable

II. Analysis of principal operations *(Cont'd)*

2. Revenue

During the reporting period, the Company completed machine-made paper production of 3.93 million tonnes, representing an increase of 530,000 tonnes or 15.59% as compared with 3.40 million tonnes in 2011. Revenue from principal operations amounted to RMB 19,418.3854 million, up by RMB 1,882.9331 million or 10.74% from 2011.

Whether revenue from sales in kind is higher than revenue from services

√ Yes ☐ No

Unit: '0,000 tonnes

By industry	Item	2012	2011	Increase/ decrease (%)
Machine-made paper	Sales	395	311	27.01%
	Production output	393	340	15.59%
	Inventories	45	49	-8.16%

Explanation on why the related data was varied by more than 30%

☐ Applicable √ Not Applicable

Material orders in hand of the Company

☐ Applicable √ Not Applicable

Significant change in or adjustment of the products or services of the Company during the reporting period

☐ Applicable √ Not Applicable

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	809,133,619.82
Total sales to top 5 customers as a percentage of the total sales for the year (%)	4.09%

Information on top 5 customers

√ Applicable ☐ Not Applicable

No.	Name of customer	Sales (RMB)	As a percentage of the total sales for the year (%)
1	Shanghai Yaoji Playing Card Co., Ltd.	212,603,078.30	1.08%
2	INTERNATIONAL FOREST PRODUCTS	192,227,597.81	0.97%
3	SUN HING PAPER COMPANY LTD	138,418,242.76	0.70%
4	Qidong Yaoji Playing Card Industrial Co., Ltd.	137,048,132.05	0.69%
5	Hubei Daily Media Group (Hubei Daily)	128,836,568.90	0.65%
Total	—	809,133,619.82	4.09%

II. Analysis of principal operations *(Cont'd)*

3. Cost

By industry

Unit: RMB

By industry	Item	2012 Amounts	2012 As a percentage of operating costs (%)	2011 Amounts	2011 As a percentage of operating costs (%)	Increase/ decrease (%)
Machine-made paper	Raw materials	8,937,680,153.84	57.86%	8,142,722,115.68	58.69%	-0.83%
	Depreciation	835,613,946.74	5.41%	691,496,021.37	4.98%	0.43%
	Labour costs	157,709,922.20	1.02%	176,284,242.35	1.27%	-0.25%
	Energy and power	1,893,067,781.92	12.25%	1,867,223,312.21	13.46%	-1.21%
	Chemicals	2,346,525,338.83	15.19%	2,093,338,487.76	15.09%	0.10%
	Other production costs	1,277,613,441.39	8.27%	903,521,746.63	6.51%	1.76%
	Subtotal	15,448,210,584.92	100.00%	13,874,585,926.00	100.00%	
Power and steam	Raw materials	508,500,185.20	84.33%	516,372,685.38	85.90%	-1.57%
	Depreciation	47,921,265.73	7.95%	45,243,255.92	7.53%	0.42%
	Labour costs	20,637,762.46	3.42%	15,610,694.24	2.60%	0.82%
	Energy and power	1,876,044.44	0.31%	2,009,793.12	0.33%	-0.02%
	Chemicals	976,450.67	0.16%	600,970.52	0.10%	0.06%
	Other production costs	23,106,207.91	3.83%	21,289,774.35	3.54%	0.29%
	Subtotal	603,017,916.41	100.00%	601,127,173.53	100.00%	
Construction materials	Raw materials	220,811,751.70	73.27%	208,554,013.38	73.00%	0.27%
	Depreciation	19,089,842.87	6.33%	21,174,941.44	7.41%	-1.08%
	Labour costs	10,526,181.03	3.49%	8,847,687.33	3.10%	0.39%
	Energy and power	26,814,129.05	8.90%	26,508,016.44	9.28%	-0.38%
	Chemicals	5,808,752.64	1.93%	7,404,391.76	2.59%	-0.66%
	Other production costs	18,334,270.30	6.08%	13,203,681.45	4.62%	1.46%
	Subtotal	301,384,927.59	100.00%	285,692,731.80	100.00%	
Chemicals	Raw materials	35,481,558.88	75.18%	53,303,091.45	75.25%	-0.07%
	Depreciation	603,926.63	1.28%	207,757.45	0.29%	0.99%
	Labour costs	1,682,012.34	3.56%	2,587,027.16	3.65%	-0.09%
	Energy and power	8,078,738.69	17.12%	12,602,462.82	17.79%	-0.67%
	Other production costs	1,346,955.24	2.85%	2,136,341.49	3.02%	-0.17%
	Subtotal	47,193,191.78	100.00%	70,836,680.37	100.00%	

II. Analysis of principal operations *(Cont'd)*

3. Cost *(Cont'd)*

By product

By product	Item	2012 Amounts	2012 As a percentage of operating costs (%)	2011 Amounts	2011 As a percentage of operating costs (%)	Increase/ decrease (%)
Light weight coated paper	Raw materials	507,950,556.55	48.86%	574,874,121.71	49.54%	-0.68%
	Accumulated depreciation	51,339,028.14	4.94%	49,500,433.55	4.27%	0.67%
	Labour costs	10,691,865.84	1.03%	9,914,663.75	0.85%	0.18%
	Energy and power	152,571,848.79	14.68%	175,394,319.07	15.11%	-0.43%
	Chemicals	233,311,822.57	22.43%	270,636,847.88	23.32%	-0.89%
	Other production costs	83,744,330.02	8.06%	80,195,593.88	6.91%	1.15%
	Subtotal	1,039,609,451.91	100.00%	1,160,515,979.84	100.00%	
Duplex press paper	Raw materials	1,508,544,683.40	60.68%	1,276,873,233.91	62.18%	-1.50%
	Accumulated depreciation	122,719,701.81	4.94%	53,319,576.83	2.60%	2.34%
	Labour costs	29,052,082.36	1.17%	34,018,587.90	1.66%	-0.49%
	Energy and power	326,870,055.15	13.15%	334,446,204.05	16.29%	-3.14%
	Chemicals	302,470,956.31	12.16%	246,424,092.16	11.99%	0.17%
	Other production costs	196,472,313.58	7.90%	108,458,153.56	5.28%	2.62%
	Subtotal	2,486,129,792.61	100.00%	2,053,539,848.41	100.00%	
Writing paper	Raw materials	180,898,992.93	68.10%	226,893,188.57	70.42%	-2.32%
	Accumulated depreciation	3,997,172.13	1.50%	3,869,927.46	1.20%	0.30%
	Labour costs	6,123,857.73	2.31%	6,228,544.88	1.93%	0.38%
	Energy and power	37,581,044.15	14.15%	45,388,093.37	14.09%	0.06%
	Chemicals	22,894,310.91	8.62%	26,983,470.16	8.38%	0.24%
	Other production costs	14,122,914.39	5.32%	12,826,438.89	3.98%	1.34%
	Subtotal	265,618,292.24	100.00%	322,189,663.33	100.00%	
News press paper	Raw materials	852,071,358.78	67.99%	1,038,430,436.61	73.58%	-5.59%
	Accumulated depreciation	68,739,327.76	5.49%	73,055,263.23	5.18%	0.31%
	Labour costs	3,761,372.30	0.30%	3,781,548.88	0.27%	0.03%
	Energy and power	177,942,102.33	14.20%	176,450,048.58	12.50%	1.70%
	Chemicals	51,081,098.80	4.07%	35,557,667.87	2.51%	1.56%
	Other production costs	99,588,746.51	7.95%	84,050,209.30	5.96%	1.99%
	Subtotal	1,253,184,006.48	100.00%	1,411,325,174.47	100.00%	
Paperboard	Raw materials	385,462,371.32	75.07%	446,695,437.31	74.10%	0.97%
	Accumulated depreciation	12,785,582.16	2.49%	11,489,112.28	1.91%	0.58%
	Labour costs	2,887,586.26	0.56%	3,272,865.22	0.54%	0.02%
	Energy and power	64,353,647.64	12.53%	80,253,041.62	13.31%	-0.78%
	Chemicals	26,924,910.64	5.24%	37,482,581.70	6.21%	-0.97%
	Other production costs	21,054,380.92	4.10%	23,662,970.84	3.93%	0.17%
	Subtotal	513,468,478.94	100.00%	602,856,008.97	100.00%	

II. Analysis of principal operations *(Cont'd)*

3. Cost *(Cont'd)*

By product *(Cont'd)*

		2012		2011		
By product	Item	Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	Increase/ decrease (%)
White paper board	Raw materials	998,152,198.57	60.63%	1,065,612,181.18	59.58%	1.05%
	Accumulated depreciation	105,596,006.42	6.41%	108,106,376.56	6.04%	0.37%
	Labour costs	4,207,558.55	0.26%	10,391,957.14	0.58%	-0.32%
	Energy and power	140,013,026.36	8.51%	172,113,802.60	9.62%	-1.11%
	Chemicals	261,022,549.61	15.85%	292,566,722.99	16.35%	-0.50%
	Other production costs	137,218,957.59	8.34%	140,121,150.89	7.83%	0.51%
	Subtotal	1,646,210,297.10	100.00%	1,788,912,191.36	100.00%	
Electrostatic paper	Raw materials	860,183,425.70	70.18%	68,747,070.62	69.68%	0.50%
	Accumulated depreciation	60,695,729.78	4.95%	2,884,771.30	2.92%	2.03%
	Labour costs	11,416,394.06	0.93%	1,564,944.07	1.59%	-0.66%
	Energy and power	63,678,054.97	5.20%	9,073,628.09	9.20%	-4.00%
	Chemicals	133,355,981.35	10.88%	7,310,319.24	7.41%	3.47%
	Other production costs	96,368,721.89	7.86%	9,080,841.17	9.20%	-1.34%
	Subtotal	1,225,698,307.75	100.00%	98,661,574.49	100.00%	
Coated paper	Raw materials	1,682,510,037.15	44.70%	1,682,758,370.66	52.55%	-7.85%
	Accumulated depreciation	271,583,736.25	7.22%	186,674,908.89	5.83%	1.39%
	Labour costs	23,953,033.14	0.64%	28,867,691.07	0.90%	-0.26%
	Energy and power	449,106,353.39	11.93%	362,481,804.01	11.32%	0.61%
	Chemicals	1,048,680,994.79	27.86%	804,234,082.54	25.11%	2.75%
	Other production costs	287,957,484.19	7.65%	137,241,312.08	4.29%	3.36%
	Subtotal	3,763,791,638.91	100.00%	3,202,258,169.25	100.00%	
Other paper products	Raw materials	2,257,093,872.24	69.35%	1,870,839,565.53	57.85%	11.50%
	Accumulated depreciation	122,365,618.94	3.76%	169,131,304.73	5.23%	-1.47%
	Labour costs	39,395,106.84	1.21%	74,513,046.82	2.30%	-1.09%
	Energy and power	333,801,245.48	10.26%	511,103,493.72	15.80%	-5.54%
	Chemicals	272,498,936.32	8.37%	350,586,269.25	10.84%	-2.47%
	Other production costs	229,345,539.16	7.05%	258,153,635.83	7.98%	-0.93%
	Subtotal	3,254,500,318.98	100.00%	3,234,327,315.88	100.00%	

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	1,814,601,327.42
Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)	10.68%

II. Analysis of principal operations *(Cont'd)*

3. Cost *(Cont'd)*

Information on top 5 suppliers of the Company

√ Applicable ☐ Not Applicable

No.	Name of supplier	Purchases (RMB)	As a percentage of the total purchases for the year (%)
1	Voith GmbH, Germany	777,032,693.22	4.57%
2	ITOCHU HONG KONG LTD	395,027,835.67	2.32%
3	Zhanjiang Xinchen Trading Co., Ltd.	266,065,732.66	1.57%
4	Zhanjiang Jinrui Wood Industry Co., Ltd.	190,423,613.25	1.12%
5	Central National Gottesman INC.	186,051,452.62	1.09%
Total	—	1,814,601,327.42	10.68%

4. Expenses

Item	Accrued during the year	Accrued during the prior year	Increase/ decrease (%)
Selling and distribution expenses	1,144,489,246.04	932,884,617.97	22.68%
Administrative expenses	1,110,246,902.75	1,014,494,608.5	9.44%
Finance expenses	1,092,760,015.04	432,022,027.84	152.94%
Loss on impairment of assets	70,250,158.94	41,216,449.59	70.44%
Income tax expenses	-62,826,238.51	110,263,113.88	-156.98%

Major changes for the items are detailed as follows:

(1) Finance expenses for 2012 increased by 152.94% to RMB1,092,760,015.04 as compared to the prior year mainly due to increased borrowings arising from project investment, and capitalised interest expensed upon completion and asset reclassification of the projects.

(2) Loss on impairment of assets for 2012 increased by 70.44% to RMB70,250,158.94 as compared to the prior year mainly due to increased bad debt provision and Hailaer Chenming Paper Co., Ltd., a subsidiary of the Company, in the process of liquidation with impairment of assets.

(3) Income tax expenses for 2012 decreased by 156.98% to RMB-62,826,238.51 as compared to the prior year mainly due to utilisation of deferred income tax by some companies which incurred losses.

II. Analysis of principal operations *(Cont'd)*

5. Research and development expenditure

The research and development expenditure for 2012 totalled RMB293.6983 million, representing an increase of RMB20.8352 million or 7.64% as compared with RMB272.8631 million of the same period of the prior year. The research and development expenditure accounted for 2.05% of the net assets, representing an increase of 0.23 percentage point as compared with 1.82% of the same period of the prior year. The research and development expenditure accounted for 1.49% of revenue, representing a decrease of 0.05 percentage point as compared with 1.54% of the same period of the prior year.

The status of the major research and development projects:

(1) Chenming Paper Technology Centre innovation capability building project

Objectives of the research and development project: The innovation capability building project was guided by the scientific development concept with the objective to enhance the independent innovation capability of China's papermaking industry in the field of clean pulping technology capability and its applications and the Company's core competitiveness. It gave full play to the Company's leading role in the papermaking industry to conduct forward-looking research and development in order to solve the key technical problems facing China, including effective use of resources, water and energy conservation and environmental pollution control, to create a leading international technology innovation team for clean pulping and its application technology with strong innovation capability, complete knowledge system and standardisation, to constantly optimise the hardware facilities upgrade and configuration, and to improve the management operating system, thereby building a research and development laboratory for clean pulping and its applications of advanced international standard to provide strong technical support and hardware protection for the sustainable development and technology upgrade of the papermaking industry.

Progress of the research and development project: The project construction task was basically completed. Through the implementation of the project, experimental apparatus and experimental verification equipment including fibre analyser, pulp analyser, gas analysis system, paper physical properties tester, fibre screening instrument and multi-function printability tester of advanced international standard were introduced. A group-wide research and development laboratory of clean pulping technology and its applications with the Technology Centre as the core was built, which greatly enhanced the level of basic research and development facilities of the Technology Centre. In particular, it improved the assay analytical ability, research and development capabilities and achievements transferability of clean pulping and its applications, which formed a complete technology research and development system for the basic research, development, production and testing of clean pulping and its applications and greatly reduced the gap with the advanced international level.

Intended goals of the research and development project: ① To complete the construction of the research and development laboratory for clean pulping and its applications and ensure that the project pass the acceptance tests; ② to possess the research and development capabilities of experimentation, testing and validation for high yield pulping, recycled fibre pulping, clean pulping and their applications during the process of turning raw materials into finished products; ③ to cultivate a research and development innovation team of 20 staff for clean pulping and its applications with reasonable level of knowledge, high level of technology and extensive practical experience to strengthen the platform construction, in order to serve as a high standard experts training and exchange platform for China's clean pulping and its applications; ④ after the completion of the project, to achieve an average of 5 patent reporting annually and 10 research and technology achievements transformation annually, and to achieve breakthroughs in clean pulping and its application technology and timely promote the application of achievements to production, in order to achieve direct economic benefits of over RMB100 million annually.

II. Analysis of principal operations *(Cont'd)*

5. Research and development expenditure *(Cont'd)*

(1) Chenming Paper Technology Centre innovation capability building project *(Cont'd)*

Expected impact of the research and development project on future development: The completion of the construction of the project will improve the overall technical equipment, product development standard and experimental verification capability of Chenming Group, thereby forming a complete technology research and development system for the basic research, design, development, production, testing for clean pulping and its application technology and provide experimental support conditions for the research and development of the Company's intellectual property products. Project construction can also promote personnel training and help Chenming Group build a strong technology innovation team in order to master new technologies and guarantee the sustainable development of the Company and the industry. This platform will also has the advantage of promoting research cooperation and greatly enhance the strength of the Company in achieving leading international level.

The construction of the research and development laboratory for clean pulping and its applications will greatly enhance the research strength, comprehensive research and development capabilities of new technologies, new processes and new products of Chenming Group, and will improve its simulation analysis capabilities, shorten the new technology, new process and new product development cycle, enhance the success rate of assay and development of the new technology, new process and products of Chenming Group, which will provide effective solutions to the bottlenecks in corporate development and key technologies urgently required by the industry. In particular, the research and development and independent innovation capabilities in clean pulping technology including high-yield pulping and recycled fibre pulp will significantly improve, which will drive the development of clean pulping technology of the entire papermaking industry, thereby making Shandong Chenming Paper Holdings an exemplary base in the field of domestic research, development and promotion for the technology.

(2) High-end coated white linerboard technology development

Objectives of the research and development project: The project combined the guiding ideology of structural adjustment of both the national and Shandong Province papermaking industry. According to the current and future development needs of the domestic high-end packaging paper market, the project conducted research on high-end coated white linerboard, which is produced by using OCC (waste cardboard paper pulp) and the existing production system DIP (deinked pulp) as the main raw materials and supplemented with a small amount of hardwood bleached chemical pulp, as an alternative to coated white paperboard and container paperboard widely used currently. The project focused on research and development of domestic advanced clean production technology and white linerboard sizing and new coating technology, with total water consumption of only 10 m3 per tonne of paper (industry clean production evaluation radix: 30 m3 per tonne of paper).

Progress of the research and development project: Through project research and technology and relying on the existing national level technology centre, post-doctoral research stations and the newly built production line which reached the international advanced level, the Company developed a specialised surface sizing technology and new natural levelling coating process. The coated white linerboard developed through the new technology and process has good burst index, high transverse ring crush index and good binding force between layers, and is not easily broken and layered. The paper surface has good pigment layer, uniform ink absorption and high smoothness, and the printed surface is of low roughness and high strength. The product is not easily peeled off and powdered out and with good printability, low water absorption on the front and back surface, outstanding water resistant performance, and thus has strong competitiveness in the market. Three national patents have been applied for this specialised technology, two of which are invention patents.

II. Analysis of principal operations *(Cont'd)*

5. Research and development expenditure *(Cont'd)*

(2) **High-end coated white linerboard technology development *(Cont'd)***

Intended goals of the research and development project: The project used OCC and the DIP pulp from the existing production system as the main raw materials, supplemented with a small amount of hardwood bleached chemical pulp for the research and development of high-end coated white linerboard. The research mainly included scientific and rational pulp-to-raw materials ratio process, wet cloth filling technology, dry and wet strength enhancement technology, a special coating formulation and coating process and new cleaner production technology. The Company intended to apply for one or more national invention patent in order to obtain independent intellectual property rights. The quantitative range of the product is 110 to 220 g/m2. High-end coated white linerboard as an upgrade alternative to the existing whiteboard wrapping paper in the market will also replace similar imported products, thereby filling the gaps in the domestic market with its product quality and technical specifications and production technology, which have reached the international advanced level.

Expected impact of the research and development project on future development: The high-end coated white linerboard, with the characteristics of lightness, smooth surface, good toughness, good surface printability and elegant appearance, can be used in the manufacturing of a variety of gift box and carton box for high-end merchandise. Its advantage in printing adaptability and paper performance also provides solutions to the continued growth in demand for paper and packaging materials of various industries. Also, its lower material and energy consumption can help save a large amount of resources, and will promote the sustainable development process of the Company and the industry.

(3) **Sub-topic of the National "863" Project "Research and production of enzyme in papermaking: "Optimisation of process for using enzyme in papermaking and its industrialisation"**

Objectives of the research and development project: The project focused on the demand for industrial enzyme corresponding to the transformation and upgrade of the papermaking industry process. In response to the core technical problems, including the poor performance, high cost and difficult application of using enzymes in China's papermaking industry, the project focused on the research and development of enzyme preparation of xylanase, laccase, cellulase and lipase for papermaking and its engineering applications. The project strives to achieve a breakthrough in key technologies, including high-throughput gene screening for enzyme used in papermaking, the transformation of the enzyme protein structure function analysis and molecular design, high protein expression, the large-scale preparation and compounded preparation of enzyme preparation, application performance system evaluation and engineering application process, and develop xylanase and laccase for making paper pulp and bleaching, new industrial enzymes for papermaking including fat enzyme for use in deinking and cellulase applicable for process applications, develop a new process for green transformation and upgrade of the typical papermaking industry process, and promote the large-scale application of enzyme in pulping, bleaching and deinking of the papermaking industry, in order to provide important technical support for the development of energy conservation and green economy.

Progress of the research and development project: Currently, the various task force units of the project have been co-ordinated to conduct theoretical study and research on the application of enzymes in the pulp and paper process, especially on the applications of enzyme in chemical pulp bleaching and deinking, in order to provide the conditions for large-scale production applications of specialised enzyme for pulping.

II. Analysis of principal operations *(Cont'd)*

5. Research and development expenditure *(Cont'd)*

(3) **Sub-topic of the National "863" Project "Research and production of enzyme in papermaking: "Optimisation of process for using enzyme in papermaking and its industrialisation" *(Cont'd)***

Intended goals of the research and development project: Based on the existing pulping and bleaching processes, the task force will carry out the screening, compounded preparation and preparation work for enzymes used in papermaking, and further study the application of the enzymes developed by the task force in the chemical pulp bleaching process, conducted pilot production and achieved large-scale applications, build the demonstration ton-grade production line for the application of enzyme, improve the whiteness of pulp bleaching and pulp strength by more than 5%, achieve the wastewater reuse rate of 80%, reduce the alkali dosage by 60%, reduce the amount of chemical bleaching reagent by 20-40% to reach the expected goals of the project, and apply for one invention patent.

Expected impact of the research and development project on future development: The implementation of the project will provide an exemplary base for the green and low-pollution papermaking process in China, promote co-operation between schools, businesses and research institutions in technological innovation, thereby accelerating the technological achievements transformation and promoting industry-wide technological levels and product quality improvement.

II. Analysis of principal operations *(Cont'd)*

6. Cash flow

Unit:RMB

Item	2012	2011	Increase/ decrease (%)
Subtotal of cash inflows from operating activities	19,399,885,121.58	18,658,276,342.80	3.97%
Subtotal of cash outflows from operating activities	17,443,018,643.59	19,095,739,353.69	-8.65%
Net cash flows from operating activities	1,956,866,477.99	-437,463,010.89	547.32%
Subtotal of cash inflows from investing activities	1,020,659,994.81	901,333,011.56	13.24%
Subtotal of cash outflows from investing activities	3,666,784,910.10	5,176,504,226.10	-29.16%
Net cash flows from investing activities	– 2,646,124,915.29	-4,275,171,214.54	38.10%
Subtotal of cash inflows from financing activities	25,318,157,575.12	20,350,721,078.39	24.41%
Subtotal of cash outflows from financing activities	24,594,961,130.78	15,165,670,072.07	62.18%
Net cash flows from financing activities	723,196,444.34	5,185,051,006.32	-86.05%
Net increase in cash and cash equivalents	26,501,565.92	461,812,639.73	-94.26%

Explanation on why the related data was varied by more than 30%

√ Applicable ☐ Not Applicable

(1) Net cash flows from operating activities increased by 547.32% as compared to the same period of the prior year mainly due to more efforts made by the Company to recover payments for goods, more cash received upon sale of goods and a higher proportion of bill payments for goods by the Company.

(2) Net cash flows from investing activities increased by 38.10% as compared to the same period of the prior year mainly due to fewer new project investments made by the Company.

(3) Net cash flows from financing activities decreased by 86.05% as compared to the same period of the prior year mainly due to fewer new project investments made by the Company as compared to the prior year and a significant decrease in the Company's demand for investment funds as compared to the prior year.

Explanation on main reasons leading to the the material difference between cash flows from operating activities during the reporting period and net profit for the year

√ Applicable ☐Not Applicable

Net cash flows from operating activities increased by 547.32% as compared to the same period of the prior year but net profit attributable to the Company decreased by 63.66% as compared to the same period of the prior year mainly due to: ① a decrease of net profit during the period primarily because of the net cash flows from financing activities as a result of the increase of interest expenses of RMB700 million; and ② a decrease of inventories because of the strengthened management of two uses of capital by the Company.

III. Components of principal operations

Unit: RMB

	Revenue	Operating costs	Gross profit margin (%)	Increase/decrease of revenue as compared to prior year (%)	Increase/decrease of operating costs as compared to prior year (%)	Increase/decrease of gross profit margin as compared to prior year (%)
By industry						
Machine-made paper	18,148,184,354.47	15,448,210,584.92	14.88%	11.07%	11.34%	-0.21%
Electricity and steam	800,330,990.18	603,017,916.41	24.65%	21.23%	0.32%	15.71%
Construction materials	344,778,147.53	301,384,927.59	12.59%	-8.55%	5.49%	-11.63%
Paper chemicals	63,109,642.95	47,193,191.78	25.22%	-36.39%	-33.38%	-3.38%
Hotel	48,334,822.55	12,493,732.14	74.15%	-1.46%	-3.21%	0.47%
Others	13,647,487.73	10,492,427.23	23.12%	37.58%	69.46%	-14.47%
By product						
Light weight coated paper	1,170,332,533.70	1,039,609,451.91	11.17%	-9.71%	-10.42%	0.70%
Duplex press paper	2,893,040,859.96	2,486,129,792.61	14.07%	24.8%	21.07%	2.65%
Writing paper	278,621,119.55	265,618,292.24	4.67%	-21.62%	-17.56%	-4.70%
Coated paper	4,039,555,866.49	3,763,791,638.91	6.83%	7.94%	17.54%	-7.61%
News press paper	1,774,456,795.28	1,253,184,006.48	29.38%	7.25%	-11.21%	14.68%
Paperboard	527,059,863.45	513,468,478.94	2.58%	-16.54%	-14.83%	-1.95%
White paper board	2,009,960,531.99	1,646,210,297.10	18.1%	-11.63%	-7.98%	-3.25%
Electrostatic paper	1,590,707,172.04	1,225,698,307.75	22.95%	1,146.35%	1,142.33%	0.25%
Other machine-made paper	3,864,449,612.01	3,254,500,318.98	15.78%	-1.91%	0.62%	-2.12%
Electricity and steam	800,330,990.18	603,017,916.41	24.65%	21.23%	0.32%	15.71%
Construction materials	344,778,147.53	301,384,927.59	12.59%	-8.55%	5.49%	-11.63%
Paper chemicals	63,109,642.95	47,193,191.78	25.22%	-36.39%	-33.38%	-3.38%
Hotel	48,334,822.55	12,493,732.14	74.15%	-1.46%	-3.21%	0.47%
Others	13,647,487.73	10,492,427.23	23.12%	37.58%	69.46%	-14.47%
By geographical segment						
PRC	16,652,392,812.02	13,832,363,392.83	16.93%	11.65%	11.84%	-0.14%
Other countries and regions	2,765,992,633.39	2,590,429,387.24	6.35%	5.55%	4.31%	1.12%

Under the circumstances that the statistics specification for the Company's principal operations data experienced adjustment in the reporting period, the principal operations data upon adjustment of the statistics specification at the end of the reporting period in the latest year.

□Applicable √ Not Applicable

IV. Analysis of assets and liabilities

1. Material changes of asset items

Unit: RMB

	As at the end of 2012		As at the end of 2011			
	Amounts	As a percentage of total assets (%)	Amounts	As a percentage of total assets (%)	Change in percentage (%)	Description of major changes
Monetary funds	4,456,217,362.86	9.34%	3,529,938,211.47	7.74%	1.6%	Monetary funds increased mainly due to issue of corporate bonds by the Company as a result of the increased demand for liquidity driven by the gradual availability of new construction projects of the Company and the expansion in the scale of operation.
Accounts receivable	3,602,955,051.18	7.55%	2,886,437,754.69	6.33%	1.22%	Sales revenue increased mainly due to the expansion in the scale of the Company as new construction projects of the Company became available.
Inventories	4,412,548,700.68	9.25%	5,586,472,121.37	12.24%	-2.99%	Inventories decreased mainly due to more efforts made by the Company to increase shipments as finished goods and raw materials in stock increased with the change of market conditions and the expansion in the scale of the Company.
Investment properties	21,211,699.99	0.04%	22,949,956.03	0.05%	-0.01%	
Long-term equity investments	356,796,777.78	0.75%	77,434,005.49	0.17%	0.58%	Shanghai Runchen Equity Investment Fund Co., Ltd., a subsidiary of the Company, made external investments.
Fixed assets	19,751,339,991.06	41.39%	22,740,904,031.02	49.84%	-8.45%	The decrease was mainly due to the depreciation provided over the current period, disposal of subsidiaries, namely Qihe Chenming and Juancheng Chenming, and disposal of fixed assets on relocation of Jilin Chenming.
Construction in progress	5,017,604,821.59	10.51%	2,618,039,624.85	5.74%	4.77%	Investments were made in the plant relocation of Jilin Chenming, the white coated linerboard project and power plant phase III further expansion.
Consumable biological assets	1,169,269,054.15	2.45%	959,061,500.85	2.1%	0.35%	The increase was mainly due to the purchase and growing of timber assets by the Company and the changes in their fair value.
Prepayments	1,636,233,924.64	3.43%	764,880,237.90	1.68%	1.75%	Guangdong Huirui Investment Co., Ltd., a subsidiary of the Company, made prepayment of RMB780 million for a BT construction project.
Other receivables	1,284,655,342.63	2.69%	325,550,913.72	0.71%	1.98%	A receivable relating to the transfer consideration of RMB274 million for disposal of the equity in a subsidiary, Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., and a receivable relating to debts of RMB590 million in the ordinary course of business were outstanding.

IV. Analysis of assets and liabilities *(Cont'd)*

2. Material changes of liability items

Unit: RMB

	2012		2011			
	Amounts	As a percentage on total assets (%)	Amounts	As a percentage on total assets (%)	Change in Percentage (%)	Description of major changes
Short-term borrowings	12,876,398,495.16	26.98%	12,086,984,606.69	26.49%	0.49%	
Long-term borrowings	3,933,167,835.94	8.24%	5,143,067,496.05	11.27%	-3.03%	
Bills payable	1,285,627,762.07	2.69%	615,327,402.85	1.35%	1.34%	Bank acceptance bills issued by the Company for payment for goods during the current period increased.
Accounts payable	3,239,781,724.81	6.79%	4,685,585,997.60	10.27%	-3.48%	The Company's payments for goods during the current period increased.
Other payables	435,772,288.98	0.91%	763,621,538.95	1.67%	-0.76%	The financial funds of RMB200 million received by Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, from Zhanjiang City in 2011 were transferred to other non-current liabilities during the current period and there was a change in the scope of consolidation arising from disposal of subsidiaries.
Bonds payable	6,256,263,237.00	13.11%	2,476,942,694.79	5.43%	7.68%	The Company issued corporate bonds of RMB3.8 billion during the current period.

3. Assets and liabilities measured at fair value

Unit:RMB

Item	Opening balance	Profitor or loss from change in fair value during the period	Cumulative fair value change charged to equity	Impairment provided during the period	Purchases during the period	Disposal during the period	Closing balance
Financial assets							
Consumable biological assets	959,061,500.85	47,822,076.87	177,821,813.40		12,030,651.26	6,275,089.72	1,169,269,054.15
Total	959,061,500.85	47,822,076.87	177,821,813.40		12,030,651.26	6,275,089.72	1,169,269,054.15
Liabilities	0						0

Whether there were any material changes on the measurement attributes of major assets of the Company during the reporting period

☐ Yes √ No

V. Analysis of Core Competitiveness

The Company is the largest papermaking enterprise in China. Compared with other enterprises in the industry, the Company has the following advantages:

(1) Scale advantages: As China's largest state-owned papermaking enterprise, after years of development, the Company has achieved annual paper production capacity of 6.00 million tonnes and is capable to compete with international papermaking enterprises in scale. Large-scale centralised production has provided the Company with obvious economic benefits, which are reflected not only in the manufacturing costs of products, but also in its strong market influence in raw material procurement, product pricing and industry policymaking.

(2) Product advantages: While the production scale of the Company expanded rapidly, its product mix also continued to optimise. In recent years, the Company has built the production lines for high-end coated paper, high-end light weight coated paper, high-end white paper board and high-end duplex press paper, and achieved higher technological content of products and added values as well as a higher gross profit margin. The product mix of the Company has changed from one that focused mainly on ordinary offset paper to a wide product range including writing paper, duplex press paper, light weight coated paper, news press paper, coated paper, white paper board and household paper, and thus the Company has become the enterprise that offers the widest product range in China's papermaking industry. Proportion of the Company's high-end products will further increase in the future. Diversification and gentrification of the product mix has not only greatly enhanced the Company's ability to withstand market risks, but also enabled the Company to maintain a relatively high profitability.

(3) Advantages in technical equipment: The Company's overall technical equipment has reached the advanced international level. The main production equipment have been imported from internationally renowned manufacturers, including Metso and Ahlstrom of Finland, Fuyite of Germany, Andritz of Austria and ABB of the United States. Its equipment of advanced international level includes the world's most advanced dilution headbox, folding net, single hanging dryer machine, thin film coating machine, non-contact hot air drying and two-sided soft dense burnishing machine, and have been equipped with advanced technical equipment including online paper disease monitoring system, caliper profiler control system and intelligent quality control system. The technical equipment used by the Company generally reflects the characteristics of being technology-intensive and the integration of mechanical and electrical in the papermaking industry nowadays. The degassing technology, wet end chemical technology, intelligent sheet lateral control technology, coating preparation technology, free-jet coating technology, multi-nip pressure balanced burnishing technology and independent developed processes of the slurry system have all reached the international advanced level.

(4) Research and innovation advantages: Leveraging its research strengths and relied on state-level enterprise technical centres and post-doctoral research stations, the Company has established a comprehensive intellectual property rights system, and has continuously enlarged its technological innovation capacity and research and development efforts to actively develop new products and proprietary technology with high technology content and added values. Meanwhile, Chenming Paper Technology Centre is actively engaged in technological cooperation with universities, research units and international advanced enterprises. In China, the Technology Centre has cooperated with Tianjin University of Science and Technology, Shandong Paper Research Institute and China National Pulp and Paper Research Institute to set up research and development institutions, including a pulp and paper research institute, specialty paper technology development institute and paper coating research institute. Internationally, the Technology Centre has cooperated with Dow Chemical Company of the United States to establish a paper adhesive research institute, and has commenced comprehensive cooperation with Moorim Company of Korea by establishing a coated paper institute and pulp and paper craft institute. The above have helped the Company establish a research and development network leveraging both the domestic and international advanced papermaking research bases, and guaranteed Chenming's leading position in industry research in China.

V. Analysis of Core Competitiveness *(Cont'd)*

(5) Comprehensive cost advantages: The Company has a relative advantage in comprehensive cost, which is mainly reflected in: first, the Company has optimised the operation of the production lines through stringent management, which has substantially lowered the waste of resources in evaporating, emitting, dripping or leaking, and the Company's energy consumption per ton of paper was also controlled at a relatively low level; secondly, the Company has established a 150 tons/day mechanical pulp production line and a BCTMP pulp production line with annual production of 250,000 tonnes, and has also increased the raw materials supply by launching the construction of the 700,000 tonnes of wood pulp project in Zhanjiang; thirdly, the Company has reduced costs through the construction of the captive power plant to ensure energy supply.

(6) Funding advantages: The papermaking industry is a capital-intensive industry, and funding is one of the most important factors for the development of the industry. The Company has high profitability and credit status, and has maintained long-term stable cooperative relations with its bankers, which provide the Company with an unobstructed indirect financing capacity. In recent years, the Company has made full use of indirect financing channels to accelerate its development. While the Company has increased borrowings, it has maintained higher returns on net assets, improved its earnings ratio, and leveraged the advantage of financial leverage. All these are in line with the goal of maximisation of shareholders' wealth. Since its listing, the Company has maintained good operating results and a sound corporate governance structure. It has conducted several financing activities in domestic and foreign stock markets. The funds obtained have been applied effectively and has helped the Company create good market image, which has provided the Company with stronger abilities in direct financing in the stock market.

(7) Advantages in environmental regulation capacity: Over the years, the Company has firmly established "environmental protection first, scale expansion second" as the concept of development. The Company has ensured the enhancement of economic and environmental benefits simultaneously by giving equal importance to environmental protection and production. In recent years, the Company and its subsidiaries have constructed the pollution treatment facilities including the alkali recovery system, middle water treatment system, white water recovery system, red liquor comprehensive utilisation system and the sewage treatment plants, which guaranteed that the environment protection facilities can meet the demand of the rapid expansion of the Company.

VI. Analysis of investments

1. External equity investments

External investments

External investments		
Investments in 2012 (RMB)	Investments in 2011 (RMB)	Change (%)
669,306,351.20	2,846,854,109.16	-76.49%

Investees		
Name of Companies	Principal Activities	The Company's share of interest in investees (%)
Haicheng Haiming Mining Company Limited	processing and sales of magnesite and talc	70%
Japan Chenming Paper Company Limited	Trade of paper products and raw materials	100%
Guangdong Huirui Investment Co., Ltd.	Industrial investments, investments in marine projects, investments in tourism projects, investments in landscaping projects, investments in municipal engineering and auxiliary facilities; sales of hardware products, mechanical and electrical products.	51%
Jiangxi Chenming Paper Co., Ltd.	Mainly engaged in production and sales of high-end paper, cardboard (excluding news press paper) and self-made pulp	100%
Zhanjiang Chenming Paper Pulp Co., Ltd.	Processing and sales of pulp, etc.	100%
Huanggang Chenming Arboriculture Co., Ltd.	Plantation, processing and sales of forestry	100%
Weifeng Xinye Capital Investment Co., Ltd.	Venture capital business, leading venture capital services conducted by other venture capital enterprises institutions and individuals, venture capital advisory business	3.76%
Shandong Hongqiao Venture Capital Co., Ltd.	Venture capital and advisory business, and engaged in establishing venture capital entrepreneurs and venture capital advisory institutions	16.67%

VI. Analysis of investments *(Cont'd)*

2. Entrusted wealth management, derivatives investments and entrusted loans

(1) Entrusted loans

Unit: RMB'0,000

Borrower	Related parties	Loan amount	Interest rate of loans	Guarantor or Collateral	Use of proceeds by borrowers	Extension, overdue or litigation	Measures to cope with risks arising from extension, overdue or litigation
Jiangxi Chenming Paper Co., Ltd.	YES	19,000	7.05%	No	Replacement of bank loans	No	Not available
Jiangxi Chenming Paper Co., Ltd.	YES	11,000	7.05%	No	Replacement of bank loans	No	Not available
Jiangxi Chenming Paper Co., Ltd.	YES	20,000	6.65%	No	Replacement of bank loans	No	Not available
Total	–	50,000	–	–	–	–	–

Note: In order to lower the finance expenses, it was agreed at the Eighteenth Meeting of the Fifth Session of the Board of the Company to grant the Company's internal funds to its relevant controlling subsidiaries through the relevant banks in the form of entrusted loans which may be utilised by such subsidiaries. The loans were provided to such subsidiaries for the purpose of repayment of their borrowings falling due. For more information, please see the announcement of the Company (No.: 2010-014), which was published on the website of CNINFO on 13 April 2010.

VI. Analysis of investments *(Cont'd)*

3. Analysis of major subsidiaries and investees

Information on major subsidiaries and investees

Name of companies	Type of companies	Industry	Principal products or services	Registered capital	Total assets (RMB'0,000)	Net assets (RMB'0,000)	Revenue from operations (RMB'0,000)	Operating profit (RMB'0,000)	Net profit (RMB'0,000)
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiaries	Papermaking	Writing paper, news press paper	RMB211.3670 million	220,903.74	52,063.82	152,962.07	-20,914.60	-17,636.13
Yanbian Chenming Paper Co., Ltd.	Subsidiaries	pulp	Pulp and chemical products	RMB81.6330 million	32,572.65	13,231.45	22,357.52	-4,591.07	-2,770.51
Hailaer Chenming Paper Co., Ltd.	Subsidiaries	Papermaking	Writing paper, Duplex press paper	RMB16.00 million	8,789.32	8,326.73	5,436.58	-4,402.29	-4,399.41
Shandong Chenming Power Supply Holdings Co., Ltd.	Subsidiaries	Electricity and steam	Generation and sales of electricity and steam	RMB99.5531 million	43,489.40	30,512.66	50,693.46	4,867.08	5,623.36
Jiangxi Chenming Paper Co., Ltd.	Subsidiaries	Papermaking	Coated paper	US$172.00 million	328,759.62	171,081.61	169,737.13	-4,561.46	-1,872.23
Jilin Chenming Paper Co., Ltd.	Subsidiaries	Papermaking	News press paper, light weight paper	RMB1,500.00 million	228,819.90	117,762.01	67,384.45	-17,073.55	-2,030.92
Zhanjiang Chenming Paper Pulp Co., Ltd.	Subsidiaries	pulp	Pulp, coated paper	RMB3,000.00 million	1,119,540.82	358,035.44	410,817.75	49,978.42	39,269.45
Shouguang Chenming Art Paper Co., Ltd.	Subsidiaries	Papermaking	Duplex press paper, coated paper	US$20.00 million	96,570.64	15,953.52	65,740.51	-5,516.17	-4,115.23
Shandong Chenming Paper Sales Company Limited	Subsidiaries	Trade of paper products	Sales of paper products	RMB100.00 million	625,249.07	4,170.80	1,527,074.86	-7,948.12	-4,877.27
Shouguang Meilun Paper Co., Ltd.	Subsidiaries	Papermaking	Coated paper, household paper	RMB2,200.00 million	863,852.24	190,981.34	225,348.97	-30,226.71	-20,717.60

Particulars of major subsidiaries and investees

1. Wuhan Chenming Plant I suspended its production due to elimination of outdated production capacity. Its major products suffered from market downturn with a lower gross profit margin. Hailaer Chenming incurred loss due to production suspension and winding up in order to phase out the backward production equipment. Jilin Chenming suspended it production since June 2012 due to complete relocation for environmental protection and its loss was offset by the relocation subsidies.

2. The major products of Yanbian Chenming had a lower gross profit margin due to the economy downturn. Both Jiangxi Chenming and Shouguang Meilun had a lower gross profit margin under the sluggish global economy.

3. Zhanjiang Chenming fully commenced production and its products received positive response from the market with an increase in revenue in 2012.

VI. Analysis of investments *(Cont'd)*

3. Analysis of major subsidiaries and investees *(Cont'd)*

Acquisition and disposal of subsidiaries during the reporting period

√ Applicable ☐ Not applicable

Name of companies	Purpose to acquire and dispose of subsidiaries during the reporting period	Methods to acquire and dispose of subsidiaries during the reporting period	Impact on overall production and results
Japan Chenming Paper Company Limited	Expands market share of products of the company in Japan and set up a more extensive, and better marketing network	capital comtribution for establishment	Net profit of RMB-18.5364 million was realised in 2012.
Haicheng Haiming Mining Company Limited	Enrichs industrial structure and play an active role in maintaining and increasing the value of the assets of the Company	capital comtribution for establishment	The Company's industrial structure was enriched with no effect on the results for 2012.
Guangdong Huirui Investment Co., Ltd.	Ensures the continuous stable operation of Zhanjiang Chenming, generates additional revenue, and makes full use of the regional advantage of Zhanjiang Chenming and the strength of the Company	Transfer of equity interest	Guangdong Huirui has extensive experience in the environmental regulated work. The winning of the bid of a BT project was favourable to Guangdong Huirui in terms of promotion of the technology and branding of its environmental regulated work and its regional business development. As stipulated in the related contract provisions, the sale of the land will provide the Company 20% of the net income, which could provide a sustainable profit for the Company but with no effect on the results for 2012.
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. (merger with Qihe Waste)	Promotes superior products of high-end quality, enhance economic benefits	Transfer of equity interest	Loss from disposal of equity was RMB-54.0839 million.
Juancheng Chenming Panels Co., Ltd.	Optimises the product mix of the Company, eliminate outdated production capacity and put funds and resources together to focus on the development of products of higher end	Transfer of equity interest	Gain from disposal of equity was RMB0.5667 million.
Qihe Chenming Panels Co., Ltd.	Strategic needs for development	Transfer of equity interest	Gain from disposal of equity was RMB18.6295 million.
Shouguang Liben Paper Making Co., Ltd.	Strategic needs for development	Merger	No effect was made on the results for 2012.

VI. Analysis of investments *(Cont'd)*

4. Highlights of the major investments not financed by the proceeds

Unit: RMB'0,000

Name of projects	Total investments	Investment made during the year	Accumulated actual investments made as of the end of the period	Progression of projects	Revenue from projects
600,000 tonne white coated linerboard project	260,000	93,100.18	248,862.32	96%	Assets not reclassified
Relocation of Jilin Chenming	230,000	125,148.29	135,816.07	59%	Not completed
Magnesite mining	50,000	19,611.89	19,611.89	40%	Not completed
Total	540,000	237,860.36	404,290.28	—	—

Note: The progress of projects is calculated based on the proportion of capital investment.

Description of the major investments not financed by the proceeds

(1) 600,000 tonnes white coated linerboard project

The high-end white coated linerboard project of annual production capacity of 600,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB2.6 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 600,000 tonnes high-end white coated linerboard paper. Upon operation, the project will increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company. Currently, 96% of the civil engineering works and the installation works of the project were completed. Trial production commenced at the end of 2012. As at the end of the reporting period, the project was not reclassified as fixed assets and the accumulated investment amounted to RMB2,489 million.

(2) Relocation of Jilin Chenming

On 13 August 2011, Jilin Municipal People's Government and its China Development Jilin Investment Co., Ltd. reached an agreement with the Company and Jilin Chenming Paper Co., Ltd. on the demolition and relocation of the Jilin Chenming plant on a land lot in Changyi District, Jilin in accordance with the master layout plan of Jilin, and the four parties entered into the Cooperation Agreement for the Eco-relocation and Construction of Jilin Chenming Paper Co., Ltd. Currently, the infrastructure for the plant of the project was almost completed. The progress of the project in general was 59%. As at the end of the reporting period, the accumulated investment amounted to RMB1,358 million.

(3) Magnesite mining

On 24 October 2012, the resolution on the incorporation of Haicheng Haiming Mining Company Limited was considered and approved by the Fourth Extraordinary Meeting of the Sixth Session of the Board of the Company. The Company made joint contribution to the incorporation of Haicheng Haiming Mining Company Limited with Liaoning BeiHai Industries Group Co., Ltd. in Haicheng City, Liaoning Province. It is principally engaged in the mining, processing and sales of magnesite. The investment made by the Company amounted to RMB70.00 million, representing 70% of the registered capital of Haiming Mining. The investment made by BeiHai Group amounted to RMB30.00 million, representing 30% of registered capital of Haiming Mining. Its registered capital will be increased in due course according to its development progress. Accumulated investments in the magnesite mining project was RMB196 million as of the end of the reporting period.

VII. Special purpose vehicle controlled by the Company

There was no special purpose vehicle controlled by the Company during the reporting period.

VIII. Outlook on the future development of the Company:

1. Competition overview and development trend of the industry

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

In recent years, the Company is committed to the integrated development of forestry, pulp and paper with a longer industry chain and more comprehensive paper types. In 2012, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development is in line with the requirements of the development plan of the entire paper making industry. Meanwhile, the Company has expanded its industry chain with a more rationalised industry positioning, which further strengthens the Company's competitiveness and development potential. As the economy and industry gradually recover, it is expected that the result of the Company will record stable growth. The Company's future performance is what the market can look forward to.

2. Development strategy of the Company

(1) The Company will focus on developing the production of high-end paper product while consolidating its existing markets. Several projects of the Company have commenced operation upon completion. They are the high-end low weight coated paper project of production capacity of 800,000 tonnes, the high-end culture paper project of production capacity of 450,000 tonnes and the high-end white coated linerboard project of production capacity of 600,000 tonnes. The Company will take this opportunity to further upgrade its products for a higher end market and strive to gradually become one of the leading companies in the global papermaking industry within a period of time.

(2) In 2012, the Company invested and established Haicheng Haiming Mining Company Limited to engage in magnesite mining, thereby participating in the mining industry, and acquired 51% equity interest in Guangdong Huirui, which won the bid of a waterfront comprehensive regulation works project, thereby participating in the environment regulation industry, in the hope of achieving stable operation and revenue growth of the Company in order to enrich the business structure and increase the sustainable profitability of the Company.

(3) The Company will eliminate the raw material bottlenecks encountered during the development of the Company and strengthen the Company's product cost control. The Company will focus on the construction of Zhanjiang pulp project and ancillary raw material bases. Meanwhile, the Company will accelerate the construction of Hubei forestry project and establishment of "forestry-pulp-paper integration" chain industry, thereby eliminating the limitations of upper-stream resources on the Company and enhancing Company's sustainable development.

VIII. Outlook on the future development of the Company: *(Cont'd)*

2. Development strategy of the Company *(Cont'd)*

(4) The Company will pay all its attention to its environmental protection works, aiming to achieve harmonious development with energy consumption and emission reduction. Upon implementation of the new national environmental protection standards and the greater emphasis on environment regulation, the Company will endeavour to develop the recycle economy. The Company will strive to maximise its resource utilisation by waste exchange and recycling. Meanwhile, the Company will make greater efforts to construct environmental-friendly projectts and strive to achieve its waste emission target.

(5) The Company will enhance the technology innovation and staff training, with a standard comparable to those of international papermaking enterprises. At present, the Company is weak in terms of technology and human resources. On the one hand, the Company adheres to internal training as well as external recruitment in order to enhance the overall quality of the team. On the other hand, it strives to develop its own technology and strengthen its own innovation ability.

VIII. Prospect of the future developments of the Company: *(Cont'd)*

3. Operating plan for 2013

(1) **Adhere to strategy guidelines and making a blueprint for development plan.** We shall focus on project establishment at first. We will speed structure adjustment as well as promote transformation and upgrading through project investment and establishment. In particular, in respect of project construction, staff training, raw material supply and follow-up works during the establishment and upgrading of Jilin Chenming, Zhanjiang Chenming, Wuhan Chenming and Shouguang 100,000-tonne papermaking additive projects, we will organise, coordinate and arrange scientifically to make sure such projects will be launched in time. Moreover, we will promote technology upgrading. We will optimise structure and improve operation mainly by means of technology upgrading. In respect of the technology upgrade projects such as Shouguang 120,000-tonnes art coated printing paper energy saving and upgrade project and Wuhan Chenming 4,800 cultural paper machine (for glassine paper) upgrade project, we will make verification and pick up the pace to ensure high quality and good results. Thirdly, we will make more efforts to conduct scientific research. We have obtained more than 10 patents by optimising the combination of production, learning, research and utilisation in both channel and system, and developing the surface enhancement technology and finished paper ash content technology with great effort. Meanwhile, we will comply with environmental protection policies, apply new technology and skills, promote the recycle economy, enhance comprehensive utilisation of resources and improve energy saving and emission reduction.

(2) **Strengthen innovation management and enhancing working efficiency.** First of all, we will strengthen standard management. To start with management, the Company will further establish job requirements while system construction is reinforced, with an aim to regulate staff under the system, work in compliance with the standards, and enhance working efficiency on the basis of fact and statistics. Secondly, we will enhance financial management. A finance company is established to intensify the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the fund settlement, management, investment and financing ability. We make full use of the financing platform of the Hong Kong market. The capital of Chenming (HK) is increased in order to increase its credit line and expand its business scope; The Company, giving full play of its geographic advantages in provincial and municipal subsidiaries, make better reservations of resource of credit line from financial institution of low cost, to increase the Group's fund settlement, management, investment and financing ability while lower financial cost and improve profitability. Thirdly, we optimise purchase management. Advanced management mode is introduced, to step into the futures and spot markets, establish strategic cooperative relationships with quality customers, the mode named "purchase on demand" was put on trial. Fourthly, we enhance the internal control construction. We optimise flow of internal control, and bring risk-prevention management system into perfection, intensify and promote the transformation of internal audit into management audit and risk audit, and perfect corporate legal risk-prevention mechanism, and strengthen process oversights and management and control over significant risks. Fifthly, we strengthened quality management. Quality is the essence of a corporation. Adhering to the object of improving quality and increasing economic benefits, the Company will strive to realise "all staff, whole process and the entire corporation" quality management. Sixthly, we build standard safety system. We heighten awareness of "Safety as a benefit", and seriously deal with relations between development, benefits, stabilisation and safety based on 5 major factors such as "safety culture, safety regulations, responsibility for security, safety technology and safety commitment", to achieve that safety increases benefits, safety maintains stabilisation and stabilisation promotes increase.

VIII. Prospect of the future developments of the Company: *(Cont'd)*

3. Operating plan for 2013 *(Cont'd)*

(3) **Adjust product portfolio and explore new markets.** The Company will enhance product quality management, increase the development on high value-added products, produce popular products as well as increase the market competitiveness of products. First, the Company strive to focus on key areas. Focusing on efficiency, the Company endeavour to develop its products into high-end and high value-added products. It also endeavours to produce low-end products at low cost in order to meet client's needs, leverage on its low-cost edge and increase the efficiency. Secondly, the Company will increase its operating awareness. Each of the subsidiaries should enhance its operating awareness on various operation procedures, such as provision and sale of products, in accordance to the strategic plan of the Group while focusing on economic benefits. Subsidiaries should operate actively. They strive to enhance the quality of operation and improve the overall management standard of operation. Thirdly, the Company will put more efforts in direct marketing and expand its overseas sales channels. The Company will target on major direct clients. Meanwhile, the Company will explore cooperation opportunities with strong major distributors, and increase the overseas market exposure of products via their sales channels. The Company aims to expand the sales of light weight coated paper in Japan. Fourthly, the Company will expand the marketing channels for its brand. The Company will organise promotion activities such as new products presentation based on the marketing needs of products, the Company and region. Hence, the recognition of Chenming brand will increase, which will fully enhance the brand image and influence of the Company.

(4) **Strengthen team-building and improve staff quality.** Human resources are the "major essential" for corporate development. First, the Company will develop an innovative staff development programme. Based on the development needs, the Company will recruit talents who possess advance and new technology knowledge, and management talents. The Company endeavours to develop a high quality team with the same philosophy as the Company and adaptable to the strategic development needs. Secondly, the Company will focus on its recruitment and training works. It aims to maintain a fair staff system and adhere to recruit talented staff with high moral standard while improving the structure of management team. Thirdly, the Company will enhance its staff training. The Company will conduct a people-oriented training. The Company will also increase its training efforts and enhance the technical standard of various position, aiming to develop as a learning and knowledgeable enterprise. Fourthly, the Company strives to establish good corporate culture. The Company requires the management to conduct their works in a faithful, truthful and thoughtful way. Management should also enhance their own management standard and ability. The Management should understand the needs of staff and the Company, implement Company's policy and solve various frontline problems as to establish a harmony and efficient management team. Fifthly, the Company will establish a good working environment. It focuses on issues which employees concern the most and other reality interests concerns, and work faithfully and truthfully for its staff. By doing so, employees can share the result of corporate development with a good working and living environment established, which strengthen staff's loyalty and unity to the Company.

VIII. Prospect of the future developments of the Company: *(Cont'd)*

3. Operating plan for 2013 *(Cont'd)*

(5) **Build up Chenming corporate culture and promote culture promotion and implementation.** The Company adheres to the establishment of corporate culture. It regulates the staff's conduct, strives to "achieve a high degree of integration of corporate governance and corporate culture" as well as ensures proper internal cooperation with all works conducted orderly. The Company will strengthen the establishment of culture system, its promotion and implementation with various interesting cultural activities, aiming to make all staff have a deeper understanding on Chenming corporate culture. Hence, the staff will voluntarily incorporate corporate culture into their works, review their deficient in thoughts, management, works, value and system establishing. In addition, this can promote incorporation of culture into thought and management and make corporate culture as a direction of all works, which can improve the quality and execution ability of staff. Hence, a brand new Chenming corporate culture is established.

4. Capital needs of the Company for the operation of its existing businesses and completion of projects under development

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

VIII. Prospect of the future developments of the Company: *(Cont'd)*

5. Potential risks

As a basic raw materials industry of the national economy, the papermaking industry's overall efficiency has a strong correlation with the national macroeconomic performance, and is therefore a cyclical industry. The national macroeconomic performance will have a greater impact on the market demand for paper products, which will further affect the product price and cost of raw materials, and will ultimately affect the operating results of the papermaking enterprises, including the Company. There still exist some uncertainties and complexities in China's future macroeconomic trends. Thus, the Company still faces the risk of earnings level being affected by macroeconomic fluctuations.

Operational risk. The major raw materials used by the Company are wood pulp and waste paper. The Company's products mainly comprised of high-end paper, and as the State encouraged the increase of the proportion of wood pulp used by the industry, wood pulp, thus, has accounted for a higher proportion of the production cost, at about 70%. Waste paper is only used in some low-end products, which account for about 20% of the total procurement cost. The relatively high market price fluctuations of wood pulp and waste paper have affected the production cost of the Company's machine-made paper products, and thus have an impact on the performance of the Company.

Industry risk. With the rapid growth of the national economy, economic globalisation and China's accession to the WTO, China's papermaking industry has been facing increasingly fierce competition. After years of development, the domestic enterprises have possessed scale strength and financial strength to further expand their business scale and improve the technology level and product quality. Domestic papermaking enterprises have launched new projects, introduced advanced equipment, expanded production capacity and promoted sales. International renowned papermaking enterprises also directly set up production base in China through sole proprietorship or joint venture, and participated directly in the domestic market competition by leveraging on their advantages in scale and technology. In addition, the tariff reduction after China's accession to the WTO has further exacerbated the impact of the international market. The fierce competition in the domestic papermaking industry will certainly affect the Company's future operating results.

Policy risk. On 30 December 2011, the National Development and Reform Commission, the Ministry of Industry and the State Forestry Administration jointly issued the "12th Five-Year Plan" of the papermaking industry, which has stipulated the guiding ideology, basic principles, development objectives, major tasks, key projects, policy initiatives and planning implementation for the industry development during the 12th Five-Year period. At present, the industry has entered into an important transition period, and the mode which supported the rapid development of the papermaking industry in the past has currently faced the dual pressures of resources and environment. From the point of view of China's policy, China will change the mode of growth through optimising the layout of the papermaking industry and the raw material structure and product structure, in order to promote a modern papermaking industry based on recycling by integrating the forestry and papermaking industry, which will have an impact on the operating results of the Company.

Environmental risk. The papermaking industry is a polluting industry. With the rising awareness of environment protection in the society and the industry, more stringent environmental protection policies of the industry have been implemented. A multi-pronged approach has been adopted to promote industrial restructuring, and the papermaking industry has entered into an important transition period of development. The higher emission standard is bound to increase the Company's environmental protection cost and will result in the slowing down of scale expansion. If the Company fails to comply with the environmental policies launched in the future, it will face greater environmental risk, thus affecting its production and operation.

VIII. Prospect of the future developments of the Company: *(Cont'd)*

5. Potential risks *(Cont'd)*

Interest rate risk. In recent years, greater fluctuations of the Renminbi benchmark lending rate level have an impact on the Company's cost of debt financing. The People's Bank of China may continue to adjust the level of the benchmark interest rate according to the macroeconomic trends, which may cause greater volatility in the Company's financial expenses, thus affecting its operating results.

Exchange rate risk. Currently, China has implemented a managed floating exchange rate regime based on market supply and demand with reference to basket of currencies. The value of Renminbi is affected by the domestic and international economic and political environment, and the supply and demand for Renminbi. As an import and export enterprise, the exchange rate of Renminbi against other currencies in future will affect the Company's operating results. The foreign currency transactions of the Company are mainly denominated in US$. The operations of raw material imports, product exports and US$ borrowings of the Company will face the risk of exchange rate changes.

IX. Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year

During the reporting period, there were no changes in major accounting policies, accounting estimates and accounting methods of the Company.

X. Reason for retrospective restatement of major accounting errors during the reporting period

Not applicable

XI. Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year

1. During the reporting period, three more companies were consolidated during the reporting period as compared to the prior period and the details are as follows:

(1) During the reporting period, Haicheng Haiming Mining Company Limited was established with the capital contribution jointly made by the Company and Liaoning BeiHai Industries Group Co., Ltd. Related business registration procedures were completed (Business licence No.: 210381009188233). It is principally engaged in processing and sales of magnesite and talc. Its registered capital is RMB100 million, which is owned as to RMB70 million or 70% and RMB30 million or 30% by the Company and Beihai Group, respectively. Upon its establishment, Haicheng Haiming Mining Company Limited was consolidated in the consolidated financial statements of the Company as the Company had beneficial control over it.

(2) During the reporting period, Zhanjiang Chenming Paper Pulp Co., Ltd. a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Zhanjiang Huasen Investment Co., Ltd. to transfer 51% equity interest in Zhanjiang Huirui Investment Co., Ltd. held by Zhanjiang Huasen at a consideration of RMB131.5551 million to Zhanjiang Chenming. Related changes of business registration were completed on 18 December 2012. Upon the change of equity, Zhanjiang Huirui was consolidated in the consolidated financial statements of Zhanjiang Chenming as Zhanjiang Chenming had beneficial control over it. As Zhanjiang Chenming is a wholly-owned subsidiary of the Company, Zhanjiang Huirui was consolidated in the consolidated financial statements of the Company upon the change of equity.

(3) During the reporting period, the Company set up a wholly-owned subsidiary, namely Japan Chenming Paper Company Limited in Japan with internal resources to strengthen the Company's paper sales business, further expand the share of the Company's products in the Japanese market and establish a wider and more comprehensive marketing network,. Japan Chenming Paper Company Limited is mainly engaged in sales of paper products and raw materials with a registered capital of US$1.50 million. Upon its establishment, it was consoledated in the consolidated financial statements of the Company as the Company had beneficial control over it.

XI. Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year *(Cont'd)*

2. During the reporting period, five companies were deconsolidated and the details are as follows:

(1) During the reporting period, after arm's length negotiations in respect of equity transfer and debt assumption of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd, the Company and Henan Jianghe Paper Co., Ltd entered into the equity transfer agreement, the contract on assignment of debt, the supplemental agreement and the share pledge agreement to transfer 100% equity interest in Qihe Chenming to Jianghe Paper at a consideration of RMB371.85 million. Jianghe Paper fully assumed the debt due to the Company from Qihe Chenming under the above agreements. Qihe Chenming ceased to be consolidated in the consolidated financial statements of the Company since 6 December 2012 as the Company lost its control over Qihe Chenming. Qihe Chenming Waste Collection Co., Ltd., a wholly-owned subsidiary of Qihe Chenming, also ceased to be consolidated in the consolidated financial statements of the Company at the same time.

(2) During the reporting period, Shandong Chenming Panels Co., Ltd., a subsidiary of the Company, and Shandong Quanfuyuan Commercial Group Co., Ltd. entered into the equity transfer agreement to transfer the 100% equity interest in Qihe Chenming Panels Co., Ltd. held by Shandong Chenming Panels Co., Ltd. at RMB10.00 million. Upon completion of equity transfer on 21 December 2012, Shouguang Chenming Panels Co., Ltd. ceased to hold any equity interest in Qihe Panels and Qihe Panels was no longer consolidated in the consolidated financial statements of the Company.

(3) During the report period, the Company and Shouguang Dongyu Hongxiang Wood Industry Co., Ltd entered into the equity transfer agreement to transfer 100% equity interest in Juancheng Chenming Panels Co., Ltd held by the Company at RMB 15 million. Since 20 December 2012, the Company ceased to hold any equity interest in Juancheng Chenming and Juancheng Chenming was no longer consolidated in the consolidated financial statements of the Company.

(4) On 1 November 2012, the Company merged its wholly-owned subsidiary, Shouguang Liben Paper Making Co., Ltd. Upon the registration of cancellation, Shouguang Liben Paper Making Co., Ltd. was no longer consolidated in the consolidated financial statements of the Company.

XII. Distribution of profit and dividend paymemt by the Company

Formulation, implementation and adjustment of profit distrubition policy, especially cash dividend policy, during the reporting period

During the reporting period, the Company further defined its cash dividend policy based on the its actual operations in accordance with the related requirements of China Securities Regulatory Commission, Shenzhen Stock Exchange and Shandong branch of China Securities Regulatory Commission. The dividend decision mechanism and dividend supervision and control mechanism were well defined. The amendments to the profit distribution policy set out in the Articles of Association, which was approved by the Thirteenth Meeting of the Sixth Session of the Board of the Company convened on 21 August 2012 and 2012 Second Extraordinary General Meeting convened on 5 November 2012, respectively. Independent Directors issued their separate opionions accordingly. The 2011 Profit Distribution Plan as considered and approved by the 2011 general meeting was implemented and completed on 18 July 2012. The Company implemented its profit distribution policy in strict compliance with the Articles of Association. Its cash dividend policy was formulated and implemented in compliance with the requirements of the Articles of Association and the resolution of the general meeting with well-defined and clear dividend distribution criteria and proportion. The legal interests of the small shareholders were protected as the related decision making process and mechanism were in place, the duties of independent Directors were well-defined so that they played a role, and the small shareholders were given opportunities to sufficiently voice their opinion and make requests.

The proposed profit distribution plans of the Company and the proposals on conversion of capital reserves into share capital during the reporting period were in line with relavant rules set out in the Articles of Association.

The proposed profit distribution plans or profit distribution plans and the proposals on conversion of capital reserves into share capital over or the conversion plans in the past three years (the reporting period inclusive)

(1) The 2012 proposed profit distribution plan

Based on the number of the shares as at the dividend distribution registration date, a cash dividend of RMB0.6 was to be paid to all shareholders for every 10 shares held (tax inclusive). Based on the total share capital of 2,062,045,941 shares of the Company as at 31 December 2012, cash dividend for 2012 amounted to RMB123,722,756.46 (tax inclusive), which represented 55.97% of the net profit attributable to shareholders of the Company as set out in the 2012 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises.

(2) The 2011 profit distribution plan

The 2011 profit distribution plan was considered and approved by the 2011 annual general meeting of the Company on 29 May 2012. Based on the total share capital of 2,062,045,941 shares of the Company as at 31 December 2011, a cash dividend of RMB1.5 was to be paid to all shareholders for every 10 shares held (tax inclusive). Distribution of cash dividend under such distribution amounted to RMB309, 306,891.20 (tax inclusive).

(3) The 2010 profit distribution plan

The 2010 profit distribution plan was considered and approved by the 2010 annual general meeting of the Company on 18 May 2011. Based on the total share capital of 2,062,045,941 shares of the Company as at the end of 2010, a cash dividend of RMB3.00 was to be paid to all shareholders for every 10 shares held (tax inclusive). Distribution of cash dividend under such distribution amounted to RMB618,613,782.30 (tax inclusive), which represented 60.43% of the net profit attributable to shareholders of the Company after deducting statutory reserves as set out in the 2010 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises. The remaining amount after profit appropriation was retained for distribution in future years.

XII. Distribution of profit and dividend paymemt by the Company *(Cont'd)*

(3) The 2010 profit distribution plan *(Cont'd)*

Cash dividends of the Company over the past three years

Unit: RMB

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the consolidated financial statements during the year of distribution	As a percentage of net profit attributable to shareholders of the Company in the consolidated financial statements (%)
2012	123,722,756.46	221,034,822.54	55.97%
2011	309,306,891.20	608,271,256.29	50.85%
2010	618,613,782.30	1,163,341,066.21	53.18%

The Company made a profit and had positive retained profit during the reporting period without cash dividend being proposed

☐ Applicable √ Not applicable

XIII. Fulfillment of Social Responsibility

The Company established its corporate governance structure in accordance with the requirements of the Companies Law, Securities Law, Articles of Association and other relevant laws and regulations and the actual situations of the Company. There is a clear separation of powers and responsibilities between the general meeting, the Board, the Supervisory Committee and the management which is accountable to the general manager. The management system under the structure is characterised by a separation of ownership and operation, a separation of the decision-making, execution and supervisory powers, as well as the co-existence of the general meeting, the Board, the Supervisory Committee. Strict provisions on the rights, duties and responsibilities of the general meeting, the Board, the Supervisory Committee and general manager have been stipulated. The Company has placed great emphasis on the fulfillment of social responsibility and goes beyond the concept of "profit as the only goal". While creating value for shareholders during the process of production, operation and business development, the Company, in line with the development of the State and the society, has strived to reach a compromise between economic benefits and social benefits, short-term benefits and long-term benefits, as well as corporate development and social development, with the aim to achieve a healthy and harmonious development between the Company and its employees, the Company and the society, and the Company and the environment.

The mission of the Company is to produce the top quality paper and pay back the society faithfully. The Company is committed to becoming a first-class international papermaking enterprise, and persisted in leveraging science for innovation and development. The Company has continued to promote innovative corporate management, enhance product quality and strengthen new product development efforts, in order to produce high quality paper product with high technology content to meet the demand of the society, and ultimately building a world-class national paper brand and creating environmental-friendly and quality social wealth. "Pay back the society faithfully" is the best interpretation of the Company's efforts in fulfilling social responsibilities and a realisation of the Company's mission of "building a world-class paper manufacturing enterprise". While striving for outstanding operating results, the Company insists on sharing its achievements with the society, and is committed to maintain harmony and unity in line with the development of the society and continuously promote the economic development and progress of the society, in order to pay back and contribute to the society with outstanding operating performance.

"Good faith, Win-Win and Sharing" is the most solemn commitment of the Company to the society and its customers. It is also the criteria for enterprises to adapt to market competition, the key to obtain the highest market share and the cornerstone for the Company to achieve greater development. The Company always upholds its faith and strives to reach a win-win situation by considering problems from the point of view of customers and upholding the principle of management, operation and service with integrity. All these have enabled the Company to give full play to the brand impact and continue to improve product quality and service standards, thereby gaining the trust of and achieving long-term cooperation with customers and business partners, and achieving the effective unity of economic benefits and social benefits.

The Company is committed to building an ecological friendly first-class international papermaking enterprise with sustainable development. As the leading papermaking enterprise in China, the Company is always committed to the development of green ecological paper, actively eliminating outdated production capacity, introducing highly efficient, energy-saving and environmental friendly world-class high-end production lines, as well as promoting corporate transformation and upgrade. Meanwhile, the Company has also installed high standard, high quality environmental protection facilities and vigorously developed raw material forest base, which highlights the concept of promoting green ecology and recycling economy.

XIII. Fulfillment of Social Responsibility *(Cont'd)*

The Company adheres to the principle of leaving a blue sky and clean water for the future generations while creating wealth for the society. To keep corporate development in line with environment and resources protection, the Company is committed to integrated development of forestry, pulp and paper by promoting recycling economy and the development of green ecological paper, thus gaining the support of the society and creating the conditions for the healthy and sustainable development for the Company. The Company always adheres to the mission of "environmental protection first, scale expansion second" guideline and makes the pollution treatment as our "live or die project". Thus, we have invested heavily in technology innovation to fully implement cleaner production and resource recycling. In recent years, with a total investment of more than RMB3,000 million, the Company introduced the world's most advanced technology of environmental protection, and built the facilities of alkali recovery, water recycle and other environmental protection projects. Among them, the alkali recovery system which supports the 3,000 kWh generator with daily capacity of treating 450 tonnes of black liquor, a daily capacity of treating 135,000 cubic meters middle water and 130,000 cubic meters of water reuse. All the emission indicators are superior to the relevant emission standard required by the government. The Company is the first in the industry in China which passed ISO14001 environmental management system certification. The Company has been named the environmental friendly enterprise, the recycling economy exemplary enterprise, the outstanding energy efficiency unit and the outstanding unit in comprehensive utilisation of resources of Shandong province, which reflects its outstanding achievements in both economic development and environment protection.

XIV. 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 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

XV. Securities interests held by Directors, Supervisors and Senior Management under the SFO of Hong Kong

As at 31 December 2012, interests of the Company or its associated corporations (within the meaning of the Part XV of SFO) held by each of the Directors, Supervisors and Senior Management of the Company under section 352 of the SFO are set out as follows:

The Company

Name	Position	Number of shares (A shares) held as at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Chairman and General Manager	6,334,527
Yin Tongyuan	Executive Director and Vice Chairman	2,423,640
Li Feng	Executive Director	471,818
Geng Guanglin	Executive Director	437,433
Tan Daocheng	Executive Director	185,700
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Cui Youping	Non-Executive Director	—
Wang Xiaoqun	Non-Executive Director	—
Wang Fengrong	Non-Executive Director	—
Zhang Zhiyuan	Independent Non-Executive Director	—
Wang Aiguo	Independent Non-Executive Director	—
Zhang Hong	Independent Non-Executive Director	—
Wang Yumei	Independent Non-Executive Director	—
Wang Xiangfei	Independent Non-Executive Director	—
Supervisors		
Gao Junjie	Supervisor	39,606
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—
Yin Qixiang	Supervisor	—
Guo Guangyao	Supervisor	—

XV. Securities interests held by Directors, Supervisors and Senior Management under the SFO of Hong Kong *(Cont'd)*

Associated corporations

Name	Position	Name of associated corporations	Number of shares held at the beginning of the reporting period (shares)	Change during the period +/–	Number of shares held as at the end of the reporting period (shares)
Chen Hongguo	Chairman	Shouguang Chenming Holdings Company Limited (Note 2)	231,000,000	—	231,000,000
		Shouguang Chenming Guangyuan Real Property Company Limited (Note 3)	1,371,000	—	1,371,000

Note 1: Save for the 6,334,527 A shares held personally, Chen Hungguo is deemed to be interested in the 429,348 A shares held by his spouse, Li Xueqin.

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

Note 3: According to the Capital Increase Agreement entered into in June 2011, Shouguang Hengtai Enterprise Investment Company Limited (hereinafter referred to as "Shouguang Hengtai", a limited company incorporated in the People's Republic of China on 15 September 2010 with current registered capital of RMB100.00 million and business scope limited to making project investments other than paper making and the related businesses with the own capital of the enterprise, and having no permission to engage in fund raising, financing and securities businesses and a total of 54% equity interest was held by Mr. Chen Hongguo and his spouse Ms. Li Xueqin) holds 60% equity interestes in Guangyuan Real Property, and Chenming Holdings' equity interest in Guangyuan Real Property will change from 100% to 40%. As a result, Guangyuan Real Property will no longer be an associated corporation of the Company.

Save as disclosed above, as at 31 December 2012, none of each of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be filed in the register of the Company required to be maintained pursuant to section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (hereinafter referred to as the "Hong Kong Listing Rules").

As at 31 December 2012, none of each of the Directors, Supervisors or chief executives or their respective spouses or children under the age of 18 held or exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

XVI. The Company's substantial shareholders' and other persons' interest in shares or debentures under the SFO of Hong Kong

As at 31 December 2012, the following shareholders (other than the directors, supervisors or chief executives of the Company) had interests or short positions in the Company's shares and underlying shares as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong):

Name	Number of shares held (share)	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
Shouguang Chenming Holdings Company Limited	293,003,657 A shares (L)	14.21	26.32
Cheah Capital Management Limited	50,977,500 H shares (L)	2.47	13.02
Cheah Cheng Hye	50,977,500 H shares (L)	2.47	13.02
Cheah Company Limited	50,977,500 H shares (L)	2.47	13.02
Hang Seng Bank Trustee International Limited	50,977,500 H shares (L)	2.47	13.02
To Hau Yin	50,977,500 H shares (L)	2.47	13.02
Value Partners Group Limited	50,977,500 H shares (L)	2.47	13.02
Value Partners Limited	53,333,500 H shares (L)	2.59	13.63
The National Social Security Fund Council	35,570,000 H shares (L)	1.72	9.09
FIL Limited	23,474,000 H shares (L)	1.14	5.99

(L) – Long position (S) – Short position (P) – Lending pool

Save as disclosed above, as at 31 December 2012, no other person had interests or short positions in the Company's shares or underlying shares as recorded in the register maintained under section 336 of the SFO.

XVII. Interests in competing business

None of the Directors or controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Company and its subsidiaries.

XVIII. Directors' interests in material contracts

None of the Company or any of its subsidiaries entered into any material contracts, in which Directors had significant interests (either directly or indirectly), that subsisted at the end of the financial year or at any time during the reporting period.

XIX. Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Company and its subsidiaries are set out in part III of section VIII of this report and note (IX). 4 "Compensation of key management personnel" to the financial statements, respectively.

XX. Directors' rights to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

XXI. Transfer into reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act. As of 31 December 2012, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately RMB4,766,116,549.03 (2011:RMB4,854,388,617.69) are set out in part II Financial Statements of section XI Financial Report.

XXII. Purchase, sale and redemption of shares

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

XXIII. Pre-emptive rights

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

XXIV. Sufficiency of public float

As at the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed amount of public float as required under the Hong Kong Listing Rules.

XXV. Closure of register of members

The register of members of the Company will be closed from Friday, 12 April 2013 to Wednesday, 15 May 2013, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting to be held on Wednesday, 15 May 2013, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11 April 2013.

VI Material Matters

I. Material litigation and arbitration

☐ Applicable √ Not applicable

The Company was not related to any material litigation and arbitration during the year.

Media criticism

√ Applicable ☐ Not applicable

Descriptions on media criticism	Disclosure Date	Disclosure index
Clarification on media criticism regarding the retirement of the Board secretary after three and a half years with annual salary over RMB600,000	18 September 2012	http://www.cninfo.com.cn, announcement no.: 2012-035
Clarification on media criticism regarding the suspicious connection with Cailun Shenxing	2 November 2012	http://www.cninfo.com.cn, announcement no.: 2012-055
Clarification on media criticism regarding Wuhan Chenming unable to meet environmental standards and fail to pay wages for six months	27 December 2012	http://www.cninfo.com.cn, announcement no.: 2012-090

II. Matter related to bankruptcy and reorganisation

In order to facilitate the development of Hailaer Chenming, subject to the requirements of the document "Gong Chan Ye (2010) No. 122" and the requests of the Hailaer environmental protection and urban construction comprehensive plan, the Company passed the resolution regarding complete relocation of Hailaer Chenming at the fifth meeting of the sixth session of the Board held on 30 March 2011. Prior to the complete relocation, existing real estate, equipment and land use rights will be disposed of and transferred at a consideration. For further details, please refer to the Company's "Announcement in respect of resolutions of the fifth meeting of the sixth session of the Board" posted on 31 March 2011 on the website of CNINFO.

Due to the changes such as those of market conditions, the relocation and capacity expansion plan of Hailaer Chenming was unable to be implemented. In order to facilitate production upgrade and comply with the national energy saving and emission reduction requirements, subject to the concept of "Notice on the action plan regarding eliminating outdated production capacity in 2012" (Nei Zheng Fa [2012] No. 28) issued by the People's government of Inner Mongolia Autonomous Region, the Company decided to close Hailaer Chenming by the end of May 2012 and wind it up in accordance with PRC laws and regulations. For further details, please refer to the Company's "Announcement in respect of closing and eliminating outdated production capacity" posted on the website of CNINFO on 26 May 2012.

VI Material Matters

III. Asset transactions

1. Acquisition of assets

Counterparty(ies) or ultimate controller(s)	Asset(s) acquired	Transaction consideration (RMB '0,000)	Progress	Net profit contribution to the Company from the acquisition date up to the end of the reporting period (RMB'0,000) (Applicable to business combination not under common control)	Net profit contribution to the Company from the beginning of the period up to the end of the reporting period (RMB'0,000) (Applicable to business combination not under common control)	Ratio of the net profit contribution to the Company of the assets over total profit (%)	Connected transaction or not	Relationship with the party(ies) involved (Applicable to connected transactions)	Disclosure Date	Disclosure index
SAPPI LIMITED, International Finance Corporation and Moorim Paper Manufacturing Company Limited	34%, 7.5% and 7.5% equity interest in Jiangxi Chenming	US$80.87 million	Relevant industrial and commercial registration change procedures were completed on 27 November 2012	773.18		-47.90%	No	Not applicable	9 August 2012	http://www.cninfo.com.cn
Zhanjiang Huasen Investment Co., Ltd.	51% equity interest in Zhanjiang Huirui Investment Co., Ltd.	13,155.51	Relevant industrial and commercial registration change procedures were completed on 26 December 2012. On 22 January 2013, Zhanjiang Huirui Investment Co., Ltd. was renamed as Guangdong Huirui Investment Co., Ltd.	-34.01		1.07%	No	Not applicable	22 December 2012	http://www.cninfo.com.cn

III. Asset transactions *(Cont'd)*

1. Acquisition of assets *(Cont'd)*

Summary on acquisition of assets

(1) On 8 August 2012, the Company passed the resolution regarding increase its equity interest in of Jiangxi Chenming at the first extraordinary meeting of the sixth session of the Board and authorised the management of the Company to implement relevant transaction procedures according to relevant rules. The Board of Jiangxi Chenming Paper Company Limited passed relevant resolution to agreed the transfer of 34%, 7.5% and 7.5% equity interest in Jiangxi Chenming held by SAPPI LIMITED, International Finance Corporation and Moorim Paper Manufacturing Company, respectively.

On 8 August 2012, Chenming (HK) Limited, a wholly-owned subsidiary of the Company, entered into equity interest transfer agreements with SAPPI, International Finance Corporation and Moorim Paper, repectively. Pursuant to the equity interest transfer agreements, Chenming (HK) Limited agreed to purchase the 34%, 7.5% and 7.5% equity interest of Jiangxi Chenming held by SAPPI, International Finance Corporation and Moorim Paper at considerations of US$41.58 million, US$19.00 million and US$20.29 million, respectively. Upon completion of the above equity interest transfers, SAPPI, International Finance Corporation and Moorim Paper will no longer hold equity interest in Jiangxi Chenming, and Chenming (HK) will hold 49% equity interest in Jiangxi Chenming.

Chenming (HK) is not connected with SAPPI, International Finance Corporation and Moorim Paper. Therefore, the equity acquisition did not constitue a material asset reorganisation under the Administrative Measures for the Material Asset Reorganisations of Listed Companies.

The transaction consideration of this equity acquisition was determined after arm's length negotiations between parties involved with reference to the asset valuation.

For further details, please refer to the Company's announcement posted on the website of CNINFO (http://www.cninfo.com.cn) (announcement no.: 2012-028) on 9 August 2012.

(2) The Company convened the fifth extraordinary meeting of the sixth session of the Board on 21 December 2012, and passed the resolution regarding the acquisition of equity interest in Zhanjiang Huirui by Zhanjiang Chenming. It authorised the management of the Company to implement relevant transaction procedures in accordance with relevant regulations. On 20 December 2012, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of Shandong Chenming Paper Holdings Limited (hereinafter referred to as the "Company"), entered into an equity transfer agreement with Zhanjiang Huasen Investment Co., Ltd. (hereinafter referred to as "Zhanjiang Huasen"). Pursuant to the equity interest transfer agreement, Zhanjiang Chenming agreed to purchase 51% equity interest in Zhanjiang Huirui Investment Co., Ltd.) (hereinafter referred to as "Zhanjiang Huirui") held by Zhanjiang Huasen at a consideration of RMB131.5551 million. The transaction consideration of this equity acquisition was determined based on the net asset value as at 30 November 2012.

For further details, please refer to the Company's announcement posted on 22 December 2012 on the website of CNINFO (http://www.cninfo.com.cn) (announcement no.: 2012-079).

The Company is not connected with neither Zhanjiang Chenming nor Zhanjiang Huasen. Therefore, the equity acquisition does not constitue a connected transaction nor a material asset reorganisation under the Administrative Measures for the material Asset Reorganisations of Listed Companies. Upon completion of the acquisition, the Company and Shanghai Chenli Investment Co., Ltd. will hold 51% and 49% interest in Zhanjiang Huirui, respectively.

On 22 January 2013, Zhanjiang Huirui Investment Co., Ltd. was renamed as Guangdong Huirui Investment Co., Ltd., with relevant industrial and commercial registration change procedures completed.

For further details, please refer to the Company's announcement posted on 7 February 2013 on the website of CNINFO (http://www.cninfo.com.cn) (announcement no.: 2013-011).

III. Asset transactions *(Cont'd)*

2. Disposal of assets

Party involved	Asset disposed of	Disposal date	Transaction consideration (RMB '0000)	Net profit contribution to the Company from the beginning of the period up to the disposal date (RMB '0000)	Loss incurred for disposal (RMB '0000)	Ratio of the net profit contribution to the Company from disposal of assets over total profit (%)	Pricing Basis of asset disposal	Connected transaction or not	Relationship with the party involved (Applicable to connected transactions)	Relevant asset title transferred or not	Relevant liability transferred or not	Disclosure Date	Disclosure index
Henan Jianghe Paper Co., Ltd.	Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	6 December 2012	37,185	-2,610.84	-5,408.39	335.09%	Based on the appraised value and the quoted price on an equity exchange	No		Yes	Yes	7 December 2012	http://www.cninfo.com.cn
Shouguang Dongyu Hongxiang Wood Industry Co., Ltd.	Juancheng Chenming Panels Co., Ltd.	20 December 2012	1,500	-644.96	56.67	-3.51%	Based on the audited assets and negotiation between parties involved	No		Yes	Yes	22 December 2012	http://www.cninfo.com.cn
Shandong Quanfuyuan Commercial Group Co., Ltd.	Qihe Chenming Panels Co., Ltd.	21 December 2012	1,000	-206.38	1,862.95	-115.42%	Based on the audited assets and negotiation between parties involved	No		Yes	Yes		Not applicable

Summary on disposal of assets

(1) On 8 August 2012, the Company passed the resolution regarding disposal of equity interest in Qihe Chenming at the first extraordinary meeting of the sixth session of the Board, to agreed to dispose of its 100% equity interest in Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., a wholly-owned subsidiary of the Company. Respective announcements were posted on 9 August 2012 on China Securities Journal, Hong Kong Commercial Daily and the website of CNINFO. The announcement was also posted on 8 August 2012 on the website of Hong Kong Stock Exchange. The equity interest in Qihe Chenming was quoted at the Property Right Exchange Center in the period from 10 August to 30 August 2012 and 4 September to 24 September 2012, respectively. During the quoting period, the Company did not receive any acquisition intention from any transferee. For further details, please refer to the website of Shandong Weifang Property Right Exchange Center (http://www.wfcqjy.cn/).

On 6 December 2012, the Company and Henan Jianghe Paper Co., Ltd. concurred in respect to the equity transfer and liability assumption of Qihe Chenming upon negotiation. The Company entered into equity transfer agreement, liability assumption contract, supplemental agreement and equity pledge agreement with Henan Jianghe Paper Co., Ltd. Pursuant to which, the Company transferred its 100% equity interest in Qihe Chenming to Jianghe Paper at a consideration of RMB371.85 million, and Jianghe Paper will fully assume the amount due from Qihe Chenming to the Company. Upon completion of the above equity transfer, the Company will no longer hold any interest in Qihe Chenming. The Company is not connected with Jianghe Paper. Therefore, the equity disposal does not constitue a connected transaction nor a material asset reorganisation under the Administrative Measures for the Material Asset Reorganisations of Listed Companies. The condsideration of the equity disposal is determined based on the appraised value and the quoted price on a property right exchange under the fair, justice and open market principle, and is fair and reasonable without prejudice to the interest of the Company and its shareholders.

For further details, please refer to the Company's announcement posted on 7 December 2012 on the website of CNINFO (http://www.cninfo.com.cn) (announcement no.: 2012-065).

III. Asset transactions *(Cont'd)*

2. Disposal of assets *(Cont'd)*

Summary on disposal of assets *(Cont'd)*

(2) On 21 December 2012, the Company passed the resolution regarding the disposal of equity interest in Juancheng Chenming at the fifth extraordinary meeting of the sixth session of the Board and authorised the management of the Company to implement relevant transaction procedures in accordance with relevant requirements.

On 20 December 2012, the Company entered into the equity transfer agreement with Shouguang Dongyu Hongxiang Wood Industry Co., Ltd. Pursuant to which, the Company transfered its 100% equity interest in Juanchen Chenming at a consideration of RMB15.00 million. Upon completion of the above equity transfer, the Company no longer held any interest in Juanchen Chenming.

The Company was not connected with Dongyu Hongxiang. Therefore, the equity disposal did not constitue a material asset reorganisation under the Administrative Measures for the Material Asset Reorganisations of Listed Companies.

The consideration of the equity disposal was determined based on the audited assets and mutual negotiation without prejudice to the interest of the Company and the shareholders.

For further details, please refer to the Company's announcement posted on 22 December 2012 on the website of CNINFO (http://www.cninfo.com.cn) (announcement no.: 2012-080).

(3) During the reporting period, Shandong Chenming Panels Co., Ltd., a subsidiary of the Company, entered into an equity transfer contract with Shandong Quanfuyuan Commercial Group Co., Ltd. Pursuant to which, Shandong Chenming Panels Co., Ltd. transfered its 100% equity interest in Qihe Chenming Panels Co., Ltd. at a consideration of RMB10.00 million. Upon completion of equity transfer on 21 December 2012, Shouguang Chenming Panels Co., Ltd. no longer held any interest in Qihe Panels. The investment income from the disposal amounted to RMB18.6295 million, representing -115.42% of the total profit of the Company. The disposal does not affect the continuation of operation and the management stability of the Company.

IV. Implementation of the equity incentive plan of the Company and its effect

Not applicable

VI Material Matters

V. Significant related party transactions

1. Related party transactions associated with day-to-day operation

Related party	Related party relationship	Types of the related party transactions	Subject matter of the related party transactions	Pricing basis of the related party transactions	Price of related party transactions	Amount of related party transactions (RMB '0000)	Percentage as the amount of similar transactions (%)	Settlement of related party transactions	Market price	Disclosure Date	Disclosure index
Anhui Time Source Corporation	Associate	Sale	Machine-made paper	Market price and authorisation from the Board	Market price	7,837.43	0.4%	Bank acceptance and telegraphic transfer		Not applicable	Not applicable
Total				–	–	7,837.43	0.4%	–	–	–	–
Description of return of bulk sales in details				Nil							
Necessity and continuity of related party transactions and the reason for trade with related party instead of other counterparties in the market				Expand the sales operations in Anhui and improve the Company's sales performance.							
Effect of related party transactions on the independence of the Company				No effect							
How far did the Company rely on the related parties? What about the related solution (if any)?				Nil							
The actual performance of the estimated total amounts of day-to-day related party transactions to be conducted in the period under review during the reporting period by type (if any)				Nil							
The reason for the difference between the transaction price and the market reference price				Nil							

2. Related creditors' rights and debts transactions

Whether non-operating related creditors' rights and debts transactions existed?

√ Yes ☐ No

Related party	Related party relationship	Type of creditor's rights and debts	Reason	Whether the non-operating capital being used or not	Opening balance (RMB '0000)	Amount incurred during the period (RMB '0000)	Closing balance (RMB '0000)
Shouguang Chenming Holdings Company Limited	Controlling shareholder	Debt due to a related party	Loans from other banks	No	3,000	-3,000	0
Anhui Time Source Corporation	Associate	Creditors' rights due from a related party	In the ordinary course of business	No	81.95	1,491.96	1,573.91
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Associate	Creditors' rights due from a related party	In the ordinary course of business	No	84.74	-82.58	2.16
Effect of related creditors' rights and liabilities on the operating results and financial position of the Company	The above related creditors' rights and debt amounts were small and had little effect on the operating results and financial position of the Company.						

V. Significant related party transactions *(Cont'd)*

3. Other significant related party transactions

(1) In accordance with the relevant requirements in the listing rules of Shenzhen Stock Exchange, the Group had no significant related party transactions during the reporting period.

(2) Continuing connected transactions as defined under the listing rules of the Hong Kong Stock Exchange.

For the year ended 31 December 2012, the following non-exempt continuing connected transactions were subject to reporting requirements under the Hong Kong Listing Rules of the Stock Exchange. Such transactions were conducted in the ordinary course of business of the Group and on commercial terms fair and reasonable to shareholders.

Sale of paper products by Jiangxi Chenming to SAPPI and/or its associates

On 3 December 2004, Jiangxi Chenming Paper Co., Ltd., the Company, Moorim Paper Co., Ltd. and Sappi China Holdings BV entered into a sales and distribution agreement.

Jiangxi Chenming is owned as to 51% by the Company, 34% by SAPPI whose beneficial owners are all independent third parties to the Company, 7.5% by Moorim Paper and 7.5% by IFC. The principal businesses of SAPPI and Moorim Paper are making and sales of various paper products. According to Rule 14A.11 of the Hong Kong Listing Rules, SAPPI is a connected person of the Company. Based on the information currently available, Sappi China Holdings BV ("Sappi China") is an associate of SAPPI and therefore the sales of products by Jiangxi Chenming to either SAPPI or Sappi China (the "Sappi Sales") in its ordinary and usual course of business will constitute continuing connected transactions under the Hong Kong Listing Rules. Pursuant to the sales and distribution agreement entered into by the parties, Jiangxi Chenming engaged three sole distributors in China, South Korea and overseas markets respectively to reduce distribution costs. Such arrangements will shorten the distribution cycle and assist Jiangxi Chenming in more efficient and effective distribution work in its expansion into overseas markets, and therefore strengthen its market position in the papermaking industry.

Each of SAPPI, International Finance Corporation and Moorim Paper transferred their respective holdings in Jiangxi Chenming due to investment adjustment. In order to ensure the continuous and stable operation of Jiangxi Chenming, the Company decided to acquire the above equity interest. On 8 August 2012, Chenming (HK) Limited, a wholly-owned subsidiary of the Company, entered into equity interest transfer agreements with SAPPI, International Finance Corporation and Moorim Paper, respectively. Pursuant to the equity interest transfer agreements, Chenming (HK) Limited agreed to purchase the 34%, 7.5% and 7.5% equity interest in Jiangxi Chenming held by SAPPI, International Finance Corporation and Moorim Paper at considerations of US$41.58 million, US$19.00 million and US$20.29 million, respectively. Upon completion of the above equity interest transfers, SAPPI, International Finance Corporation and Moorim Paper will no longer hold equity interest in Jiangxi Chenming, and Chenming (HK) will hold 49% equity interest in Jiangxi Chenming. The equity acquisition did not have any impact on the financial position and operating results of the Company. Jiangxi Chenming completed relevant industrial and commercial registration change procedures on 27 November 2012. Shandong Chenming Paper Holdings Limited and Chenming (HK) Limited hold 51% and 49% equity interest of Jianxi Chenming, respectively. Hence, SAPPI is no longer a connected person of the Company.

During the reporting period, the total sales to SAPPI as of 27 November 2012 amounted to RMB44 million, representing 0.22% of the total sales of the Group during the year.

V. Significant related party transactions *(Cont'd)*

3. Other significant related party transactions *(Cont'd)*

The independent non-executive Directors of the Company reviewed the connected transactions of the Group and confirmed that:

the transactions were conducted in the ordinary course of business of the Group;

the transactions were carried out on normal commercial terms; and

the transactions were carried out on the terms of the related agreements and the terms were fair and reasonable and in the interest of the shareholders as a whole.

The auditors of the Company investigated the connected transactions of the Group and confirmed with the Board of the Company that:

the transactions were approved by the Board of the Company;

the transactions were carried out in accordance with the pricing policy of the Company;

the transactions were carried out on the terms of the related agreements; and

the transactions did not exceeed the related annual caps with the consent of the Hong Kong Stock Exchange.

The auditors had issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Main Board Listing Rule 14A.38 of the Stock Exchange of Hong Kong. A copy of the auditors' letter had been provided by the Company to the Stock Exchange of Hong Kong.

Relevant information regarding the tentative announcement disclosure website for significant related party transactions

Name of tentative announcement	Disclosure date of the tentative announcement	Name of the tentative announcement disclosure website
Announcement in respect of resolutions of the forth meeting of the sixth session of the Board	29 October 2010	http://www.cninfo.com.cn

VI Material Matters

VI. Material contracts and their implementation

1. Custody, contracting and leasing

(1) Custody

During the reporting period, no assets of other companies was in the custody of the Company or vice versa.

Projects contributed profit or loss over 10% of the total profit of the Company during the reporting period

☐ Applicable √ Not applicable

(2) Contracting

During the reporting period, the Company did not contract other companies' assets or vice versa.

Projects contributed profit or loss over 10% of the total profit of the Company during the reporting period

☐ Applicable √ Not applicable

(3) Leasing

During the reporting period, the Company did not lease other companies' assets or vice versa.

Projects contributed profit or loss over 10% of the total profit of the Company during the reporting period

☐ Applicable √ Not applicable

2. Guarantees

During the reporting period, the Company did not provide any guarantee to external parties (excluding the guarantees provided to its subsidiaries) and did not provide any guarantees against the rules and regulations.

During the reporting period, the Company provided guarantee for its controlling subsidiaries with respect to application of bank loans. The guarantee amount incurred was RMB6,565.0784 million. As of 31 December 2012, the balance of the guarantee the Company provided to its subsidiaries amounted to RMB5,252.9811 million, representing 38.18% of the net assets attributable to shareholders of the Company.

VI. Material contracts and their implementation *(Cont'd)*

2. Guarantees *(Cont'd)*

Unit: RMB'0,000

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)			0	Total amount of external guarantee provided during the reporting period (A2)				0
Total amount of external guarantee approved as at the end of the reporting period (A3)			0	Total balance of external guarantee provided as at the end of the reporting period (A4)				0

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.	28 March 2012	300,000	24 May 2012	45,800.55	General guarantee	3 years	No	No
Jiangxi Chenming Paper Co., Ltd.	16 December 2009	45,000	10 December 2009	0	General guarantee	3 years	Yes	No
Jiangxi Chenming Paper Co., Ltd.	21 December 2012	20,000	21 December 2012	10,000	General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	25 February 2010	16,000	20 April 2010	2,000	General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	25 February 2010	16,000	8 July 2010	2,980	General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	30 March 2011	20,000	19 September 2011	3,000	General guarantee	3 years	No	No
Huanggang Chenming Arboriculture Co., Ltd.	28 March 2012	20,000	27 June 2012	2,600	General guarantee	3 years	No	No
Shouguang Meilun Paper Co., Ltd.	24 August 2010	79,473	10 September 2010	65,369.2	General guarantee	5 years	No	No
Shouguang Meilun Paper Co., Ltd.	29 October 2010	600,000	14 January 2011	10,000	General guarantee	3 years	No	No
Shouguang Chenming Art Paper Co., Ltd.	28 March 2012	10,000		0	General guarantee			No
Jilin Chenming Paper Co., Ltd.	28 March 2012	100,000	9 July 2012	15,000	General guarantee	3 years	No	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	28 March 2012	20,000		0	General guarantee		Yes	
Chenming (HK) Limited	29 October 2010	50,000	13 April 2011	50,000	General guarantee	3 years	No	No
Shandong Chenming Paper Sales Company Limited	27 October 2011	400,000	15 March 2012	318,548.36	General guarantee	3 years	No	No
Yanbian Chenming Paper Co., Ltd.	29 November 2011	30,000		0	General guarantee			
Shouguang Chenming Import and Export Trade Co., Ltd.	28 March 2012	200,000		0	General guarantee			
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)		670,000		Total amount of guarantee provided for subsidiaries during the reporting period (B2)				656,507.84
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)		1,815,473		Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)				525,298.11
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)		670,000		Total amount of guarantee provided during the reporting period (A2+B2)				656,507.84
Total amount of guarantee approved as at the end of the reporting period (A3+B3)		1,815,473		Total balance of guarantee provided as at the end of the reporting period (A4+B4)				525,298.11
The percentage of total amount of guarantee provided (A4+B4) to the net assets of the Company								38.18%
Of which:								
Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)								0
Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)								443,917.56
Total amount of guarantee provided in excess of 50% of net assets (E)								81,380.55
Sum of the above three amount of guarantee (C+D+E)								525,298.11
Explanation of possible joint obligation on outstanding guarantees provided								Nil
Explanation of external guarantees in breach of the specified procedures								Nil
Specific explanation of compound guarantees								Nil

VI. Material contracts and their implementation *(Cont'd)*

3. Other material contracts

Name of the company entering into contract	Name of party involved in the contract	Book value of subject asset of the contract (RMB '0,000) (if any)	Appraised value of the subject asset of the contract (RMB '0,000) (if any)	Name of appraisal institute (if any)	Appraisal date (if any)	Pricing basis	Transaction price (RMB'0,000)	Related party transaction or not	Related party relationship	Progress as at the end of the reporting period
Guangdong Huirui Investment Co., Ltd.	Zhanjiang City Construction Project Administration Bureau			Not applicable		Not applicable		No	Not applicable	On 25 December 2012, Guangdong Huirui received an appointment letter from Zhanjiang City Construction Project Administration Bureau, which appointed the joint bidding led by Guangdong Huirui Investment Co., Ltd. (other members of the joint bidding including Grand Air Engineering Co., Ltd. Guangdong, Guangzhou and Jiangsu New Port Engineering Co., Ltd.) as the main contractor of the financing and contructing works of the phase II project of Zhanjiang City Haidong New District Waterfront & Mudflat Comprehensive Regulation Works BT Project

VII. Performance of undertakings

1. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or subsisting to the reporting period

Undertaking	Party involved in undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertaking on shareholding structure reformation Undertaking made in offering documents or shareholding alternation documents Undertaking made during asset reconstruction					
Undertaking made on initial public offering or refinancing	Shouguang Chenming Holdings Co., Ltd, the controlling shareholder of the Company	(1) According to the plan on defective properties of the Company, Shouguang Chenming Holdings Company Limited has guaranteed and undertaken that: according to the application of the Company, for defective property(ies) owned by the Company and its holding company which situated in the administrative area of Shouguang city, Shouguang Chenming Holdings will purchase it(them) and have it(them) being transferred to itself pursuant to the law in accordance with the result of the related asset valuation if the Company decides to transfer and dispose of it(them) and there is no other transferee; (2) before the Company transfers and disposes of the defective properties pursuant to the law, if the defects cause the Company to incur any economic losses (including but not limited to damages, penalties and relocation costs), Shouguang Chenming Holdings will bear such economic losses; (3) during the corrective activities taken to the defective properties of buildings and land of subsidiaries of the Company situated outside the local areas (including the administrative area of Shouguang city), the economic losses such as penalties or relocation costs implemented by competent administrative authorities and borne by the subsidiaries arising from defects of insufficient title documents shall be paid pursuant to the law by Shouguang Chenming Holdings after verification.	16 January 2008	During the issuance of H shares, no specific term	Strictly implemented

VII. Performance of undertakings *(Cont'd)*

1. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or subsisting to the reporting period *(Cont'd)*

Undertaking	Party involved in undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
	Shouguang Chenming Holdings Co., Ltd, the controlling shareholder of the Company	(1) Shouguang Chenming Holdings shall not engage, whether solely, jointly, or by representing itself or any other persons or companies, and shall not procure its associates (as defined in The Listing Rules of Hong Kong Stock Exchange) to engage, in any business which competes with the business of the Company and its subsidiaries ("Chenming Group" or "we") directly or indirectly, in any country and region which our business exists (or any part of the world if in any form of electronics business), or in any business that directly or indirectly competes with Chenming Group's business which we operate from time to time (including but not limited to any business in the form of sole proprietorship, joint ventures or acquisitions, or holding interests directly or indirectly in such enterprises, or by any other means); (2) in the event that Shouguang Chenming Holdings is required by its business to, whether solely, jointly, or by representing itself or any other persons or companies, engage in business which directly or indirectly competes against Chenming Group's business, or obtain any business opportunity which directly or indirectly competes against Chenming Group's business, it shall endeavour to procure that Chenming Group shall have priority to obtain the right to operate such business or to obtain such business opportunity; (3) if Shouguang Chenming Holdings is in breach of the abovementioned undertakings, it shall indemnify us for any loss caused by such breach and the Company shall have the right to acquire all businesses of Shouguang Chenming Holdings, which directly or indirectly compete with the businesses of our Group, at market price or cost price (whichever price is lower); (4) Shouguang Chenming Holdings shall not make use of its position as the controlling shareholder (as defined in The Listing Rules of Hong Kong Stock Exchange) of our Group (or jointly or representing other persons or companies) jeopardise the legal interests of Chenming Group and its shareholders.	22 May 2008	During the issuance of H shares, no specific term	Strictly implemented

Other undertakings made to minority shareholders of the Company	
Does the undertaking performed timely?	Yes
Specific reasons for non-performance and further plans	Not applicable
Whether undertaking in respect of competition and connected transaction had been made or not	Yes
Term for undertaking	During the issuance of H shares, no specific term
Solution	Implementation in progress
Implementation of undertaking	Strictly implemented

VI Material Matters

VIII. Engagement or dismissal of accounting firms

Current accounting firm engaged

Name of the domestic accounting firm	RSM China Certified Public Accountants (Special general partnership)
Remuneration of the domestic accounting firm (RMB' 0,000)	260
Continued term of service of the domestic accounting firm	3 years
Name of certified public accountants of the domestic accounting firm	Wang Chuanshun and Jing Chuanxuan

Whether to appoint another accounting firm during the period

☐ Yes √ No

Particulars on recruitment of accounting firms, financial consultants or sponsors for internal control and auditing purposes

√ Applicable ☐ Not applicable

During the year, the Company engaged RSM China Certified Public Accountants as the internal control and auditing firm of the Company. The Company paid RMB600,000 for internal control and auditing fees during the period.

During the year, the Company engaged Southwest Securities as the financial advisor in respect of B shares repurchase. The Company paid RMB100,000 for financial advisory fees during the period.

IX. Opinions of the Supervisory Committee and Independent Shareholders (if applicable) regarding the "modified auditor's report" for the reporting period issued by the accounting firm

Not applicable

X. Punishment and rectification

The Company was not punished during the reporting period.

Directors, Supervisors, Senior management or shareholders holding over 5% of the Company's total shares suspected of being involved in trading of the Company's shares against the regulations and recovery of the profit obtained by such persons suspected of being involved in trading of the Company's shares against the regulations as disclosed by the Company

☐ Applicable √ Not applicable

XI. Suspension in trading or delisting upon publication of annual report

Not applicable

VI Material Matters

XII. Explanation of other material matters

Information disclosure index for 2012

Subject matter	Date of publication	Websites of publication and their path
Indicative announcement in respect of receipt of subsidies and incentive funds	5 January 2012	http://www.cninfo.com.cn
Indicative announcement in respect of change in the shareholding structure of the controlling shareholder	5 January 2012	http://www.cninfo.com.cn
Announcement on resolutions of the 2012 first extraordinary general meeting	17 January 2012	http://www.cninfo.com.cn
Legal opinion on the 2013 first extraordinary meeting attesting lawyer	17 January 2012	http://www.cninfo.com.cn
Indicative announcement in respect of receipt of support and incentive funds	3 March 2012	http://www.cninfo.com.cn
H share announcement	15 March 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the 2012 tenth meeting of the sixth session of the Board of Directors	29 March 2012	http://www.cninfo.com.cn
2011 Independent Directors' Report	29 March 2012	http://www.cninfo.com.cn
2011 Annual Report summary	29 March 2012	http://www.cninfo.com.cn
2011 Annual Audit Report	29 March 2012	http://www.cninfo.com.cn
Special Audit Report on the use of funds of the listed company by related parties of the Company	29 March 2012	http://www.cninfo.com.cn
2011 self assessment report on internal control	29 March 2012	http://www.cninfo.com.cn
2011 Annual Report	29 March 2012	http://www.cninfo.com.cn
Assurance annual report on the use and deposit of capitals raised by the company	29 March 2012	http://www.cninfo.com.cn
Auditors' report on internal control	29 March 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the ninth meeting of the sixth session of the supervisory committee	29 March 2012	http://www.cninfo.com.cn
Independent opinion from Independent Directors on the self assessment report on the internal control of the Company	29 March 2012	http://www.cninfo.com.cn
Announcement in respect of provision of financial support to controlling subsidiaries	29 March 2012	http://www.cninfo.com.cn
Notice of 2011 Annual General Meeting (updated)	30 March 2012	http://www.cninfo.com.cn
Announcement in respect of provision of guarantee for the general banking facilities of controlling subsidiaries (updated)	30 March 2012	http://www.cninfo.com.cn
Clarification announcement of Shandong Chenming Paper Holdings Limited	30 March 2012	http://www.cninfo.com.cn
H share announcement	12 April 2012	http://www.cninfo.com.cn
Announcement on estimated results for the first quarter of 2012	14 April 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the eleventh meeting of the sixth session of the Board of Directors	26 April 2012	http://www.cninfo.com.cn
2012 First Quarter Report	26 April 2012	http://www.cninfo.com.cn
2012 First Quarter Report (in full)	26 April 2012	http://www.cninfo.com.cn
Insider Registration System (April 2012)	26 April 2012	http://www.cninfo.com.cn
2011 management report on the securities of the Company in custody	4 May 2012	http://www.cninfo.com.cn
Clarification announcement of Shandong Chenming Paper Holdings Limited	10 May 2012	http://www.cninfo.com.cn
Further Notice of 2011 Annual General Meeting (updated)	10 May 2012	http://www.cninfo.com.cn
Further Notice of 2011 Annual General Meeting	24 May 2012	http://www.cninfo.com.cn
Announcement in respect of closing and eliminating outdated production capacity	26 May 2012	http://www.cninfo.com.cn
Announcement on resolutions of the 2011 Annual General Meeting	30 May 2012	http://www.cninfo.com.cn
Legal opinion on the 2011 Annual General Meeting by the attesting lawyer	30 May 2012	http://www.cninfo.com.cn
Indicative announcement on registration and approval of medium-term note issue	19 June 2012	http://www.cninfo.com.cn
H share announcement	27 June 2012	http://www.cninfo.com.cn

XII. Explanation of other material matters *(Cont'd)*

Information disclosure index for 2012 *(Cont'd)*

Subject matter	Date of publication	Websites of publication and their path
Announcement on 2012 Interest Payment of 2011 Corporate Bonds	30 June 2012	http://www.cninfo.com.cn
Indicative announcement in respect of the result of medium-term note issue	30 June 2012	http://www.cninfo.com.cn
Indicative announcement in respect of receipt of incentive funds	4 July 2012	http://www.cninfo.com.cn
Announcement in respect of the implementation of 2011 Equity Distribution	10 July 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the twelfth meeting of the sixth session of the Board of Directors	12 July 2012	http://www.cninfo.com.cn
Announcement on estimated Interim Results for 2012	13 July 2012	http://www.cninfo.com.cn
Notice of Board Meeting	9 August 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the first extraordinary meeting of the sixth session of the Board of Directors	9 August 2012	http://www.cninfo.com.cn
Announcement on acquisition of equity interest in Jiangxi Chenming	9 August 2012	http://www.cninfo.com.cn
Announcement on disposal of equity interest in Qihe Chenming	9 August 2012	http://www.cninfo.com.cn
Clarification announcement of Shandong Chenming Paper Holdings Limited	10 August 2012	http://www.cninfo.com.cn
2012 Interim Report	22 August 2012	http://www.cninfo.com.cn
2012 Interim Report Summary	22 August 2012	http://www.cninfo.com.cn
Independent opinion from Independent Directors	22 August 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the thirteenth meeting of the sixth session of the Board of Directors	22 August 2012	http://www.cninfo.com.cn
2012 Interim Financial Report	22 August 2012	http://www.cninfo.com.cn
Indicative announcement on progress of disposal of equity interest in Qihe Chenming	5 September 2012	http://www.cninfo.com.cn
Indicative announcement in respect of receipt of incentive funds	8 September 2012	http://www.cninfo.com.cn
Clarification on media coverage	19 September 2012	http://www.cninfo.com.cn
Notice of the 2012 second extraordinary general meeting	19 September 2012	http://www.cninfo.com.cn
Announcement on suspension of trading of shares of Shandong Chenming Paper Holdings Limited	21 September 2012	http://www.cninfo.com.cn
Indicative announcement in respect to the extension of equity transfer closing date	22 September 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the second extraordinary meeting of the sixth session of the Board of Directors	26 September 2012	http://www.cninfo.com.cn
Management system of the information disclosure in the interbank bond market (September 2012)	26 September 2012	http://www.cninfo.com.cn
Announcement on extended suspension of trading in respect of material issue	28 September 2012	http://www.cninfo.com.cn
Announcement on extended suspension of trading in respect of material issue	12 October 2012	http://www.cninfo.com.cn
Announcement on change in business address	13 October 2012	http://www.cninfo.com.cn
Announcement on Estimated Results for the first three quarters of 2012	13 October 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the third extraordinary meeting of the sixth session of the Board of Directors	13 October 2012	http://www.cninfo.com.cn
Announcement on external investment	13 October 2012	http://www.cninfo.com.cn
H share announcement	17 October 2012	http://www.cninfo.com.cn
Further Notice of 2012 second extraordinary general meeting	17 October 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the fourteenth meeting of the sixth session of the Board of Directors	23 October 2012	http://www.cninfo.com.cn
Proposal for repurchase of domestic listed foreign shares (B shares)	23 October 2012	http://www.cninfo.com.cn
Independent Financial Report in respect of the repurchase of domestic listed foreign shares (B shares)	23 October 2012	http://www.cninfo.com.cn
Announcement on resumption of trading	23 October 2012	http://www.cninfo.com.cn

XII. Explanation of other material matters *(Cont'd)*

Information disclosure index for 2012 *(Cont'd)*

Subject matter	Date of publication	Websites of publication and their path
Independent opinion from Independent Directors on the changes in senior management of the fourteenth meeting of the sixth session of the Board of Directors	23 October 2012	http://www.cninfo.com.cn
Independent opinion from Independent Directors on the repurchase of domestic listed foreign shares (B shares)	23 October 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the fourth extraordinary meeting of the sixth session of the Board of Directors	25 October 2012	http://www.cninfo.com.cn
Announcement on external investment	25 October 2012	http://www.cninfo.com.cn
Notice of 2012 third extraordinary general meeting, 2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting	26 October 2012	http://www.cninfo.com.cn
2012 Third Quarter Report	30 October 2012	http://www.cninfo.com.cn
2012 Third Quarter Report (in full)	30 October 2012	http://www.cninfo.com.cn
Notice of 2012 First Bondholder Meeting of "11 Chenming Bond"	30 October 2012	http://www.cninfo.com.cn
Announcement on the performance of undertakings of the Company and relevant entities	30 October 2012	http://www.cninfo.com.cn
Clarification on Media Coverage	3 November 2012	http://www.cninfo.com.cn
Announcement on application for the issue of corporate bonds being examined and approved by the Issuance Examination Committee of China Securities Regulatory Commission	3 November 2012	http://www.cninfo.com.cn
Articles of association (November 2012)	6 November 2012	http://www.cninfo.com.cn
Procedural rules for general meeting (November 2012)	6 November 2012	http://www.cninfo.com.cn
Legal opinion on 2012 second extraordinary general meeting by the attesting lawyer	6 November 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of 2012 second extraordinary general meeting	6 November 2012	http://www.cninfo.com.cn
Announcement on the progress of external investment	21 November 2012	http://www.cninfo.com.cn
Further notice of 2012 third extraordinary general meeting, 2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting	24 November 2012	http://www.cninfo.com.cn
Announcement on newly proposed resolutions of 2012 third extraordinary general meeting	28 November 2012	http://www.cninfo.com.cn
Notice of 2012 third extraordinary general meeting (with resolutions increased)	28 November 2012	http://www.cninfo.com.cn
Announcement in respect of eliminating outdated production capacity of controlling subsidiaries	5 December 2012	http://www.cninfo.com.cn
Announcement on approval of public offering of corporate bonds by the Issuance Examination Committee of China Securities Regulatory Commission	6 December 2012	http://www.cninfo.com.cn
Announcement on the progress of the increase in shareholding of Jiangxi Chenming	7 December 2012	http://www.cninfo.com.cn
Announcement on disposal of interest in Qihe Chenming	7 December 2012	http://www.cninfo.com.cn
Further notice of 2012 third extraordinary general meeting	7 December 2012	http://www.cninfo.com.cn
Further notice of 2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting	7 December 2012	http://www.cninfo.com.cn
Announcement on the shareholding of the top 10 shareholders	8 December 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of 2012 third extraordinary general meeting	13 December 2012	http://www.cninfo.com.cn

XII. Explanation of other material matters *(Cont'd)*

Information disclosure index for 2012 *(Cont'd)*

Subject matter	Date of publication	Websites of publication and their path
Announcement in respect of resolutions of 2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting	13 December 2012	http://www.cninfo.com.cn
Announcement on Repurchase of B Shares and Reduction of Registered Capital	13 December 2012	http://www.cninfo.com.cn
Supplemental notice of 2012 first bondholder meeting of "11 Chenming Bond"	13 December 2012	http://www.cninfo.com.cn
Legal opinion on 2012 third extraordinary general meeting by the attesting lawyer	13 December 2012	http://www.cninfo.com.cn
Legal opinion on 2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting by the attesting lawyer	13 December 2012	http://www.cninfo.com.cn
Notice of meeting for holders of the first tranche of the 2010 medium-term notes and notice of meeting for holders of the first tranche of the 2012 medium-term notes	14 December 2012	http://www.cninfo.com.cn
Indicative announcement on release from restriction on restricted shares	14 December 2012	http://www.cninfo.com.cn
Announcement on Failure to Convene 2012 first bondholder meeting of "11 Chenming Bond"	21 December 2012	http://www.cninfo.com.cn
Announcement on provision of guarantee to Jiangxi Chenming	22 December 2012	http://www.cninfo.com.cn
Announcement on external investment	22 December 2012	http://www.cninfo.com.cn
Announcement on acquisition of equity interest by Zhanjiang Chenming	22 December 2012	http://www.cninfo.com.cn
Announcement on disposal of equity interest in Juancheng Chenming	22 December 2012	http://www.cninfo.com.cn
Second announcement on repurchase of B Shares and reduction of registered capital	22 December 2012	http://www.cninfo.com.cn
Independent opinion from Independent Directors on provision of bank loans guarantee for Jiangxi Chenming	22 December 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the fifth extraordinary meeting of the sixth session of the Board of Directors	22 December 2012	http://www.cninfo.com.cn
Prospectus of the public offering of 2012 corporate bonds	24 December 2012	http://www.cninfo.com.cn
Announcement on the issuance of 2012 corporate bonds	24 December 2012	http://www.cninfo.com.cn
Report on credit rating of 2012 corporate bonds	24 December 2012	http://www.cninfo.com.cn
Summary prospectus of the public offering of 2012 corporate bonds	24 December 2012	http://www.cninfo.com.cn
Announcement on the coupon rate of 2012 corporate bonds	26 December 2012	http://www.cninfo.com.cn
Independent opinion from Independent Directors on the appointment of Mr. Wang Chunfang as the secretary of the Board of Directors	28 December 2012	http://www.cninfo.com.cn
Announcement in respect of resolutions of the fifth extraordinary meeting of the sixth session of the Board of Directors	28 December 2012	http://www.cninfo.com.cn
Reply of resolutions of meeting for holders of the first tranche of the 2010 medium-term notes and holders of the first tranche of the 2012 medium-term notes	28 December 2012	http://www.cninfo.com.cn
Announcement on external investment	28 December 2012	http://www.cninfo.com.cn
Announcement on provision of financial assistance by Zhanjiang Chenming to Huirui Chenming	28 December 2012	http://www.cninfo.com.cn
Annoucement on the appointment of the secretary of the Board of Directors	28 December 2012	http://www.cninfo.com.cn
Announcement on the resignation of senior management	28 December 2012	http://www.cninfo.com.cn
Indicative announcement on the bidding of Zhanjiang Huirui project	28 December 2012	http://www.cninfo.com.cn
Indicative announcement on receipt of incentive funds	28 December 2012	http://www.cninfo.com.cn
Clarification on Media Coverage	28 December 2012	http://www.cninfo.com.cn
Announcement in respect of the result of issurance of 2012 corporate bonds	31 December 2012	http://www.cninfo.com.cn

VI Material Matters

XIII. Significant matters of the subsidiaries of the Company

1. During the reporting period, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, acquired 51% equity interest in Guangdong Huirui Investment Co., Ltd. Guangdong Huirui became a controlling subsidiary of Zhanjiang Chenming. For further details, please refer to part XI of section IV of this report. Guangdong Huirui Investment Co., Ltd. won the bid of Zhanjiang City Haidong New District Waterfront & Mudflat Comprehensive Regulation Works BT Project. For further details, please refer to part VI. 3. of this section.

2. Chenming (HK) Limited, a wholly-owned subsidiary of the Company, acquired 49% equity interest in Jiangxi Chenming Paper Co., Ltd. Since then, the shareholding of the Company and Chenming (HK) in Jiangxi Chenming was 51% and 49%, respectively. For details, please refer to part XI of Directors' Report.

XIV. Issurance of corporate bonds by the Company

(1) As approved by the securities regulatory approval No. [2011] 1019 issued by China Securities Regulatory Commission on 27 June 2011, the Company was authorised to issue corporate bonds with an aggregate value not more than RMB2,000 million. The corporate bonds had a tenor of 5 years with fixed interest rate. The coupon rate of the bond was 5.95%, with interest paid annually in simple interest (without compound interest). The value date started from 6 July 2011, and 6 July of each of the year 2012 to 2016 was and would be the interest payment date for the previous interest-bearing year. The principal amount and last interest payment were to be paid on the maturity date. The Company published "Announcement on 2012 interest payment of 2011 corporate bonds" on 30 June 2012, with interest payment being implemented.

(2) As approved by the securities regulatory approval No. [2012] 1612 issued by China Securities Regulatory Commission on 30 November 2012, the Company was authorised to issue corporate bonds with an aggregate value not more than RMB3,800 million. The corporate bonds had a tenor of 5 years, accompanied by an option for issuer to increase the coupon rate and a repurchase option for investors at the end of the third year. The bonds had fixed interest rate. The coupon rate of the bonds was 5.65%, with interest paid annually in simple interest (without compound interest). The value date started from 26 December 2012, and 26 December of each of the year 2013 to 2017 would be the interest payment date for the previous interest-bearing year. If investors execute their repurchase option, the interest payment date of the repurchased bond is 26 December of each of the year 2013 to 2015.The principal amount and last interest payment were to be paid on the maturity date.

VI Material Matters

XV. Repurchase of B shares by the Company

1. Background and purpose of repurchase

In light of the global financial crisis and domestic economic downturn, it has resulted in huge adjustment of the domestic capital market since mid of 2011. The share market of B shares is in decline for a long time due to paralysis of fund raising function; poor market liquidity and small market capacity. The share price of the Company's domestic listed foreign share "Chenming B" has continued to fall. The performance of share price of Company's B shares is inconsistent with the Company's intrinsic value and its leading position in the industry, the investment value of the Company is underestimated. This not only adversely affected the image of the Company in the capital market, but also adversely affected the protection of interest of shareholder as a whole. Therefore, in order to strengthen investors' confidence in the Company, increase Company's value to a reasonable level and maximise shareholders' value, the Company decided to repurchase B shares. Upon the share repurchase, the Company will cancel the repurchased shares and reduce the registered capital accordingly in accordance to relevant laws.

2. Repurchase proposal

(1) Share repurchase method

The Company will repurchase the domestic listed foreign shares (B shares) in the market of Shenzhen Stock Exchange through the mechanism of centralised auction trading.

(2) Price, price range and pricing principles of shares repurchase

With reference to the current price earning ratio and the price to book ratio of the listed companies in the domestic paper making sector as well as the valuation difference between the A shares and B shares markets, it is determined that the share price of the domestic listed foreign shares (B shares) to be repurchased at not more than HK$4 per share (equivalent to RMB3.27 per share, calculated at a rate of HK$1:RMB0.8175 as at 20 September 2012).

The Company will adjust the price cap of the shares repurchase correspondingly from the ex-rights and ex-dividend date if it issues bonus shares, increases its share capital or pays cash dividend during the repurchase period.

(3) Type and number of shares to be repurchased and percentage of the total share capital

Type of share to be repurchased: domestic listed foreign shares (B shares) of the Company

Number of shares to be repurchased: The Company intended to repurchase not more than 150 million domestic listed foreign shares (B shares).

The Company will repurchase shares based on the change of the market price of domestic listed foreign shares (B shares) during the repurchase period, operation of the Company and its funding position, subject to the condition of repurchase price not more than HK$4 per share. The number of repurchased shares refer to the actual number of shares repurchased at the end of repurchase period.

Percentage of the total share capital of repurchased shares: Based on the maximum number to be repurchased of 150 million shares under the proposal, representing 26.91% of the number of issued B shares of the Company and 7.27% of the total share capital.

XV. Repurchase of B shares by the Company *(Cont'd)*

(4) Total funds to be used for share repurchase and sources of fund

The total funds to be used for share repurchase will not exceed HK$400 million (equivalent to RMB327 million, calculated at a rate of HK$1:RMB0.8175 as at 20 September 2012).

Sources of fund to be used for share repurchase: Fully from the internal resources of the Company.

(5) Share repurchase period

12 months from the date of passing the resolution in respect of the share repurchase as the general meeting.

In the case where the maximum number to be repurchased (150 million shares) or fund for repurchase limit (HK$400 million) reached during the period, the repurchase proposal is completed with repurchase period ended since then.

The Company will make repurchase decision and execution based on the market condition during the repurchase period in accordance to the authorisation granted in general meeting and Board authorisation.

3. Execution of share repurchase

As a result of the proposed B share repurchase, the trading of Company's shares, Chenming Paper and Chenming B was suspended from 21 September 2012. Following the approval from the fourteenth meeting of the sixth sesssion of the Board of Directors held on 19 October 2012, the trading of Company's share resumed from 22 Ocotober 2012.

On 12 December 2012, the Company convened the third extraordinary general meeting, domestic listed share (A share and B share) class meeting and overseas listed share (H share) class meeting, which passed the resolutions in respect to the B shares repurchase of the Company, respectively. On the following day, the Company published the announcement on resolutions of the general meeting and notice to creditors on the B shares repurchase of the Company and the reduction in registered capital.

On 28 December 2012, the Company received the Reply Letter to document Lu Shang Wu Wai Zi Zi [2012] No. 907 from Shandong Province Commerce Department, which initially agreed the Company to repurchase not more than 150 million issued domestic listed foreign shares (B share). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 4 February 2013, the Company recevied the Reply Letter to document Shou Hui Fa [2013] No. 4 from the Shouguang branch office of SAFE, which agreed the Company to purchase not more than HK$400 million foreign exchange for the purpose of repurchasing not more than 150 million domestic listed foreign shares (B share).

On 26 February 2013, Shenzhen Stock Exchange approved the B share repurchase by the Company. The Company published announcements on share repurchase report and the repurchase of shares commenced.

Pursurant to the "Supplementary Provisions on the Share Repurchase by Listed Companies by Means of Centralised Auction Trading" issued by CSRC, the listed company must not repurchase shares 10 trading days before the publication of regular reports or result announcements. As at the 10 trading days before the publication of this report, the accumulated number of B shares repurchased by the Company was 6,753,000 shares, representing 0.3275% of the total share capital of the Company. The highest and lowest purchase price were HK$3.52 per share and HK$3.43 per share, respectively. The total amount paid was HK$ 23,593,252.28 (stamp duty and commission included).

XVI. Post balance sheet events

1. Capital increase in Haiming Mining and connected transaction

Having considering that the current registered capital of Haicheng Haiming Mining Company Limited, a controlling subsidiary of the Company was relatively low and did not commence any operation, and in view of the operating risks of, and capital needs for, the future projects of Haimaing Mining, the Company decided to increase the registered capital of Haiming Mining to RMB240 million following negotiations with shareholders. The capital increase was in the interest of the shareholders as a whole and the Company, and was able to disvesrify potential risks. Pursuant to which, the Company, Beihai Industries and Hengtai Enterprise would contribute RMB74.00 million, RMB42.00 million and RMB24.00 million to the registered capital of Haiming Mining, respectively. Upon completion of capital increase, the registered capital of Haiming Mining will be changed to RMB240 million. The shareholding of Haiming Mining following capital increase and introduction of new shareholders is: 60%, 30% and 10% equity interest owned by the Company, Beihai Industries and Hengtai Enterprise, respectively.

The senior management of the Company, including Mr. Chen Hongguo (Chairman and General Manager), Mr. Yin Tongyuan (Vice Chairman), Mr. Gao Junjie (Chairman of Supervisory Committee), Ms. Li Xueqin (Deputy General Manager), Mr. Wang Chunfang and Mr. Hu Changqing held shares in Hengtai Enterprise. According to provision 10.1.3 of Shenzhen Stock Exchange Listing Rules, the capital contribution to Haiming Mining by Hengtai Enterprise constituted a connected transaction.

For further details, please refer to the Company's announcement posted on China Securities Journal, Hong Kong Commercial Daily, the website of CNINFO (www.cninfo.com.cn) and the Company's website (www.chenmingpaper.com) on 7 February 2013 and the announcement posted on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 6 February 2013.

2. Investment in houshold paper project and technical improvement project by Wuhan Chenming

To enrich the types of products of the Company and to enhance the comprehensive competitiveness and the gross margin of the products in the market, based on the household paper production line with annual production capacity of 60,000 tonnes in the early phase, the Board of the Company approved the construction of a household paper project with an annual production capacity of 136,000 tonnes at Wuhan Chenming and in the meantime to improve the production line of 4,800 paper machine in the Wuhan second factory. The total investment amounted to approximately RMB1,780 million.

For further details, please refer to the Company's announcement posted on China Securities Journal, Hong Kong Commercial Daily, the website of CNINFO (www.cninfo.com.cn) and Company's website (www.chenmingpaper.com) on 7 February 2013 and the annoucement posted on the website of Hong Kong Stock Exchange(www.hkex.com.hk) on 6 February 2013.

3. Agreed repurchase type securities trading by the controlling shareholder, Shouguang Chenming Holdings Company Limited

On 22 January 2013, the Company received a letter from Shouguang Chenming Holdings Company Limited, a shareholder interested in more than 5% of the shares of the Company. According to the letter, Shouguang Chenming had disposed of 86,600,000 shares of the Company, representing 4.2% of the total share capital of the Company, through agreed repurchase type securities trading on 21 January 2013. For further details, please refer to the Company's announcement posted on the website of CNINFO (announcement No.: 2013-003) on 23 January 2013.

4. Signing of BT construction project by Guangdong Huirui Investment Co., Ltd.

On 6 February 2013, Guangdong Huirui Investment Co., Ltd. has entered into "Zhanjiang City Haidong New District Waterfront & Mudflat Comprehensive Regulation Works BT Project — Build — Transfer (BT) Contract" with Zhanjiang City Construction Project Administration Bureau. The external investment is subject to shareholder approval at a general meeting upon being approved by the Board of the Company. The Company will disclose relevant information in a timely manner based on the progress of the investment. Please refer to part VI. 3. of this section.

VII Changes in Share Capital and Shareholders

I. Changes in shares

	Opening balance		Change during the reporting period (Increase/decrease)					Closing balance	
	Amounts	Percentage (%)	New issue	Bonus shares	Shares converted from reserve	Others	Sub-total	Amounts	Percentage (%)
I. Restricted shares	302,211,557	14.66%				-292,875,153	-292,875,153	9,336,404	0.45%
1. State-owned legal person shares	293,003,657	14.21%				-293,003,657	-293,003,657	0	0%
2. Shares held by the Senior Management	9,207,900	0.45%				128,504	128,504	9,336,404	0.45%
II. Non-restricted shares	1,759,834,384	85.34%				292,875,153	292,875,153	2,052,709,537	99.55%
1. RMB ordinary shares	811,066,899	39.33%				292,875,153	292,875,153	1,103,942,052	53.54%
2. Domestic listed foreign shares	557,497,485	27.04%						557,497,485	27.04%
3. Overseas listed foreign shares	391,270,000	18.97%						391,270,000	18.97%
III. Total number of shares	2,062,045,941	100%						2,062,045,941	100%

The reasons for such changes

(1) During the reporting period, the restricted shares held by the Senior Management changed by 128,504 shares from 9,207,900 shares to 9,336,404 shares. The reasons for such changes were as follows: according to the Practice Guidance for the Company's shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份管理業務操作指南》), during the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by former Senior Management of the Company leaving office less than six months changed to restricted shares, i.e. 238,529 shares; during the reporting period, the sales restriction on the shares held by former Directors and Senior Management of the Company leaving office more than six months expired and was released. Therefore, the nature of the 110,025 shares, used to be held by the Senior Management, was changed from restricted shares held by the senior management to non-restricted RMB ordinary shares (A shares).

(2) During the reporting period, the restricted shares held by state-owned legal persons changed by -293,003,657 shares from 293,003,657 shares to 0 share. The reasons for such change were as follows: the sales restriction on the 293,003,657 restricted shares held by Shouguang Chenming Holdings Company Limited was released. Such restricted shares were free to trade since 18 December 2012. More details was disclosed in the "Indicative Announcement on the release from restrictions of restricted shares" on the website of CNINFO (Announcement No. 2012-074) on 14 December 2012.

Approval of changes in shareholding

☐ Applicable √ Not Applicable

Transfer of shares arising from changes in shareholding

Nil

The effects of changes in shareholding on financial indicators such as basic earnings per share, diluted earnings per share and net assets per share attribute to shareholders of original shares of the Company in the latest year and the latest period

☐ Applicable √ Not Applicable

Other information considered necessary by the Company or required by the securities regulation authorities to be disclosed

Nil

VII Changes in Share Capital and Shareholders

II. Issuance and listing of securities

1. As at the end of the reporting period, issuance of securities in the last three years

Name of share and its derivative	Issue date	Issue price (or interest rate)	Amount issued	Listing date	Amount approved for listing and trading	Last transaction date for transaction
Shares						
Nil						
Convertible corporate bonds, bonds with warrants and corporate bonds						
11 Chenming bond	6 July 2011	RMB100 each with a fixed rate of 5.95%	20,000,000	8 August 2011	20,000,000	6 July 2016
12 Chenming bond	26 December 2012	RMB100 each with a fixed rate of 5.65%	38,000,000	4 February 2013	38,000,000	26 December 2017
11 Chenming HK bond	13 April 2011	RMB100 each with a fixed rate of 2.95%	5,000,000	13 April 2011	5,000,000	13 April 2014
Warrants						
Nil						

Explanation of issue of securities in the last three years

(1) On 6 July 2011, the Company issued a total of 20 million corporate bonds totalling RMB2.0 billion with a face value of RMB100 each at an issue price of RMB100 and a coupon rate of 5.95%, raising a total of RMB2.0 billion. After deducting RMB18 million of expenses, the net proceeds raised amounted to RMB1.982 billion. As of 31 December 2011, RMB1.982 billion of the funds raised were used, among which about RMB382 million for providing additional liquidity and about RMB1.6 billion for repaying bank loans, mainly of which were loans from financial institutions.

(2) On 26 December 2012, the Company issued a total of 38 million corporate bonds totalling RMB3.8 billion with a face value of RMB100 each at an issue price of RMB100 and a coupon rate of 5.65%, raising a total of RMB3.8 billion. After deducting RMB27 million of expenses, the net proceeds raised amounted to RMB3.773 billion. As of 31 December 2012, RMB2.003 billion of the funds raised were used for replacement of short-term bank borrowings. As at the date of this report, RMB3.773 billion of the funds raised were accumulatively used, among which about RMB273 million for providing additional liquidity and about RMB3.5 billion for repaying bank loans, mainly of which were used for replacement of short-term bank borrowings.

(3) Chenming (HK) Limited, a subsidiary of the Company issued notes of RMB500 million on 13 April 2011. The note rate is 2.95% of the annual rate, while the interest of the note shall be paid every six months. The proceed will be used as operation capital of Chenming (HK) Limited.

2. Changes in the total number of shares and structure of shareholders and the structure of the assets and liabilities of the Company

(1) During the reporting period, there was no change in the total number of shares of the Company.

(2) During the reporting period, the 293,003,657 restricted shares held by Shouguang Chenming Holdings Company Limited was released from sales restriction.

(3) During the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by former Senior Management of the Company leaving office less than six months changed to restricted shares, i.e. 238,529 shares; during the reporting period, the sales restriction on the shares held by former Directors and Senior Management of the Company leaving office more than six months expired and was released. Therefore, the nature of the 110,025 shares, used to be held by the Senior Management, was changed from restricted shares held by the senior management to the non-restricted RMB ordinary shares (A shares).

II. Issuance and listing of securities *(Cont'd)*

3. Existing staff shares

Issue date of staff shares	Issue price of staff shares (RMB)	Amount issued of staff shares
Explanation of existing staff shares	There was no staff shares of the Company	

III. Shareholders and beneficial controllers

1. Total number of shareholders and shareholdings

Unit: share

Total number of shareholders during the reporting period	156,442	Total number of shareholders as at the end of the fifth trading day before the publication date of this annual report	151,536

Shareholdings of shareholders interested in more than 5% of the shares of the Company

Name of shareholders	Nature of shareholders	Percentage of shareholding (%)	Number of shares held at the end of the reporting period	Changes (increase or decrease) during the reporting period	Number of restricted shares held	Number of non-restrict shares held	Share pledged or locked-up	
							Status of shares	Number
HKSCC Nominees Limited	Overseas legal person	18.90%	389,749,000	130,000	0	389,749,000		0
Shouguang Chenming Holdings Company Limited	State-owned legal person	14.21%	293,003,657	0	0	293,003,657		0
PLATINUM ASIA FUND	Overseas legal person	2.11%	43,480,377	0	0	43,480,377		0
TAIFOOK SECURITIES COMPANY LIMITED -ACCOUNT CLIENT	Overseas legal person	1.71%	35,193,003	32,055,049	0	35,193,003		0
BILL & MELINDA GATES FOUNDATION TRUST	Domestic non-state-owned legal person	1.29%	26,631,635	3,171,333	0	26,631,635		0
Bank of Communications—Huaan Tactical Select Fund	Domestic non-state-owned legal person	0.82%	17,000,718	17,000,718	0	17,000,718		0
Bank of Communications—Huaan Baoli Allocation Fund	Domestic non-state-owned legal person	0.65%	13,421,199	13,421,199	0	13,421,199		0
Jin Xing	Domestic natural person	0.39%	8,017,200	8,017,200	0	8,017,200		0
MORGAN STANLEY & CO. INTERNATIONAL PLC	Overseas legal person	0.32%	6,600,021	1,874,496	0	6,600,021		0
Chen Hongguo	Domestic natural person	0.31%	6,334,527	0	4,750,895	1,583,632		0

Strategic investors or legal placement become the top ten shareholders upon placing of new shares (if any)	Nil
Connected relationship or connect-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. Huaan Tactical Select Fund and Huaan Baoli Allocation Fund are managed by Huaan Fund Management Co., Ltd. Save for the above, 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. Shareholders and beneficial controllers *(Cont'd)*

1. Total number of shareholders and shareholdings *(Cont'd)*

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held as at the end of the year	Class of shares	
		Class of shares	Number
HKSCC Nominees Limited	389,749,000	Overseas listed foreign shares	389,749,000
Shouguang Chenming Holdings Company Limited	293,003,657	RMB ordinary shares	293,003,657
PLATINUM ASIA FUND	43,480,377	Domestic listed foreign shares	43,480,377
TAIFOOK SECURITIES COMPANY LIMITED – ACCOUNT CLIENT	35,193,003	Domestic listed foreign shares	35,193,003
BILL & MELINDA GATES FOUNDATION TRUST	26,631,635	RMB ordinary shares	26,631,635
Bank of Communications – Huaan Tactical Select Fund	17,000,718	RMB ordinary shares	17,000,718
Bank of Communications – Huaan Baoli Allocation Fund	13,421,199	RMB ordinary shares	13,421,199
Jin Xing	8,017,200	RMB ordinary shares	2,140,200
		Domestic listed foreign shares	5,877,000
MORGAN STANLEY & CO. INTERNATIONAL PLC	6,600,021	RMB ordinary shares	6,600,021
UBS AG	6,110,905	RMB ordinary shares	6,110,905
Connected relationship or connect-party relationship among each of the top ten shareholders of non-restricted shares, and between the top ten shareholders of non-restricted shares and the top ten 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. Huaan Tactical Select Fund and Huaan Baoli Allocation Fund are managed by Huaan Fund Management Co., Ltd. Save for the above, 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.		
Shareholders who participate in the margin trading business (if any)	Nil		

III. Shareholders and beneficial controllers *(Cont'd)*

2. Controlling shareholders of the Company

Legal person

Name of controlling shareholders	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Registered capital	Business principally engaged in
Shouguang Chenming Holdings Company Limited	Chen Hongguo	30 December 2005	78348518-9	RMB 1.685 billion	investment in papermaking, electricity, steam and arboriculture
Operating results, financial condition, cash flows and future development strategy	Shouguang Chenming Holdings Company Limited is engaged in investment in papermaking, electricity, steam and arboriculture projects.				
Shareholdings of controlling shareholders who have controls or hold shares in other overseas listed companies during the reporting period	Shouguang Chenming Holdings Company Limited is interested in 14.21% equity interest of the Company. Save for the above, it does not have control over or hold any equity interest of other domestic or overseas listed companies.				

Change of controlling shareholders during the reporting period

☐ Applicable √ Not Applicable

III. Shareholders and beneficial controllers *(Cont'd)*

3. Beneficial controller of the Company

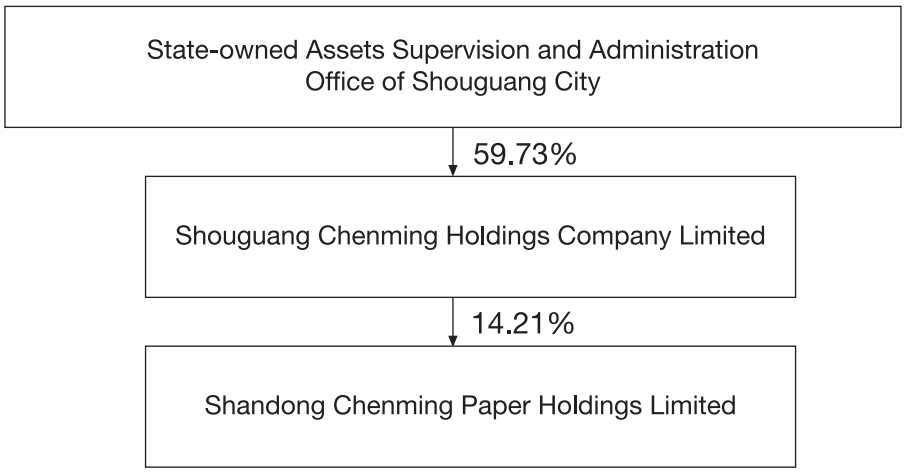
Legal person

Name of beneficial controller	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Registered capital	Business principally engaged in
State-owned Assets Supervision and Administration Office of Shouguang City	Fu Xingang	1 August 1991	137078300401	RMB 20,000	Responsible for the management and capital operation of the state-owned assets of city enterprises and institutions in Shouguang
Operating results, financial condition, cash flows and future development strategy	State-owned Assets Supervision and Administration Office of Shouguang City is responsible for the management and capital operation of the state-owned assets of the city enterprises and institutions in Shouguang City with a view to protecting and enhancing the value of state-owned assets.				
Shareholding s of controlling shareholders who have controls or hold shares in other overseas listed companies during the reporting period	Save for the Company, State-owned Assets Supervision and Administration Office of Shouguang City does not have control over or hold any equity interest of other domestic or overseas listed companies.				

Change of beneficial controller during the reporting period

☐ Applicable √ Not Applicable

Chart illustrating the relationship between the Company and the beneficial controllers



Beneficial controller controlling the Company through trust or other asset management method

☐ Applicable √ Not applicable

VIII Directors, Supervisors and Senior Management and Staff

I. Changes in shareholdings of Directors, Supervisors and Senior Management

Name	Position	status	Sex	Age	Start date of the term	End date of the term	Shares held as at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Shares held as at the end of the period (shares)
Chen Hongguo	Chairman and general manager	In office	M	48	12 April 2010	12 April 2013	6,334,527	0	0	6,334,527
Yin Tongyuan	Vice Chairman	In office	M	55	12 April 2010	12 April 2013	2,423,640	0	0	2,423,640
Li Feng	Director, deputy general manager	In office	M	40	12 April 2010	12 April 2013	471,818	0	0	471,818
Geng Guanlin	Director, deputy general manager	In office	M	39	12 April 2010	12 April 2013	437,433	0	0	437,433
Tan Daocheng	Director	In office	M	46	12 April 2010	12 April 2013	185,700	0	0	185,700
Hou Huancai	Director	In office	M	51	12 April 2010	12 April 2013	628,915	0	0	628,915
Zhou Shaohua	Director	In office	M	51	12 April 2010	12 April 2013	123,007	0	0	123,007
Cui Youping	Director	In office	M	49	12 April 2010	12 April 2013		0	0	
Wang xiaoqun	Director	In office	M	57	12 April 2010	12 April 2013		0	0	
Wang Fengrong	Director	In office	F	44	12 April 2010	12 April 2013		0	0	
Zhang zhiyuan	Independent Director	In office	M	50	12 April 2010	12 April 2013		0	0	
Wang Aiguo	Independent Director	In office	M	49	12 April 2010	12 April 2013		0	0	
Zhang Hong	Independent Director	In office	F	48	12 April 2010	12 April 2013		0	0	
Wang yumei	Independent Director	In office	F	50	12 April 2010	12 April 2013		0	0	
Wang Xiangfei	Independent Director	In office	M	62	12 April 2010	12 April 2013		0	0	
Gao Junjie	Chairman of Supervisory Committee	In office	M	42	12 April 2010	12 April 2013	39,606	0	0	39,606
Wang Ju	Supervisor	In office	F	47	12 April 2010	12 April 2013		0	0	
Yang Hongqin	Supervisor	In office	F	45	12 April 2010	12 April 2013		0	0	
Yin Qixiang	Supervisor	In office	M	75	12 April 2010	12 April 2013		0	0	
Guo Guangyao	Supervisor	In office	M	70	12 April 2010	12 April 2013		0	0	
Li Xueqin	deputy general manager	In office	F	47	12 April 2010	12 April 2013	429,348	0	0	429,348
Hu Changqing	deputy general manager	In office	M	47	12 April 2010	12 April 2013	1,238	0	0	1,238
Wang Chunfang	Financial Controller, secretary to the Board	In office	M	37	12 April 2010	12 April 2013		30,000	0	30,000
Chang Liting	deputy general manager	In office	M	59	30 March 2011	12 April 2013		0	0	
Li Zhenzhong	deputy general manager	In office	M	39	30 March 2011	12 April 2013		0	0	
Hao Yun		Resigned	M	50	12 April 2010	12 April 2013	708,441	0	0	708,441
Zhang Yanjun	deputy general manager	In office	M	47	12 April 2010	12 April 2013	102,393	0	0	102,393
Xia Jigang	deputy general manager	In office	M	37	30 March 2011	12 April 2013		0	0	
Wang Shihong		Resigned	M	49	12 April 2010	12 April 2013		0	0	
Zhang Chunlin		Resigned	M	44	12 April 2010	12 April 2013	245,674	0	0	245,674
Poon Shiu Cheong	Company secretory	In office	M	43	12 April 2010	12 April 2013		0	0	
Total	–	–	–	–	–	–	12,131,740	30,000	0	12,161,740

II. Employment

Major career histories of Directors, Supervisors and Senior Management during the past five years

(1) Brief biographies of executive Directors

Mr. Chen Hongguo, who joined the Company in 1987, had held different positions including chief officer of manufacturing section, chief officer of branch factory, deputy general manager, Director of the Company and the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., etc. He is currently the Chairman and general manager of the Company and the chairman and general manager of Shouguang Chenming Holdings Company Limited. Mr. Chen Hongguo is the spouse of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Yin Tongyuan, who joined the Company in 1982, had held different positions including the chief officer of manufacturing section, director of technology department, deputy factory chief, standing deputy factory chief and general manager. He is currently the vice-chairman of the Company and a director of Shouguang Chenming Holdings Company Limited.

Mr. Li Feng, who joined the Company in 1992, had held different positions including the chief officer of manufacturing section, assistant to the general manager, deputy general manager of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., deputy general manager, and chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. He is currently the executive Director, deputy general manager of the Company. Mr. Li Feng is the brother of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Geng Guanglin, who joined the Company in 1992, had held different positions including the chief officer of manufacturing section, the deputy general manager of Chibi Chenming Paper Co., Ltd, the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. the chairman of Jilin Chenming Paper Co., Ltd. and the chairman of Jiangxi Chenming Paper Co., Ltd.. He is currently a Director and the deputy general manager and production controller of the Company, and a director of Shouguang Chenming Holdings Company Limited.

Mr. Tan Daocheng, who joined the Company in 1984, had held different positions including chairman and the deputy general manager of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., the chairman and general manager of Hailaer Chenming Paper Co., Ltd., the chief of the offset paper factory and the white paper board factory of the Company, and the chairman of Jiangxi Chenming Paper Co., Ltd. and Chibi Chenming Paper Co., Ltd. He is currently a Director of the Company in charge of duties in Wuhan Chenming and a director of Wuhan Chenming Holdings Company Limited.

Mr. Hou Huancai, who joined the Company in 1983, had held different positions including the chief officer of manufacturing section, chief of branch factory, the chairman of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., the chairman of Jilin Chenming Paper Co., Ltd. and Jiangxi Chenming Paper Co., Ltd. and the chairman of the 1st and 2nd Supervisory Committee of the Company. He is currently a Director of the Company in charge of Jilin Chenming, Fuyu Chenming and Yanbian Chenming.

Mr. Zhou Shaohua, who joined the Company in 1997, had held different positions including the standing deputy general manager, chief engineer, vice-chairman of Wuhan Chenming Hanyang Paper Holdings Co. Ltd. and the chairman of Jiangxi Chenming Paper Co., Ltd. He is currently a Director of the Company and the party committee secretary of Zhanjiang Chenming Paper Pulp Co., Ltd.

II. Employment *(Cont'd)*

(2) Brief biographies of non-executive Directors of the Company

Mr. Cui Youping, professor and doctor of economics, had held positions of deputy chief and chief of the Department of Economics as well as the chief of scientific research in Shandong Economic University and associate Dean of the Shandong Economic University. He currently holds positions as vice president of Shangong University of Finance and Economics, the vice chairman of Institute of Economics of Shandong Province and the Institute of Commerce and Economics of Shandong Province, and has served as a non-executive Director of the Company since April 2010.

Ms. Wang Fengrong, doctor of economics, and visiting scholar of West Virginia University, the United States, previously a lecturer at the Department of Finance of Shandong Economic University and an associate professor at the Economic Research Center of Shandong University. She currently holds positions as professor of the Center of Economic Research of Shandong University, and is also an advisor to doctoral students of Massey University in New Zealand, evaluation expert in both National Social Science Fund and National Natural Science Foundation of China, as well as guest analyst regarding policy implementation of currency and credit matters for the Jinan branch of the People's Bank of China. She has served as an independent non-executive Director of the Company since April 2010.

Mr. Wang Xiaoqun was the chief of the corporate finance unit of the Shouguang City Finance Bureau between 1984 and 1988, and was the deputy chief of the State-owned Assets Supervision and Administration Commission of Shouguang City between 1989 and November 2008. He retired in December 2008. He has served as a non-executive Director of the Company since April 2010.

(3) Brief biographies of independent non-executive Directors

Mr. Wang Aiguo, professor and post doctorate in accounting, previously held positions including deputy chief of Department of Accounting of Shandong Economic University and deputy chief of the Department of Post-graduate Students of Shandong Economic University and chief of Department of Accounting of Shandong Economic University. He currently holds positions as the Dean of the School of Accounting of Shandong University of Finance and Economics, a director of the Accounting Society of China and the China appraisal Society, vice-chairman and secretary-general of Shandong Province Accounting Education Committee and member of the Shandong Province Enterprise Credit Rating Experts Commission. He also serves as an independent director of Shandong Iron and Steel Co., Ltd., and independent non-executive director of China Corn Oil Company Limited, Hisense Kelon Electrical Holdings Co. Ltd. and independent director of Shangdong Zhanqiu Blower Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

Mr. Zhang Zhiyuan, previously served as the deputy chief of Department of Finance of Shandong Economic University, the Dean of the School of Finance of Shandong Economic University, and Dean of Shandong Regional Economic Research School. He currently holds positions as Dean of the Centre for Regional Economic Research and executive vice-dean, professor, doctor of management and postdoctoral in finance of the School of Finance of the Shangdong University of Finance and Economics, as well as vice-president and secretary-general of Shandong Regional Economics Institute, standing director and member of the academic committee of Shandong Province Finance Association and an independent director of Shandong Tyan Home Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

Ms. Wang Yumei had held positions as committee member of the 6th and 7th People's Political Consultative Committee of Haidian District, Beijing City and committee member of the Committee for Social and Legal Affairs. After graduation, Ms. Wang has been working at the Central University of Finance until now. She had held teaching posts at the Department of Economics and Management, and served as director of teaching and research office and vice-dean at the Insurance (Department) College. She is currently deputy librarian of the Central University of Finance and Economics and associate professor of College of Insurance. She also served as executive director of the Labour Science and Education Branch of the Labour Institute, member of Beijing Economic Committee of China Democratic National Association, and supervisor of the Haidian urban management and monitoring unit. She has served as an independent non-executive Director of the Company since April 2007.

II. Employment *(Cont'd)*

(3) Brief biographies of independent non-executive Directors *(Cont'd)*

Ms. Zhang Hong currently a professor and advisor to doctoral students at Shandong University, head of a multi-national corporation research institute, director of China Association of International Trade, director of Shandong Province External Trade Association, director of Shandong Province Commerce Association and director of Shandong Province Japanese Association. She is also an independent director of Zhongtong Bus & Holding Co., Ltd. and Shandong Haihua Company Limited. She has served as an independent nonexecutive Director of the Company since April 2010.

Mr. Wang Xiangfei was the director and assistant general manager of China Everbright Holdings Co., Ltd. and was the executive director in various listed companies controlled by China Everbright Holdings Co., Ltd., while he also held positions including chief of office of Asset Disposal Committee of China Everbright Group and director of China Everbright Investment Management Corporation. Mr. Wang has extensive experience in the fields of investment, management, finance, accounting and treasury, etc. He currently serves as the financial consultant of China Sonangol International Holding Limited/vice financial controller of Sonangol Sinopec International Limited, and an independent non-executive director of CDB International Investment Co., Ltd. (a Hong Kong-listed company), and SEEC Media Group Limited (a Hong Kong-listed company) and an executive director of Nan Nan Resources Enterprise Limited (a Hong Kong-listed company) and external supervisor of Shenzhen Rural Commercial Bank. He has served as an independent non-executive Director of the Company since April 2010.

(4) Brief biographies of Supervisors of the Company

Mr. Gao Junjie, who joined the Company in 1994, had held the positions of the chief officer of the legal section and chief officer of auditing department, etc. He is currently the chairman of supervisory committee, assistant to general manager in charge of the department of inspection, supervisor of Shouguang Chenming Holdings Company Limited and supervisor of Shouguang Henglian Enterprise Investment Co. Ltd.

Mr. Yin Qixiang previously held positions including chief of Economic and Trade Commission of Shougang City (壽光市經濟貿易委員會), chief of Tizheng Department of Shougang City, Shandong Province (山東省壽光市體政部), and head of Qinghua Bureau of Shougang City (壽光市輕化局). He retired in 1998. He has served as a supervisor of the Company since April 2010.

Mr. Guo Guangyao worked for the Tai Hang Apparatus Factory of the Department of Aeronautics (航空部太行儀錶廠) as chief craftsman and engineer between 1969 and 1981, for Shouguang Chemical Fertiliser Factory (壽光化肥廠) as deputy factory chief and party committee secretary between 1981 and 1987, Shouguang Beer Factory (壽光市啤酒廠) as party committee secretary and chief engineer between 1987 and 1989 and for Shouguang Economic and Trade Committee as deputy chief and secretary of CPC Working Committee and chief of Shouguang Enterprise Management Office in March 1990. He retired in December 2003. He has served as a supervisor of the Company since May 2009.

Ms. Wang Ju, who joined the Company in 1987, had held the positions of deputy chief officer and chief officer of manufacturing section, assistant to the general manager and deputy general manager of Shouguang Chenming and deputy general manager of Shouguang Chenming Pulp Manufacturing Factory (壽光晨鳴製漿工廠). She is currently a Supervisor of the Company.

Ms. Yang Hongqin, who joined the Company in 1987, held the positions of the deputy chief and chief officer of quality control section and the chief of after sale services department of the Company and manager of property management company. She is currently a Supervisor of the Company and assistant to general manager of Shandong Chenming Power Supply Holdings. Co., Ltd.

II. Employment *(Cont'd)*

(5) Brief biographies of Senior Management of the Company

Ms. Li Xueqin was successively awarded titles including "Model Worker in Shandong Province" (山東省勞動模範), "Model Worker in the Country" (全國勞動模範) and "Nationwide May 1st Labor Medal" (全國五一勞動獎章). She was a deputy of the Tenth, Eleventh and Twelfth National People's Congress. She joined the Company in 1987 and held the positions of the chief of audit department and deputy general manager, etc. Ms. Li has been a deputy general manager of the Company and a director of Shouguang Chenming Holdings Company Limited since March 2003. Ms. Li Xueqin is the spouse of Mr. Chen Hongguo, chairman of the Company.

Mr. Hu Changqing joined the Company in 1988 and had held positions as the chief of the technological reform department, chief officer of branch factory, deputy general manager and Director of the Company, etc. He is currently the deputy general manager of the Company in charge of the Zhanjiang Chenming Paper Pulp project.

Mr. Wang Chunfang, who joined the Company in 1997, had held different positions including a financial executive of a sales branch and a financial controller of sales head office of the Company, a financial controller of Jilin Chenming Paper Co., Ltd., an assistant to the general manager of the Company and chief of the finance department. He is currently the financial controller of the Company and secretary to the Board.

Mr. Chang Liting joined the Company in 1985. He had served as chairman of the workers' union of the Company and product general manger of a sales company. He is currently chairman of the workers' union, deputy general manager and deputy chief marketing officer of the Company in charge of legal department.

Mr. Li Zhenzhong joined the Company in 1995. He had served as principal representative of the shanghai management region of a sales company, sales manager of cultural paper products. He is currently deputy general manager of the Company.

Mr. Zhang Yanjun joined the Company in 1985 and had held different positions including head of the production section, factory chief, and the director of Shandong Chenming Paper Group Qihe Paperboard Co. Ltd., a controlling subsidiary, and the general manager of Jilin Chenming Paper Co., Ltd. He is currently serving as the deputy general manager of the Company and chief officer of art paper factory.

Mr. Xia Jigang served as commissioner I of the proudction unit of Ningbo Zhonghua Paper Company Limited from 1996 to May 2009. He joined the Company in May 2009, responsible for the production work of the Group. He is currently deputy general manager of the Company.

Mr. Poon Shiu Cheong is a Fellow Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and CPA Australia. He obtained a master degree in Accounting from Central Queensland University and a master degree in Business Administration from Southern Cross University. He joined the Company in 2008, and is currently the qualified accountant and company secretary of the Company.

II. Employment *(Cont'd)*

Employment at the shareholder of the Company

√ Applicable ☐ Not applicable

Name of employee	Name of shareholder of the Company	Position at the shareholder of the Company	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from shareholder of the Company
Chen Hongguo	Shouguang Chenming Holdings Company Limited	Chairman and General Manager Director	20 September 2010	20 September 2013	No
Yin Tongyuan	Shouguang Chenming Holdings Company Limited	Director	20 September 2010	20 September 2013	No
Geng Guanglin	Shouguang Chenming Holdings Company Limited	Director	20 September 2010	20 September 2013	No
Tan Daocheng	Shouguang Chenming Holdings Company Limited	Director	20 September 2010	20 September 2013	No
Li Xueqin	Shouguang Chenming Holdings Company Limited	Director	20 September 2010	20 September 2013	No
Gao Junjie	Shouguang Chenming Holdings Company Limited	Supervisor	20 September 2010	20 September 2013	No
Explanation of the employment at the shareholder of the Company					Nil

II. Employment *(Cont'd)*

Employment at other units

√ Applicable ☐ Not applicable

Name of employee	Name of the other unit	Position at the other unit	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from the other unit
Zhang Hong	Shandong Haihua Company Limited	Independent director	27April 2011	27 April 2014	Yes
	Zhongtong Bus & Holding Co., Ltd.	Independent director	27 December 2010	27 December 2013	Yes
	Shandong Xinneng Taishan Power Generation Co., Ltd.	Independent director	27 May 2011	27 May 2014	Yes
	Shandong Gettop Acoustic Co., Ltd.	Independent director	5 October 2011	5 October 2014	Yes
Zhang Zhiyuan	Shandong Tyan Home Co., Ltd.	Independent director	26 June 2008	26 June 2014	Yes
Wang Aiguo	Shandong Iron and Steel Co., Ltd.	Independent director	10 April 2012	10 April 2015	Yes
	China Corn Oil Company Limited	Independent director	23 November 2009	23 November 2012	Yes
	Hisense Kelon Electrical Holdings Co. Ltd.	Independent director	20 January 2011	20 January 2014	Yes
	Shandong Zhanqiu Blower Co., Ltd.	Independent director	12 July 2012	12 July 2015	Yes
Wang Xiangfei	CDB International Investment Co., Ltd.	Independent director	21 March 2012	21 March 2015	Yes
	SEEC Media Group Limited	Independent director	21 June 2010	21 June 2013	Yes
	Nan Nan Resources Enterprise Limited	Executive director	19 March 2011	19 March 2014	Yes
	Shenzhen Rural Commercial Bank	Supervisor	31 March 2012	31 March 2015	Yes
Explanation of the employment at the other unit	All the above four persons were independent directors of the Company.				

III. Remunerations of Directors, Supervisors and Senior Management

Decision process, basis for determining the remuneration and actual payment for the remuneration of Directors, Supervisors and Senior Management

1. The Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB40,000 – RMB100,000 (after tax). The travel expenses for attending board meetings and general meetings of the Company and fees incurred reasonably in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed.

2. The annual remuneration of each of the executive Directors and senior management of the Company fall between the range of RMB200,000 – RMB5,000,000, while actual amount shall be determined based on the main financial indicators and operation target completion of the Company, the scope of work and main responsibilities of the Directors and senior management of the Company, the target completion of Directors and senior management as assessed by the duty and performance appraisal system, as well as business innovation capability and profit generation ability of the Directors and senior management. The actual implementation proposal shall be determined by the internal remuneration committee of the Board as well as considered and decided by the Board.

3. The details of the remunerations of Directors, Supervisors and Senior Management are set out in note (IX). 4 "Remuneration of key management staff" to Financial Report.

III. Remunerations of Directors, Supervisors and Senior Management *(Cont'd)*

Decision process, basis for determining and actual payment for the remuneration of Directors, Supervisors and Senior Management *(Cont'd)*

Remunerations of Directors, Supervisors and Senior Management during the reporting period

Name	Position	Sex	Age	Status	Total remuneration received from the Company	Total remuneration received from shareholder unit	Actual payment for the remuneration during the reporting period
Chen Hongguo	Chairman, general manager	M	48	In office	399.2	0.00	399.2
Yin Tongyuan	Vice-chairman	M	55	In office	268.2	0.00	268.2
Li Feng	Director, deputy general manager	M	40	In office	100.18	0.00	100.18
Geng Guanglin	Director, deputy general manager	M	39	In office	121.46	0.00	121.46
Tan Daocheng	Director	M	46	In office	60.02	0.00	60.02
Hou Huancai	Director	M	51	In office	91.79	0.00	91.79
Zhou Shaohua	Director	M	51	In office	119.89	0.00	119.89
Cui Youping	Director	M	49	In office	5	0.00	5
Wang Xiaoqun	Director	M	57	In office	5	0.00	5
Wang Fengrong	Director	F	44	In office	5	0.00	5
Zhang Zhiyuan	Independent Director	M	50	In office	5	0.00	5
Wang Aiguo	Independent Director	M	49	In office	5	0.00	5
Zhang Hong	Independent Director	F	48	In office	5	0.00	5
Wang Yumei	Independent Director	F	50	In office	5	0.00	5
Wang Xiangfei	Independent Director	M	62	In office	12.5	0.00	12.5
Gao Junjie	Supervisor	M	42	In office	50	0.00	50
Wang Ju	Supervisor	F	47	In office	18	0.00	18
Yang Hongqin	Supervisor	F	45	In office	16.55	0.00	16.55
Yin Qixiang	Supervisor	M	75	In office	2.5	0.00	2.5
Guo Guangyao	Supervisor	M	70	In office	2.5	0.00	2.5
Li Xueqin	Deputy general manager	F	47	In office	104.46	0.00	104.46
Hu Changqing	Deputy general manager	M	47	In office	185.23	0.00	185.23
Wang Chunfang	Financial controller, secretary to the Board	M	37	In office	92	0.00	92
Chang Liting	Deputy general manager	M	59	In office	91.01	0.00	91.01
Li Zhenzhong	Deputy general manager	M	39	In office	93.71	0.00	93.71
Hao Yun		M	50	Resigned	25.48	0.00	25.48
Zhang Yanjun	Deputy general manager	M	47	In office	48.48	0.00	48.48
Xia Jigang	Deputy general manager	M	37	In office	90.58	0.00	90.58
Wang Shihong		M	49	Resigned	26.67	0.00	26.67
Zhang Chunlin		M	44	Resigned	48.2	0.00	48.2
Poon Shiu Cheong	Company secretary	M	43	In office	12.26	0.00	12.26
Total	–	–	–	–	2,115.87	0.00	2,115.87

III. Remunerations of Directors, Supervisors and Senior Management *(Cont'd)*

Decision process, basis for determining and actual payment for the remuneration of Directors, Supervisors and Senior Management *(Cont'd)*

Directors, Supervisors and Senior Management of the Company granted share options as incentives during the reporting period

☐ Applicable √ Not applicable

IV. Resignation and dismissal of Directors, Supervisors and Senior Management

Name	Prior Position	Type	Date	Reason
Hao Yun	Deputy general manager and secretary to the Board	resigned	22 October 2012	Due to personal health reasons
Wang Shihong	Deputy general manager	resigned	22 October 2012	Due to work requirements
Zhang Chunlin	Deputy general manager	resigned	25 December 2012	Due to family reasons

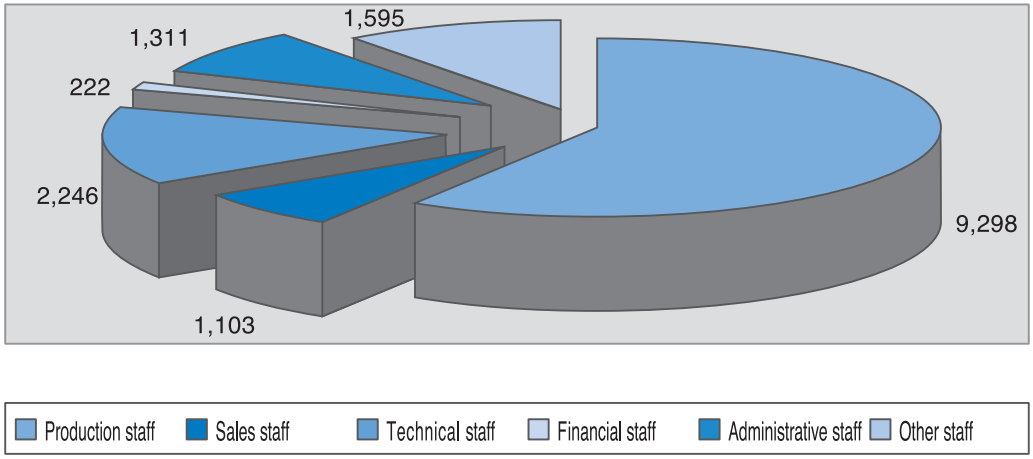
V. Change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management)

During the reporting period, there was no change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management) and the Company's operation was not affected.

VI. Personnel of the Company

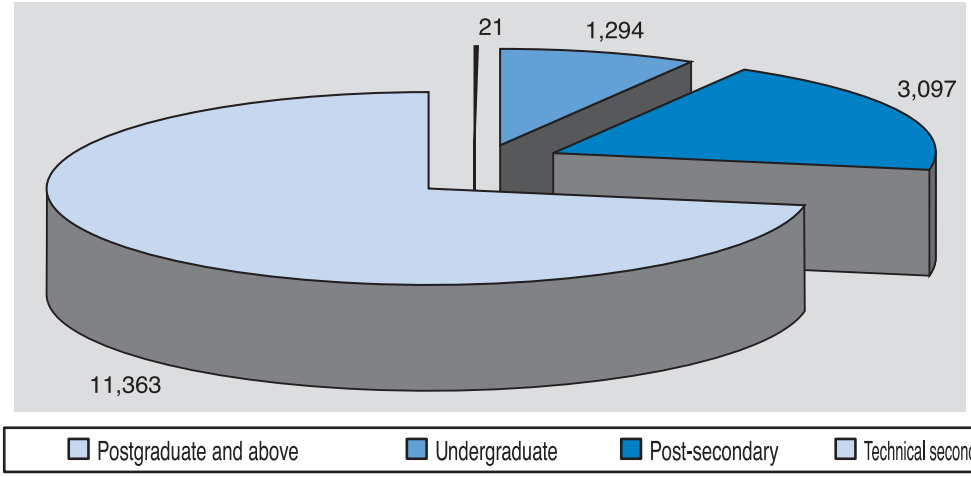
At the end of the reporting period, the Group had 15,775 employees in aggregate.

(1) Speciality composition



VI. Personnel of the Company *(Cont'd)*

(2) Education level



The Company had obligations for 4 ex-employees or retired employees, including employees of subsidiaries.

(3) Remuneration policies

The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. Subject to the relevant laws and regulations of the PRC, the Company adopts different standards of remuneration for different employees, which are determined based on their performance, experience, position, etc. Details of the remuneration of employees of the Group in 2012 are set out in Note 27 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

Meanwhile, employees of the Group in the PRC participate in state-managed retirement benefit schemes operated by local governments. The Group is required to contribute a specified percentage of the employees' payroll costs to the retirement benefit scheme to fund the benefits. Details of the employee pension benefits provided by the Group are set out in Note 27 of the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

(4) Training program

The Company attaches great importance to staff training, actively promote the learning organisation construction. Detailed staff training programs are prepared annually to carry out multi-form and multi-channel to carry out staff training. At the same time, we create a happy learning atmosphere actively, prepare simple and practical learning training materials for staff, and encourage self learning through skill level assessment, in order to improve overall business skills.

IX Corporate Governance

I. Corporate Governance

The Company operated in compliance with the requirement of Companies Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), Rules Governing Listing of Stocks on Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》), Hong Kong Listing Rules and the related requirements as required by China Securities Regulatory Commission. The Company further improved and optimised its legal person governance structure during the reporting period. The Board considers there is no material deviation of the Company in its corporate governance from the regulatory documentation requirements provided for listed companies in respect of corporate governance.

In 2012, the Board strived to regulate the operation of the Company by improving corporate governance. It improved corporate governance practice in a timely manner according to relevant regulations, and formulated management systems including amendments of Article of Association, Insider Registration System, Procedural Rules for General Meetings and the Management System of the Information Disclosure in the Interbank Bond Market.

The cash dividend distribution principle as set out in the Articles of Association, the conditions, form and percentage of the distribution, the intervals of profit distribution, the decision making process of the profit distribution policy and the adjustment to the profit distribution policy were optimized and supplemented based on the its actual operations in accordance with the related requirements of Notice of Reproducing Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies of CSRC (Lu Zheng Jian Fa [2012] No. 18)" issued by Shandong branch of China Securities Regulatory Commission. The amendments had been submitted to the Board of the Company considered and approved and implemented.

In order to regulate the information disclosure of the Company in respect of the issuance of financial instruments in interbank bond market and protect the legal rights of investors, the Company has formulated the Management System of the Information Disclosure in the Interbank Bond Market according to the Rules on Information Disclosure of Non-financing Instruments in the Interbank Bond Market issued by the National Association of Financial Market Institutional Investors and relevant laws and regulations.

The Company strictly implemented its related system of internal control to facilitate its regulated operation and healthy development, thereby protecting the legal interests of investors. The corporate governance of the Company was exactly the same as what was required by the CSRC. The regulated operations and the internal control standards would grow with the development of the Company.

Any incompliance of Companies Law and relevant requirements of CSRC in respect of corporate governance

□ Yes √ No

There is no incompliance of Companies Law and relevant requirements of CSRC in respect of corporate governance.

IX Corporate Governance

I. Corporate Governance *(Cont'd)*

Progress of the corporate governance works and the formulation and implementation of the management policy on personnel with insider information

During the reporting period, the Company revised the Insider Registration System (《內幕信息知情人登記制度》) under the circumstances in accordance with the "Rules on Establishment of Insider Registration Management System by Listed Companies" (CSRC Notice) No. [2011] 30 issued by the China Securities Regulatory Commission and relevant requirements of the amended "Memorandum on Information Disclosure No. 34 – Management Matters Regarding Insider Registration" issued by Shenzhen Stock Exchange on 15 March 2011 to standardise the management of insider information, strengthen the confidentiality of its insider information and maintain information disclosure in a fair manner. The systems defined the scope of insider information, the persons with knowledge of insider information and their scope, the management of registration and filing, confidentiality and the related liabilities. As the management body of insider information, the Board designated the secretary of the Board to be responsible for the management of the insider information. The Company strengthened the registration and management systems of and the supervision and examination works of insiders to standardise the internal circulation procedure of significant information, thus ensuring the information disclosure in a fair manner and specifically preventing leakages of insider information and insider trading. The Company strictly implemented Insider Registration System and the related systems to prohibit insiders from trading the shares of the Company prior to significant and sensitive information disclosure which had an effect on the share price of the Company.

The Company identified no trading of the shares of the Company by the insiders of the Company during the price sensitive period through self examination, and there were no regulatory penalty records.

II. Annual general meeting and extraordinary general meeting convened during the reporting period

1. Annual general meeting during the reporting period

Meeting	Convened Date	Name of the resolutions of the meeting	Resolutions	Disclosure date	Disclosure index
2011 annual general meeting	29 May 2012	10 resolutions in respect of 2011 Directors' Report, 2011 Supervisory Committee Report and 2011 Independent Directors' Report of the Company	All 10 resolutions were approved and passed	30 May 2012	http://www.cninfo.com.cn

II. Annual general meeting and extraordinary general meeting convened during the reporting period *(Cont'd)*

2. Extraordinary general meeting during the reporting period

Meeting	Convened Date	Name of the resolutions of the meeting	Resolutions	Disclosure date	Disclosure index
2012 first extraordinary general meeting	15 January 2012	Resolution in respect of provision of financing guarantee for Shandong Chenming Paper Sales Co., Ltd., a wholly-owned subsidiary, by the Company, and the provision of guarantee for the general facilities of Yanbian Chenming Paper Co., Ltd., a wholly-owned subsidiary, by the Company	Both resolutions were approved and passed	17 January 2012	http://www.cninfo.com.cn
2012 second extraordinary general meeting	5 November 2012	Resolutions in respect to the acquisition of equity interest in Jiangxi Chenming held by SAPPI, amendments to the articles of association, and amendments to the procedural rules of the general meeting	All 3 resolutions were approved and passed	6 November 2012	http://www.cninfo.com.cn
2012 third extraordinary general meeting	12 December 2012	Resolutions in respect to the repurchase of part of the domestic listed foreign shares (B shares) of the Company, the authorisation to the Board to implement the related matters in respect of the repurchase of part of domestic listed foreign shares (B shares), and the issue of short-term commercial paper	All 3 resolutions were approved and passed	13 December 2012	http://www.cninfo.com.cn
2012 first domestic listed share (A share and B share) class meeting and 2012 first overseas listed share (H share) class meeting	12 December 2012	Resolutions in respect to the repurchase of part of the domestic listed foreign shares (B shares) of the Company, and the authorisation to the Board to implement the related matters in respect of the repurchase of part of domestic listed foreign shares (B shares)	Both resolutions were approved and passed	13 December 2012	http://www.cninfo.com.cn

III. Performance of Independent Directors during the reporting period

1. Attendance of Independent Directors in board meetings and general meetings

	Attendance of Independent Directors in board meetings					
Name of Independent Directors	Number of board meetings attended during the period	Attend in person	Attend via communication channels	Number of appointed attendance	Absence	Absence for two successive times (attend in person)
Zhang Zhiyuan	12	0	11	1	0	No
Wang Aiguo	12	1	11	0	0	No
Zhang Hong	12	1	11	0	0	No
Wang Yumei	12	1	11	0	0	No
Wang Xiangfei	12	1	11	0	0	No
No. of the general meetings presented by Independent Directors						0

Explanation on the absence from the Board meeting twice

None of the Independent Directors was absent from the Board meeting twice.

2. Objections from Independent Directers on related issues of the Company

Were there any objections on related issues of the Company from the Independent Directors?

☐ Yes √ No

There was no objections on related issues of the Company from the Independent Directors.

3. Other details about the performance of duties by the Independent Directors

Were there any suggestions from the Independent Directors adopted by the Company?

√ Yes ☐ No

Explanation on the adoption or non-adoption with related suggestions from the Independent Directors for prevention from occupational risks.

Suggestion from the Independent Directors about arranging insurance cover on Directors and Senior Management Liability Insurance for its Directors and Senior Management was adopted by the Company in order to prevent the professional risk.

IV. Performance of duties by special committees under the Board of Directors

1. The audit committee of the Board

The audit committee of the Board discharged of its duties with diligence in accordance with the related requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange and the work instructions of the audit committee of the Board as follows:

(1) The following major tasks were completed during 2012:

① it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2011 financial report auditing on pre-auditing work, reviewed the 2011 auditing report and financial report and submitted such reports to the Board of the Company;

② it reviewed the 2012 interim financial statements for the six months ended 30 June 2012, which were submitted to the Board for approval.

(2) Auditing work conducted on the 2012 financial report of the Company is as follows:

① it reviewed the 2012 auditing plan and the related information of the Company with the auditing certified public accountants and the finance department of the Company prior to the on site audit and negotiated and determined the schedule of an audit of the 2012 financial statements of the Company with RSM China Certified Public Accountants;

② it reviewed the draft of financial statements of the Company prior to an annual on site audit performed by the auditing certified public accountants and issued its approval to audit;

③ it kept in close contact with the auditors upon the annual on site audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;

④ it reviewed the financial statements of the Company again upon the issue of draft opinion on the annual audit by the auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;

⑤ at the first meeting of the audit committee in 2012, the auditors' report on the annual audit issued by the certified public accountants was approved and then was submitted to the Board;

⑥ it reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2012.

2. The remuneration and assessment committee of the Board

The remuneration and assessment committee of the Company were primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. In the reporting period, the remuneration and assessment committee formulated the 2012 remuneration package of the Directors and the Senior Management of the Company, which then was submitted to the Board for approval, based on the production and operation conditions of 2012 and assessment of the Directors and the Senior Management of the Company.

IV. Performance of duties by special committees under the Board of Directors *(Cont'd)*

3. The nomination committee of the Board

During the reporting period, the nomination committee held 2 meetings.

The business of the first meeting in 2012 mainly included the discussion of the respective resignation of Mr. Hao Yun as the deputy general manager and secretary of the Board, and Mr. Wang Shiwang as a deputy general manager. The resolutions were submitted to the fourteenth meeting of the sixth session of the Board of the Company for consideration and approval. The business of the second meeting in 2012 mainly included the discussion of the respective resignation of Mr. Zhang Chunlin as a deputy general manager, the discussion of appointing Mr. Wang Chunfang as secretary of the Board. The resolutions were submitted to the sixth meeting of the sixth session of the Board of the Company for consideration and approval.

4. The strategic committee of the Board

During the reporting period, the strategic committee held one meeting. Concerned about the authorisation on project development and financing from the Board, the strategic committee keeps sound communication with the management, and is fully aware of each issues within the range of such authorisation.

V. Performance of duties by the Supervisory Committee

Were there any risks of the Company identified by Supervisory Committee when performing its duties during the reporting period?

□ Yes √ No

None of those issues under the supervision was objected by Supervisory Committee during the reporting period.

VI. Particulars about the integrity of businesses, personnel, assets, organizations, and finance from the controlling shareholder

1. In terms of business: The Company was completely independent from the controlling shareholder, and had its independent and complete business operation capability.
2. In terms of personnel: The labour, personnel and salary management were completely separated from the controlling shareholder.
3. In terms of assets: There was only shareholding relationship between the Company and Shouguang Chenming Holdings Company Limited. The assets of the Company were completely separated from those of the controlling shareholder.
4. In terms of organisation: The Company had a mature and independent organisation structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from that of the controlling shareholder.
5. In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts. The controlling shareholder never interfered in the financial activities of the Company.

All in all, the Company is totally separate in businesses, personnel, assets, organisations, and finance from the controlling shareholder with the integrity of capacity in both business and operation.

IX Corporate Governance

VII. Industry competition

There was no competition between the Company, the controlling shareholder and the beneficial controller in the industry.

VIII. Assessment and incentive mechanism for the Senior Management during the reporting period

The Senior Management of the Company is assessed monthly and annually. Monthly assessments were conducted in line with the direction of the annual major tasks, and were focused on appraisals of two fixed indicators, namely the completion status of in each month and the evaluation on important performance indicators. It was carried out monthly by way of cross assessment and supervision among the related departments. The annual assessments were carried out by the Remuneration and Assessment Committee with reference to the results of monthly assessments and overall performances over the year, including the integrated quality of Senior Management and internal training of talents.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited

1. Compliance with the Code on Corporate Governance

The Company maintained high standards of corporate governance through various internal controls. The Board reviewed the corporate governance practices of the Company from time to time to enhance the corporate governance standards of the Company.

Save for the details set out in IV "Chairman and general manager" and VI. "Communications with shareholders" of this section, the Company had fully complied with all the principles and code provisions of the Code on "Corporate Governance" as set out in Appendix 14 to the Hong Kong Listing Rules during the reporting period.

2. Securities transactions by Directors

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

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

3. Board of directors

The board of directors of the Company are elected at the general meeting and held accountable to the general meeting, and shall exercise the following functions and powers: (1) to be responsible for convening shareholders' general meeting and to report on its work to the general meeting; (2) to carry out the resolutions of general meetings; (3) to decide on the business plans and investment proposals of the Company; (4) to formulate the proposed annual financial budget and final accounts of the Company; (5) to formulate the plan for profit distribution and the plan making up losses of the Company; (6) to formulate plans for the increase or reduction in the registered capital of the Company and for the issue and listing of Company's debentures or other securities; (7) to draft plans for material acquisition and repurchase of the Company's own shares; (8) to draft plans for the merger, division or dissolution or the change of formation of the Company; (9) to decide on external investment, acquisition and disposal of assets, pledge of assets, matter in relation to external guarantee, entrusted wealth management, connected transactions, etc. within the scope of mandate of the general meeting; (10) to decide on the establishment of the Company's internal management organisation; (11) to employ or dismiss the manager or secretary to the board of directors of the Company; to employ or dismiss the Senior Management, such as the deputy general manager(s) and personnel in charge of financial affairs, as proposed by the general manager; and to decide on their remuneration and rewards and punishments; (12) to formulate the basic management system of the Company; (13) to formulate proposals for amending the Articles of Association; (14) to administrate matter related to information disclosure of the Company; (15) to propose to the general meeting for the engagement or replacement of accounting firm performing audit for the Company; (16) to review work reports from managers of the Company and to inspect on their work; (17) to exercise the functions and powers as conferred upon by the Articles of Association or the general meeting.

The Board comprised seven executive Directors: Chen Hongguo (Chairman), Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai, Zhou Shaohua; three non-executive Directors: Cui Youping, Wang Xiaoqun, Wang Fengrong; and five independent non-executive Directors: Zhang Zhiyuan, Wang Aiguo, Zhang Hong, Wang Yumei, Wang Xiangfei. Please refer to section VIII of this Annual Report for their brief biographies.

The Board is responsible for leading and monitoring the Company, and is on a whole responsible for the administration and supervision of company businesses to facilitate its success. The Executive Director or the senior management is authorized for being responsible for the various divisions and functions and management of the processing. Directors of the Company shall act objectively and make decisions in the interests of the Company. The management and senior management of the Company held regular meetings with the board of directors to discuss the ordinary business operations and performance of the Company, and carried out the relevant decisions of the board of directors. the Company will arrange independent legal advice upon the request from the Directors or any committees of the Board of Directors, if the Board of Directors or any committees of the Board of Directors consider it necessary to seek for independent professional advice.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

3. Board of directors *(Cont'd)*

During the reporting period, the Board held 12 meetings, 6 of which were regular meetings and 6 was an extraordinary meeting. Except Mr. Zhang Zhiyuan who was on business trip and absent from the tenth meeting of the sixth session of the Board and thus appointed Mr. Wang Aiguo, another Independent Directors, to be present on his behalf, the other Directors of the Company attended 12 Board meetings.

		Attendance of the relevant meetings (attention required/attended)					
Name	Position	Board Meetings	Audit committee meetings	Nomination committee meetings	Remuneration and assessment committee meetings	Strategic committee meetings	General meetings (including class meetings)
I. Executive Directors							
Chen Hongguo	Chairman and General Manager	12/12	N/A	2/2	1/1	1/1	1/5
Yin Tongyuan	Vice Chairman	12/12	N/A	2/2	1/1	1/1	5/5
Li Feng	Director, Deputy General Manager	12/12	N/A	N/A	N/A	1/1	0/5
Geng Guanglin	Director, Deputy General Manager	12/12	N/A	N/A	N/A	N/A	0/5
Tan Daocheng	Director	12/12	N/A	N/A	N/A	N/A	0/5
Hou Huancai	Director	12/12	N/A	N/A	N/A	N/A	1/5
Zhou Shaohua	Director	12/12	N/A	N/A	N/A	1/1	0/5
II. Non-executive Directors							
Cui Youping	Director	12/12	5/5	N/A	N/A	N/A	0/5
Wang Xiaoqun	Director	12/12	N/A	N/A	N/A	N/A	3/5
Wang Fengrong	Director	12/12	5 /5	N/A	N/A	N/A	2/5
III. Independent non-executive Directors							
Zhang Zhiyuan	Independent Director	12/12	5/5	2/2	1/1	1/1	0/5
Wang Aiguo	Independent Director	12/12	5/5	N/A	1/1	N/A	0/5
Zhang Hong	Independent Director	12/12	5/5	N/A	N/A	1/1	0/5
Wang Yumei	Independent Director	12/12	N/A	2/2	1/1	N/A	0/5
Wang Xiangfei	Independent Director	12/12	N/A	2/2	N/A	1/1	0/5

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

3. Board of directors *(Cont'd)*

Save for those disclosed in the brief profile of Directors of the Company in the Report, none of the members of the Board had any financial, business, family relations or material connections with each other.

The Board held 6 regular meetings during the year, each by giving a 14-day notice in advance to ensure that all Directors could participate in discussions of matters in the agenda. Reasonable prior notification was given for the other meetings of the Board to ensure all Directors could take time to attend.

All Directors had access to opinions and services of the secretary to the Board to ensure the procedures governing the Board and all applicable regulations and rules were complied with.

The Company has arranged insurance cover on Directors and Senior Management Liability Insurance for its Directors and Senior Management.

Directors' trainings and professional development

All newly appointed Directors are provided with necessary orientation information, with an aim to ensure that they will have a better understanding of operations and business of the Company as well as relevant laws and regulations and obligations under the Listing Rules.

During the year under review, there were no changes in the composition of the Board. Directors and Supervisors of the Company were arranged by the Company to attend the 2nd session of training courses 2012 for directors and supervisors held by Listed Company Association of Shandong (山東上市公司協會); and also, briefing paper in respect of new provisions for disclosure of price-sensitive information under SFO of Hong Kong prepared by Advisor to Hong Kong Law of the Company was distributed to all Directors and Supervisors, the above of which were to ensure all Directors and Supervisors to comply with relevant laws and sound corporate governance practice, and enhance their awareness of sound corporate governance practice.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

4. Chairman and general manager

The chairman and general manager of the Company is Mr. Chen Hongguo. Please refer to section VIII of the Report for his brief biographies.

According to the Articles of Association of the Company, the chairman shall exercise the following powers: (1) presiding over general meetings, and convening and presiding over Board meetings; (2) supervising and inspecting the implementation of the resolutions of the Board; (3) signing the shares, the securities and bonds issued by the Company; (4) signing important documents of the Board and other documents which are required to be signed by legal representative of the Company; (5) performing the powers of a legal representative; (6) nominating candidates for general manager for the Board; (7) exercising the special right to operate the Company in accordance with the laws and acting for the benefits of the Company in the event of emergency situation as a result of act of God or natural disaster, and reporting to the Board meetings and general meeting afterwards; and (8) exercising other powers authorised by the Board.

The general manager shall exercise the following powers: (1) in charge of the operation and management of the Company, and organising the implementation of the resolutions of the Board; (2) organising the implementation of the Company's annual business plans and investment plans; (3) drafting plans for the establishment of the internal organisational structure of the Company; (4) drafting the basic management system of the Company; (5) formulating specific rules and regulations for the Company; (6) proposing the appointment or dismissal of the deputy general manager and chief financial officer; (7) appointing or dismissing management personnel other than those required to be appointed or dismissed by the Board; (8) proposing the wages, welfare, rewards, and penalties of staff and to decide the appointment or dismissal of staff of the Company; (9) proposing the convening of extraordinary meeting of the Board; and (10) exercising other powers conferred by the Articles of Association of the Company and the Board.

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.

5. Independent non-executive Directors

There are five independent non-executive Directors in the Board, which is in compliance with the minimum requirement of the number of independent non-executive directors set out in the Hong Kong Listing Rules. Wang Aiguo and Wang Xiangfei, the independent non-executive Directors of the Company, have appropriate accounting or related financial management expertise, which is compliance with the requirement of Rule 3.10 of the Hong Kong Listing Rules. Please refer to section VIII of the Report for their brief biographies. The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Hong Kong Listing Rules and considered all of the independent non-executive Directors to be independent during the year.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

6. Terms of Directors

According to the Articles of Association of the Company, all Directors, including non-executive Directors, are elected at general meetings with a term of three years from April 2010 to April 2013. They may be re-elected for another term. Directors will be elected at the forthcoming annual general meeting of the Company as part of the change of the session of the Board. The director candidates to be elected will not enter into a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. The personal information of the director candidates will be set out in the circular to be dispatched to holders of H shares to enable shareholders to make an informed decision on the election of Directors.

7. Directors' responsibility for the financial statements

The Directors acknowledged their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. The Directors believed that the Company had adopted and applied consistently appropriate accounting policies in preparing the financial statements in compliance with all related accounting standards.

8. Board Committees

According to CG Code, the Board has established three committees, namely, Audit Committee, Remuneration and Assessment Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. Each Board Committee has its own defined written terms of reference. The written terms of reference of each Board Committee are published on websites of stock exchange and the Company.

Save for requirements of CG Code, the Company also set up Strategic Committee, for overseeing and studying long-term strategic development plan of the Company and making recommendations.

9. Audit Committee

The Audit Committee of the Company comprises of three independent non-executive Directors and two non-executive Directors. Its primary duties are serving as a communication media between internal and external audit and the related review and supervision. The chief member of the Audit Committee is Zhang Hong, an independent non-executive Director, and other members are Cui Youping, Wang Fengrong, Wang Aiguo and Zhang Zhiyuan. Wang Aiguo has appropriate professional qualifications or appropriate accounting or related financial management expertise, which is in compliance with the requirement of the Hong Kong Listing Rules.

The primary duties of the Audit Committee of the Company are: (1) proposing the appointment or dismissal of the external auditors; (2) supervising the internal control system of the Company and its implementation; (3) serving as a communication media between internal and external audit; (4) auditing the financial information of the Company and its disclosures; (5) reviewing the internal control system of the Company and audit the significant connected transactions; and (6) dealing with other matters as delegated by the Board.

The Audit Committee discussed with the management of the Company the accounting standards and practices adopted by the Group and discussed and reviewed this report, including the review of the financial statements of the Group for the year ended 31 December 2012 prepared in accordance with China Accounting Standards for Business Enterprises.

Particulars of the meetings held by the Audit Committee during the reporting period were detailed in part IV of this section.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

10. Remuneration and Assessment Committee

The Company set up a Remuneration and Assessment Committee which comprised five Directors, including Wang Aiguo, the chief committee member, and other members, namely Chen Hongguo, Yin Tongyuan, Zhang Zhiyuan and Wang Yumei. Three members, including the chief member, are independent non-executive Directors, which is in compliance with Code of Corporate Governance Practice. The Remuneration and Assessment Committee is primarily responsible for formulating the criteria of appraisal of the Directors and managers and conducting the appraisal, and studying and formulating the remuneration policy and package of the Directors and the Senior Management of the Company. The Remuneration and Assessment Committee is accountable to the Board.

The primary duties of the Remuneration and Assessment Committee of the Company are: (1) formulating the remuneration plan or package based on the major scope of work, duties and importance of the Directors and the management and the remuneration level of other counterparts; (2) formulating the remuneration plan or package which mainly includes but not limited to standards, procedures and a system for performance appraisals as well as major plans and a system for rewards and sanctions; (3) examining the performance of the Directors, excluding the independent non-executive Directors, and the Senior Management and conduct annual performance appraisals for them; (4) supervising the implementation of the remuneration policy of the Company; and (5) dealing with other matters as delegated by the Board.

Particulars of the meeting's held by the Remuneration and Assessment Committee during the reporting period are detailed in part IV of this section.

11. Nomination Committee

The Company set up a Nomination Committee which comprised five Directors, including Zhang Zhiyuan, the chief committee member, and other members, namely Chen Hongguo, Yin Tongyuan, Wang Xiangfei and Wang Yumei. Three members, including the chief member, are independent non-executive Directors, which is in compliance with Code of Corporate Governance Practice. The Nomination Committee is primarily responsible for selecting candidates for directors and the management of the Company, determining the selection criteria and procedure and making recommendations.

The primary duties of the Nomination Committee are (1) advising the Board on the size and composition of the Board in light of the company's operating activities, asset scale and shareholding structure; (2) studying the selection criteria and procedure for Directors and the management and advising the Board on the same; (3) extensively identifying qualified candidates for Directors and the management; (4) examining candidates for Director and the management and advising on the same; (5) examining other Senior Management staff pending referral to the Board for decision on their employment and advising on the same; (6) dealing with other matters as delegated by the Board.

During the reporting period, the Nomination Committee studied the needs of the Company for new Directors and managerial personnel and identified suitable candidates for Director and managerial positions through various channels (including from the Group internally and from the human resources market). Upon acceptance of nomination by the nominated person, the Nomination Committee performed qualification review on preliminary candidates by holding meetings, review criteria include the academic qualifications, relevant experience and specialized skills of the preliminary candidates. One month prior to election of new Directors, the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board; prior to engaging new Senior Management, the Nomination Committee submitted recommendations and relevant materials of the new Senior Management personnel to the Board.

Particulars of the meeting's held by the Nomination Committee during the reporting period are detailed in part IV of this section.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

12. Strategic Committee

The Company set up a Strategic Committee which comprised seven Directors, including Chen Hongguo, the chief committee member, and other members, namely, Yin Tongyuan, Li Feng, Zhou Shaohua, Wang Xiangfei, Zhang Zhiyuan and Zhang Hong. The Strategic Committee is primarily responsible for studying the long term strategic development and major investments of the Company and making recommendations.

The primary duties of the Strategic Committee are (1) conducting research and submitting proposals regarding the long term development strategic plan; (2) conducting research and submitting proposals regarding the financing plans for major investments which require approval from the Board as stipulated in the Articles of Association of the Company; (3) conducting research and submitting proposals regarding major capital operations and assets operation projects which require approval from the Board as stipulated in the Articles of Association of the Company; (4) conducting research and submitting proposals regarding other material matters that may affect the development of the Company; (5) carrying out examination on the implementation of the above matters; (6) dealing with other matters as delegated by the Board.

13. Auditors

The Board of the Company and the 2010 Second Extraordinary General Meeting of the Company considered and approved on 28 October 2010 and 16 December 2010 respectively to engage RSM China Certified Public Accountants and RSM Nelson Wheeler to be responsible for domestic and international auditing of the Company for 2010 respectively.

On 18 May 2011, the 2010 annual general meeting of the Company agreed to continue to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2011 to be responsible for domestic auditing of the Company for 2011.

On 29 May 2012, the 2011 annual general meeting of the Company agreed to continue to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2012 to be responsible for domestic auditing of the Company for 2012.

The resolution to reappoint RSM China Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2013 will be proposed at the forthcoming annual general meeting of the Company.

14. Remuneration for the Auditors

The financial statements for 2012 prepared in accordance with Accounting Standards for Business Enterprises by the Group were audited by RSM China Certified Public Accountants. In 2012, the Company paid the auditors RMB2,000,000 and RMB600,000 in respect of financial statements audit and non-audit services in relation to internal control respectively. Save the above, no other audit fee was incurred during the year.

The Company passed a resolution to engage RSM China Certified Public Accountants as the Auditors of the Company for 2012 at the 2011 General Meeting held on 29 May 2012.

RSM China Certified Public Accountants have stated their reporting responsibilities in section II of PRC Auditors' Report on the financial statements of the Group on page 112 of this annual report.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

15. Supervisors and Supervisory Committee

The Supervisory Committee is accountable to the shareholders. It monitors the financial position of the Company and the performance of the Directors, managers and Senior Management of the Company as to whether they are in accordance with relevant requirements of the laws and regulations to protect the lawful rights of the Company and the shareholders. The Supervisory Committee comprises three shareholder representatives and two staff representatives. The shareholder representatives shall be elected and removed at a general meeting and the staff representatives shall be elected and removed democratically by the staff of the Company.

16. Communications with Shareholders

The Company considers effective communication with Shareholders is essential to enable them to have a clear assessment of the Group's performance as well as accountability of the Board. Principal means of communication with Shareholders of the Company are as follows:

Information Disclosure on Company's Website

The Company endeavors to disclose all material information about the Group to all interested parties as widely and timely as possible. The Company maintains its website at www.chenmingpaper.com where important information about the Group's activities and corporate matters such as annual reports and interim reports to Shareholders, announcements, business development and operations, corporate governance practices and other information are available for review by Shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website.

General Meetings

The Company's annual general meeting provides a useful platform for direct communication between the Board and Shareholders. Various resolutions are proposed on each substantially separate issue at the general meetings. Save for the Annual General Meeting held on 29 May 2012 by the Company, three extraordinary general meetings and one class meeting was convened in 2012. The attendance record of Directors at each general meeting is set out below:

Name	Attendance of general meetings
Annual general meeting	Yin Tongyuan, Wang Xiaoqun
1st extraordinary meeting	Yin Tongyuan, Hou Huancai
2nd extraordinary meeting	Chen Hongguo , Yin Tongyuan
3rd extraordinary meeting	Yin Tongyuan , Wang Fengrong, Wang Xiaoqun
Class meeting	Yin Tongyuan, Wang Fengrong, Wang Xiaoqun

Chen Hongguo, Chairman of the Company and the chairman of the strategic committee, Ms. Zhang Hong, the chairman of the audit committee, Mr. Wang Aiguo, the chairman of the remuneration and assessment committee and Mr. Zhang Zhiyuan, the chairman of the nomination committee, were absent from the annual general meeting due to busy business commitments. The Company's external auditor also attended the annual general meeting.

VOTING BY POLL

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

16. Communications with Shareholders *(Cont'd)*

Shareholders' rights

(1) Procedures for convening an extraordinary general meeting by Shareholders

As requested by Article 90 of the Articles of Association of the Company, Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares shall be entitled to request the Board to convene extraordinary general meetings, provided that such request shall be made in writing. The Board shall, in accordance with provisions of the laws, administrative regulations and the Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of an extraordinary general meeting within ten days after receiving such proposal of the same. In the event that the Board agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after the passing of the relevant resolution of the Board. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any reply within ten days after receiving such proposal, Shareholder(s) alone or in aggregate holding 10% or more of the Company's Shares shall be entitled to propose to the Supervisory Committee the convening of extraordinary general meeting, provided that such proposal shall be made in writing.

In the event that the Supervisory Committee agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after receiving such request. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

Failure of the Supervisory Committee to issue a notice of general meeting within the stipulated period shall be deemed as failure of the Supervisory Committee to convene and preside over a general meeting, and Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares for ninety consecutive days or more shall be entitled to convene and preside over the meeting on an unilateral basis.

As requested by Article 91 of the Articles of Association of the Company, if Shareholders determine to convene a general meeting on their own, they shall give a written notice to the Board and file the same with the local office of CSRC at the place where the Company is located and the stock exchange for records. The shareholding percentage of shareholders who convened shall not be lower than 10% prior to the announcement of resolutions of the general meeting.

Shareholders who convened shall submit relevant certifications to the local office of CSRC at the place where the Company is located and the stock exchange upon the issuance of the notice of general meeting and the announcement of resolutions of the general meeting.

The Board and its secretary shall cooperate with respect to matters relating to general meetings convened by Shareholders on their own. The Board shall provide Shareholder registers as of the date of shareholding register. If a general meeting is convened by Shareholders on their own, all necessary expenses incurred shall be borne by the Company.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

16. Communications with Shareholders *(Cont'd)*

Shareholders' rights *(Cont'd)*

(2) Procedures for sending shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company's Secretary/ Secretary to the Board whose contact details are as follows:

Company's Secretary	Secretary to the Board
Poon Siu Cheong	Wang Chunfang
Address:22nd Floor, World Wide House,	Address: No. 2199 East Nongsheng Road,
Central, Hong Kong	Shouguang City, Shandong Province
Email Address: kentpoon_1009@yahoo.com.hk	Email Address: chenmmingpaper@163.com
Telephone: (852)-2501 0088	Telephone: (86)-0536-2158008
Facsimile: (852)-2501 0028	Facsimile: 0536-2158977

The Company's secretary shall forward shareholders' enquiries and concerns to the Board and/or relevant Board Committees of the Company, where appropriate, to answer shareholders' questions.

(3) Procedures for putting forward proposals of Shareholders at general meetings

As requested by Article 106 of the Articles of Association of the Company, Shareholder(s) alone or in aggregate holding 3% or more of the Company's shares shall have the rights to bring forward proposals to the Company at a general meeting.

Shareholder(s) alone or in aggregate holding 3% or more of the Company's shares shall have the right to bring forward an ex tempore proposal ten days prior to the general meeting and forward it to the Board or Secretary to the Board in writing. The Board or Secretary to the Board shall issue a supplemental notice of the general meeting within two days upon receipt of the proposal to make the contents of the ex tempore proposal available to the public.

Save for provided above, the Board or Secretary to the Board shall not amend proposals stated in the notice of general meeting or add new proposals therein following the notice of general meeting has been issued.

No voting or resolution shall be effected or adopted at the general meeting for proposals that have not been stated in the notice of general meeting or that do not comply with provisions of the Articles of Association. Extraordinary general meeting shall not resolve issues that are not contained in the notice.

Relationships with Investors

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are received and visited at appropriate times to explain the Group's business. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases great care is taken to ensure that no price-sensitive information is disclosed selectively.

17. Internal Control

Particulars of internal control of the Company, please refer to section X Internal Control contained in this annual report.

IX. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited *(Cont'd)*

18. Articles of Association

Amendments to the Articles of Association of the Company were considered and approved by the Company at 2012 second extraordinary general meeting held on 5 November 2012. The aim to make such amendments is principally in compliance to the requirements of the Notice of Reproducing Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies of CSRC (Lu Zheng Jian Fa [2012] No. 18) issued by Shandong branch of China Securities Regulatory Commission, with a view to refine the terms relating to the decision-making on dividend distribution in the Articles of Association; improve the transparency and operability of decision-making on dividend distribution and to strengthen the protection of legitimate rights and interests of the Shareholders, as well as to meet the needs of business development and enhance the administrative efficiency of the Company, the Board proposes to amend certain terms regarding, among others, profit distribution policy in the Articles of Association. Memorandum of Association and the amended version of the new Articles of Association of the Company are available on websites of the Company and Stock Exchange.

X Internal Control

I. Establishment of internal control

As requested by CSRC and Shenzhen Stock Exchange, the Company established a comprehensive and effective system of legal person governance structure, and ensured their decision-making, execution, and supervision duties to be carried out by leveraging on annual supervision and review conducted by various regulation departments and intermediate organizations as well as the general meetings, the Board, supervisory committee and management performing functions in strict compliance with relevant systems. Meanwhile, the Company also established the Strategic Committee, Nomination Committee, Audit Committee and Remuneration and Assessment Committee of the Board. In accordance with their respective working criteria, they assumed the functions of discussing the material matters and decision making, raising the science and professionalism of Board decisions. Over 50% Directors, currently, are external directors of the Company, who are able to play a better role in making decisions and oversights.

In compliance with the relevant requirements of Companies Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), the Company formulated a series of laws and regulations of significance, such as Rules of Procedure for the General Meeting (《股東大會議事規則》), Rules of Procedure for the Board (《董事會議事規則》), Rules of Procedure for the Supervisory Committee (《監事會議事規則》), Implementation Rules (《工作細則》) of Special Committee of the Board, Code of Practice of General Managers (《總經理工作細則》), Information Disclosure Management System (《信息披露管理制度》), Work system for Independent Directors (《獨立董事工作制度》), Investor Relationship Management System (《投資者關係管理制度》), Administration Measures of Financing Proceeds (《募集資金使用管理辦法》), Internal Control System (《內部控制制度》), Financial Management System (《財務管理制度》), Special System to Take Precautions against Controlling Shareholders and Related Parties from Embezzling the Company's Fund (《防範控股股東及關聯方佔用上市公司資金制度》), Accountability System for Major Errors in Information Disclosure in Annual Report (《年報信息披露重大差錯責任追究制度》), Management System on External Users of Insider Information (《外部信息使用人制度》), and Insider Registration System (《內幕信息知情人登記制度》), which ensured the general meetings, the Board of Directors,the Supervisory Committee convened by the Company, and important decisions made to be in compliance with laws and regulations, and to be true and effective. On the basis of basic control system of the Company, the internal management and control system formulated by the Company includes the entire production and operation process covering financial management, production management, purchase of materials, sales of products, foreign investments and administration, in order to ensure that all work is based on written-provisions, and thus forms a more standardized management system.

1. Administration of and control over controlling subsidiaries

The Company managed its controlling subsidiaries according to the related laws and regulations and relevant listing rules of Shenzhen Stock Exchange and Hong Kong Stock Exchange. According to the requirements of Companies Law, subsidiaries established their respective board of directors and supervisory committee and lawfully conducted management and supervision duties. Sound operation and financial management systems were established according to the practices of the Company's business operations. By exercising its rights as a shareholder, the Company controlled the director and key management nomination process and decision-making process of the subsidiaries. As a result, the Company was assured that its subsidiaries were under firm control and the decisions and systems of the Company were effectively, promptly and consistently implemented within its subsidiaries. Therefore, all the tasks within the Company and its subsidiaries were consistently dealt with.

X Internal Control

I. Establishment of internal control *(Cont'd)*

2. Administration of and control over connected transactions

The Articles of Association of the Company had provided clear rules for the authorities of the Board and General Meeting to examine connected transactions, the auditing procedure, and waiving of voting by related Directors and shareholders. According to Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》), the Company had prepared its Administration on Connected Transactions (《關連交易管理制度》), which set out the regulations regarding classification, identification, contract execution and disclosure of connected transactions. The Company also set up the Special System to Take Precautions against Controlling Shareholders and Related Parties from Embezzling the Company's Fund (《防範控股股東及關連方佔有公司資金專項制度》). None of the capital, assets, or other resources of the Company had been appropriated or transferred by the controlling shareholder and its related persons. All connected transactions were conducted under the principles of faithfulness, fairness, willingness, and openness and their information was disclosed according to the disclosure requirements and published in the annual report of the Company. No action was conducted which was harmful to the benefits of the Company and the shareholders. Overall, the connected transactions of the Company were in compliance with "Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》) and the related laws and regulations.

3. Administration of and control over external guarantee

The authority of external guarantee was stipulated by the Articles of Association and the Company had implemented the requirements relating to aggregate amount of external guarantees according to the Rules Governing Listing of Stocks on Shenzhen Stock Exchange. Meanwhile, the Company had set up The Working Procedures of Financing and Guarantee (《融資、擔保工作程序》). Except for guarantees provided to the subsidiaries, the Company made no external guarantees. Overall, external guarantees of the Company were in compliance with Shenzhen Stock Exchange Guidelines on Internal Controls of Listed Companies (《深圳證券交易所上市公司內部控制指引》)and the related laws and regulations.

4. Administration of and control over using of financing proceeds

The Company had set up Administration Measures of Financing Proceeds (《募集資金使用管理辦法》)to govern the use, approval, deposit, change of use, report and supervision of financing proceeds and liabilities. Financing proceeds were used according to their intended usage. The Company disclosed the information about the use of financing proceeds in compliance with related requirements.

5. Administration of and control over capital

The Company had organized the systems such as Capital Administration Criteria (《資金管理規定》), Working Procedures of Financing and Guarantee (《融資、擔保工作程序》), Reporting Rules of Material Financial Issues (《財務重大事項提報管理規定》), Administrative Rules of Accounts Receivable (《應收賬款管理規定》) and Interim Provisions on Use and Management of Funds in Large Amounts (《大額資金使用管理暫行規定》), which set up strict procedures for authorization and approval of receipts and payments of monetary capital, separated the incompatible positions in the process of monetary capital operation and established a checking system in the related organization and staff. The Company set up procedures such as those for approval of receipts and payments of monetary capital and strictly implemented verification and investigation of receipts and payments of monetary capital.

X Internal Control

I. Establishment of internal control *(Cont'd)*

6. Administration of and control over material investments

Material investments were conducted under the principles of lawfulness, cautiousness, safety and effectiveness to control investment risk and emphasize investment returns. The Articles of Association had clearly set out the authorities of the general meeting and the Board on approval of major investments.

7. Administration of and control over finance

In accordance with the laws and regulations such as Companies Law, Accounting Law, and Accounting Standards for Business Enterprises and their supplementary requirements, the Company prepared its Financial Accounting Rules (《財務會計制度》), which set out the procedures and rules for major financial decisions, standardized the procedures for accounting evidence, books and reports, defined the responsibilities of accounting staff and set up the evidence flow. Transactions were implemented with evidence timely prepared and delivered to the accounting department and filing department for record and filing. Meanwhile, the records were compared with the corresponding accounting entries to build up a sound internal control system of accounting in the form of computerization. The Company introduced an ERP system as the common platform for the management techniques. The platform effectively standardized corporate and foundation information and business operations increased the management efficiency and timely provided the management of the Company and the Board with related information. The financial system of the Company was sound and complete and in compliance with the requirements of related laws and regulations.

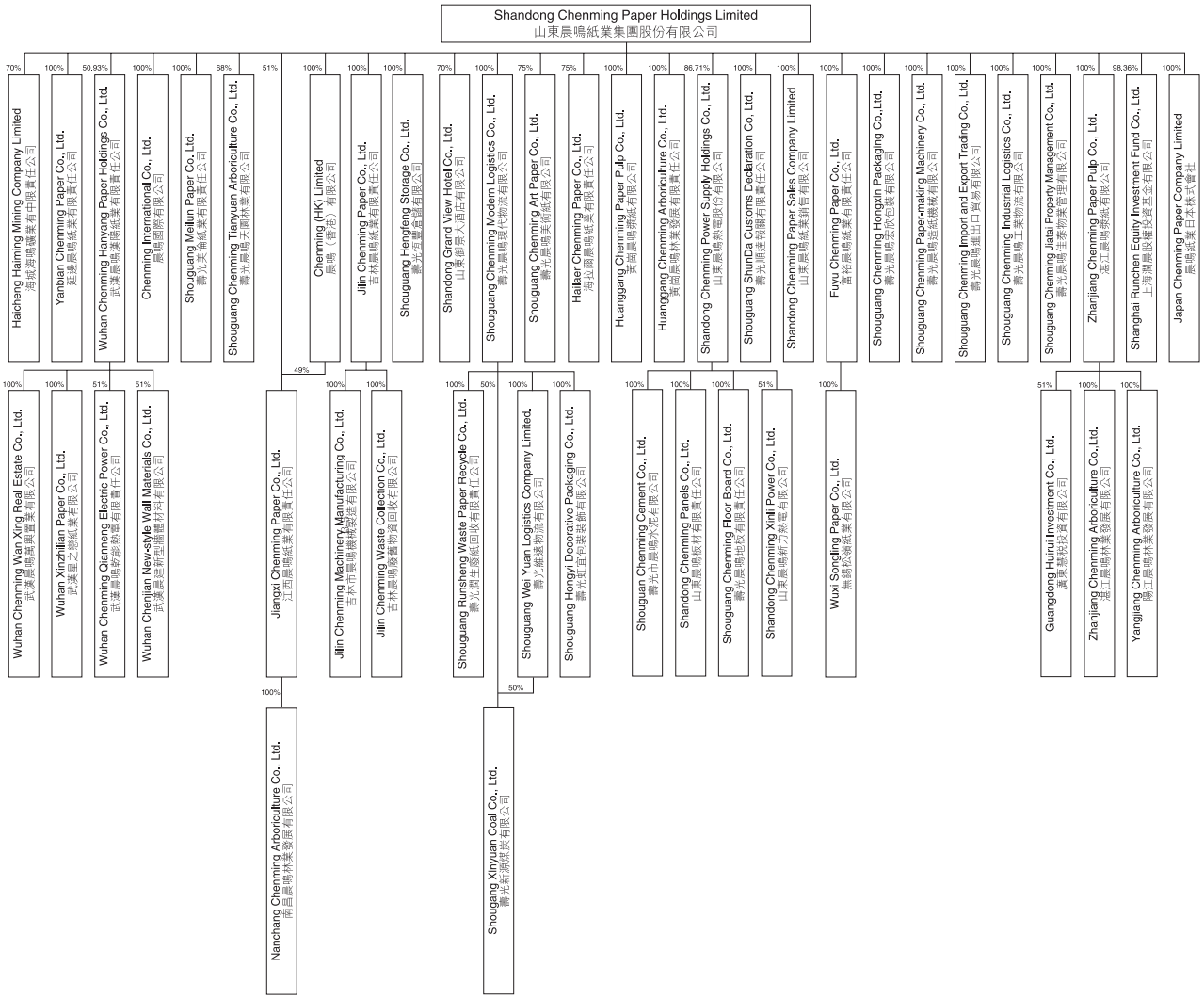
8. Administration of and control over information disclosure

The Company had prepared Information Disclosure Management System (《信息披露管理制度》), Internal Reporting System of Material Information (《重大信息內部報告制度》), Investor Relationship Management Criteria (《投資者關係管理工作規範》), Investor Reception and Promotion System (《投資者接待和推廣制度》)and Accountability System for Major Errors in Information Disclosure in Annual Report (《年報信息披露重大差錯責任追究制度》) which set out the extent, reporting, examination, disclosure, and confidentiality of material information. China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Commercial Daily, the website of CNINFO (www.cninfo.com.cn) and Hong Kong Stock Exchange's website were the designated information disclosure media of the Company, through which the information of the Company was first disclosed. The Company also timely released its public information through its own website to communicate with the investors. Reception of visitors and online road shows were lawfully conducted to ensure open, just and fair information disclosure.

X Internal Control

I. Establishment of internal control *(Cont'd)*

9. Shareholding structure of the controlling subsidiaries of the Company



X Internal Control

II. The Board's representation about the responsibilities for internal control

The Board of the Company believed that: Under the guidance of the laws and regulations such as Companies Law, Code of Corporate Governance for Listed Companies, Basic Internal Control Norms for Enterprises and Application Guidelines for Enterprise Internal Control (《企業內部控制應用指引》), the Company set up various internal control systems covering the operating activities of the Company under the circumstances. They were effectively implemented to reasonably assure that the operation and management of the enterprise were in compliance with the laws and regulations, its assets were in place, the financial report and the related data were truthful and complete, its risks were effectively controlled and the operating activities were ensured to be properly conducted. There was no material deviation of the Company in its corporate governance from the regulatory documentation requirements provided for listed companies in respect of corporate governance. The Company will be also continued to improve, enrich and optimize the internal control system according to the development needs and of the Company and against the deficiencies identified during the course of implementation, thus laying a solid foundation for the healthy and steady development of the Company.

The details of the Self-assessment Report on Internal Control for 2012 of the Board of the Company and the auditors' audit opinion on the internal control report of the Company are set out in the website of Shenzhen Stock Exchange.

III. Basis of establishing internal control of financial reports

In accordance with the laws and regulations such as Companies Law, Accounting Law, and Accounting Standards for Business Enterprises and their supplementary requirements, the Company prepared its Financial Accounting Rules (《財務會計制度》), which set out the procedures and rules for major financial decisions, standardized the procedures for accounting evidence, books and reports, defined the responsibilities of accounting staff and set up the evidence flow. Transactions were implemented with evidence timely prepared and delivered to the accounting department and filing department for record and filing. Meanwhile, the records were compared with the corresponding accounting entries to build up a sound internal control system of accounting in the form of computerization. The Company introduced an ERP system as the common platform for the management techniques. The platform effectively standardized corporate and foundation information and business operations increased the management efficiency and timely provided the management of the Company and the Board with related information. The financial system of the Company was sound and complete and in compliance with the requirements of related laws and regulations.

IV. Self-assessment Report on Internal Control

Particulars of material deficiencies in internal control detected during the reporting period which was contained in the Self-assessment Report on Internal Control	
In compliance with requirements of the Basic Standards and the Guidance on Evaluation by the Board of the Company and based on daily supervision as well as specific supervision, no material deficiencies and major deficiencies were identified during the reporting period.	
Date of Disclosure of Self-assessment Report on Internal Controls	27 March 2013
Index of Self-assessment Report on Internal Controls Disclosure	http://www.cninfo.com.cn

X Internal Control

V. Auditors' report on internal control

√ Applicable ☐ Not applicable

Auditors' opinion contained in the Auditors' report on internal control	
As of 31 December 2012, the Company had in all material aspects maintained effective internal control over the financial statements in accordance with the Basic Internal Control Norms for Enterprises.	
Date of Disclosure of Auditors' report on internal control	27 March 2013
Index of Auditors' report on internal control Disclosure	http://www.cninfo.com.cn

Any opinions of no standardization set out in the Auditors' Report on Internal Control issued by accountants

☐ Yes √ No

Auditors' Report on Internal Control issued by accountants was in line with Directors' opinions contained in Self-assessment Report

√ Yes ☐ No

VI. Establishment of Accountability System for Major Errors in Information Disclosure in Annual Reports and its Implementation

The Company had clearly stipulated in the Information Disclosure Management System matters such as identifying the relevant parties responsible for breaches and errors in information disclosure and how these parties should be held responsible. During the reporting period, there were no incidents such as amendments to material accounting errors, supplementary information to material omissions and rectification of results forecast.

XI Financial Report

I. Auditors' Report

Type of auditors' opinion	standard and unqualified auditors' opinions
The date of the audit report signed	27 March 2013
Name of the auditor	RSM China Certified Public Accountants Co., Ltd.
Reference number of the auditors' report	Zhong Rui Yue Hua Shen Zi [2013] No. 1708

Text of the auditors' report

To shareholders of Shandong Chenming Paper Holdings Limited:

We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (the "Company") and its subsidiaries, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in owners' equity for 2012 and notes to the financial statements.

1. Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes (1) preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises so that the financial statements provide a fair view of the actual situation; and (2) designing, implementing and maintaining the necessary internal control so that the financial statements are free from material misstatement whether due to fraud or error.

2. Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. When conducting risk assessment, certified public accountants consider internal control relevant to the preparation and fair presentation of financial statements so as to design appropriate audit procedures. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

3. Opinion

In our opinion, the financial statements give a true and fair view of the consolidated financial position of Shandong Chenming Paper Holdings Limited and its subsidiaries as at 31 December 2012, and of their consolidated operating results and consolidated cash flows for 2012 and, of the financial position of Shandong Chenming Paper Holdings Limited as at 31 December 2012, and of its operating results and cash flows for the year in all material aspects in accordance with Accounting Standards for Business Enterprises.

RSM China Certified Public Accountants Co., Ltd. (Special general partnership)	PRC Certified Public Accountant: Wang Chuanshun
Beijing, China	PRC Certified Public Accountant: Jing Chuanxuan

27 March 2013

II. Financial Statements

Unless otherwise stated, the unit in the financial statements of the financial report is: RMB

1. Consolidated Balance Sheet

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	**4,456,217,362.86**	3,529,938,211.47
Balances with clearing companies		
Loans to banks and other financial institutions		
Held-for-trading financial assets		
Bills receivable	**1,852,478,364.46**	2,444,508,997.74
Accounts receivable	**3,602,955,051.18**	2,886,437,754.69
Prepayments	**1,636,233,924.64**	764,880,237.90
Premium receivable		
Receivables from reinsurers		
Reinsurance contract reserves receivable		
Interest receivable		
Dividend receivable		
Other receivables	**1,284,655,342.63**	325,550,913.72
Financial assets purchased under agreements to resell		
Inventories	**4,412,548,700.68**	5,586,472,121.37
Non-current assets due within one year		
Other current assets	**1,803,256,307.61**	1,698,362,261.63
Total current assets	**19,048,345,054.06**	17,236,150,498.52

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	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	**356,796,777.78**	77,434,005.49
Investment properties	**21,211,699.99**	22,949,956.03
Fixed assets	**19,751,339,991.06**	22,740,904,031.02
Construction in progress	**5,017,604,821.59**	2,618,039,624.85
Construction materials	**75,054,992.09**	61,924,581.85
Disposal of fixed assets	**287,309,818.03**	
Consumable biological assets	**1,169,269,054.15**	959,061,500.85
Oil and gas assets		
Intangible assets	**1,416,497,159.22**	1,517,137,201.36
Development expenditure		
Goodwill	**20,283,787.17**	20,283,787.17
Long-term prepaid expenses	**184,770,685.65**	192,917,245.62
Deferred income tax assets	**376,938,086.60**	174,026,534.27
Other non-current assets		10,000,000.00
Total non-current assets	**28,677,076,873.33**	28,394,678,468.51
Total assets	**47,725,421,927.39**	45,630,828,967.03

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	**12,876,398,495.16**	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	**1,285,627,762.07**	615,327,402.85
Accounts payable	**3,239,781,724.81**	4,685,585,997.60
Advance receipts	**347,835,800.87**	231,428,013.45
Assets sold under agreements to repurchase		
Handling charges and commission payable		
Staff remuneration payables	**177,847,769.71**	147,063,891.65
Taxes payable	**106,816,413.87**	68,240,005.91
Interest payable	**133,046,123.31**	106,854,702.74
Dividend payable		
Other payables	**435,772,288.98**	763,621,538.95
Due to reinsurers		
Insurance contract reserves		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Non-current liabilities due within one year	**1,368,108,800.00**	1,203,616,858.22
Other current liabilities	**17,659,498.56**	10,227,001.60
Total current liabilities	**19,988,894,677.34**	19,918,950,019.66
NON-CURRENT LIABILITIES:		
Long-term borrowings	**3,933,167,835.94**	5,143,067,496.05
Bonds payable	**6,256,263,237.00**	2,476,942,694.79
Long-term payables		
Special payables	**641,526,872.70**	660,000,000.00
Estimated liabilities		
Deferred income tax liabilities		
Other non-current liabilities	**2,560,151,371.36**	2,444,093,897.14
Total non-current liabilities	**13,391,109,317.00**	10,724,104,087.98
TOTAL LIABILITIES	**33,380,003,994.34**	30,643,054,107.64

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):		
Paid-up capital (or share capital)	**2,062,045,941.00**	2,062,045,941.00
Capital reserves	**6,414,892,999.53**	6,098,264,836.00
Less: Treasury shares		
Special reserves		
Surplus reserves	**1,132,116,106.40**	1,132,116,106.40
General risk provisions		
Retained profit	**4,149,511,927.88**	4,237,783,996.54
Foreign currency translation differences	**929,205.04**	-1,588,560.03
Total equity attributable to equity holders of the company	**13,759,496,179.85**	13,528,622,319.91
Minority interests	**585,921,753.20**	1,459,152,539.48
Total owners' equity (or Shareholders' equity)	**14,345,417,933.05**	14,987,774,859.39
TOTAL LIABILITIES AND OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY)	**47,725,421,927.39**	45,630,828,967.03

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

2. Balance sheet of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	3,057,756,467.02	1,747,384,563.57
Held-for-trading financial assets		
Bills receivable	2,592,967,374.30	1,432,408,267.82
Accounts receivable	342,497,381.57	1,743,034,281.97
Prepayments	646,962,478.93	664,693,619.26
Interest receivable		
Dividend receivable	512,215,933.76	
Other receivables	9,232,778,999.32	6,928,079,845.18
Inventories	937,107,565.73	1,173,839,484.91
Non-current assets due within one year	500,000,000.00	50,000,000.00
Other current assets	62,260,013.84	15,216,230.82
Total current assets	17,884,546,214.47	13,754,656,293.53
NON-CURRENT ASSETS:		
Available-for-sale financial assets		
Entrusted loans		500,000,000.00
Long-term receivables		
Long-term equity investments	8,991,578,553.83	8,748,703,461.63
Long-term equity investments	21,211,699.99	22,949,956.03
Fixed assets	5,006,474,783.75	5,264,187,852.03
Construction in progress	513,157,612.96	422,232,622.40
Construction materials	2,536,053.61	3,589,906.68
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	313,572,418.35	322,623,412.83
Development expenditure		
Goodwill		
Long-term prepaid expenses		
Deferred income tax assets	21,517,455.45	41,388,325.93
Other non-current assets		10,000,000.00
Total non-current assets	14,870,048,577.94	15,335,675,537.53
TOTAL ASSETS	32,754,594,792.41	29,090,331,831.06

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	7,847,558,953.68	8,080,716,020.88
Held-for-trading financial liabilities		
Bills payable	643,432,387.04	346,418,281.23
Accounts payable	1,044,590,466.45	1,698,958,458.63
Advance receipts	417,522,231.17	119,723,590.83
Staff remuneration payables	101,268,730.42	79,433,205.74
Taxes payable	25,109,370.51	21,270,847.19
Interest payable	129,893,611.11	103,910,194.44
Dividend payable		
Other payables	255,596,331.72	211,491,763.93
Non-current liabilities due within one year	514,843,000.00	543,009,000.00
Other current liabilities	2,328,791.64	1,345,288.40
Total current liabilities	10,982,143,873.74	11,206,276,651.27
NON-CURRENT LIABILITIES:		
Long-term borrowings	352,112,035.94	648,055,935.94
Bonds payable	5,760,200,575.93	1,983,425,123.62
Long-term payables		
Special payables		
Estimated liabilities		
Deferred income tax liabilities		
Other non-current liabilities	2,214,846,544.38	2,314,615,977.46
Total non-current liabilities	8,327,159,156.25	4,946,097,037.02
Total liabilities	19,309,303,029.99	16,152,373,688.29
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):		
Paid-up capital (or share capital)	2,062,045,941.00	2,062,045,941.00
Capital reserves	6,184,215,988.77	6,184,215,988.77
Less: Treasury shares		
Special reserves		
Surplus reserves	1,119,926,524.49	1,119,926,524.49
General risk provisions		
Retained profit	4,079,103,308.16	3,571,769,688.51
Foreign currency translation differences		
Total owners' equity (or Shareholders' equity)	13,445,291,762.42	12,937,958,142.77
TOTAL LIABILITIES AND OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY)	32,754,594,792.41	29,090,331,831.06

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

3. Consolidated Income Statement

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item			Amounts for the reporting period	Amounts for the prior period
I.	**Total revenue**		**19,761,679,230.05**	17,747,489,900.87
	Including: Revenue		**19,761,679,230.05**	17,747,489,900.87
		Interest income		
		Earned premium		
		Handling charges and commission income		
II.	**Total operating costs**		**20,190,204,636.07**	17,427,488,408.38
	Including: Operating costs		**16,693,768,322.36**	14,931,153,175.89
		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	**78,689,990.94**	75,717,528.59
		Selling and distribution expenses	**1,144,489,246.04**	932,884,617.97
		General and administrative expenses	**1,110,246,902.75**	1,014,494,608.50
		Finance expenses	**1,092,760,015.04**	432,022,027.84
		Loss on impairment of assets	**70,250,158.94**	41,216,449.59
	Plus:	Gain on change in fair value (“-” denotes loss)	**47,822,076.87**	48,173,926.26
		Investment income (“-” denotes loss)	**-35,524,960.75**	7,871,420.17
		Including: Investment income from associates and joint ventures	**-637,227.71**	-3,246,150.00
		Foreign exchange gains (“-” denotes loss)		

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item			Amounts for the reporting period	Amounts for the prior period
III.	Operating profit ("-" denotes loss)		-416,228,289.90	376,046,838.92
	Plus:	Non-operating income	421,528,346.56	364,826,920.31
	Less:	Non-operating expenses	21,440,038.10	41,883,862.53
		Including: Loss on disposal of non-current assets	4,484,098.29	5,791,866.58
IV.	Total profit ("-" denotes total loss)		-16,139,981.44	698,989,896.70
	Less:	Income tax expenses	-62,826,238.51	110,263,113.88
V.	Net profit ("-" denotes net loss)		46,686,257.07	588,726,782.82
	Including: Net profit achieved by the acquiree before business combination		0.00	0.00
	Net profit attributable to shareholders of the Company		221,034,822.54	608,271,256.29
	Minority interests		-174,348,565.47	-19,544,473.47
VI.	Earnings per share:		—	—
	(I)	Basic earnings per share	0.11	0.29
	(II)	Diluted earnings per share	0.11	0.29
VII.	Other comprehensive income		2,250,198.82	-1,592,779.91
VIII.	Total comprehensive income		48,936,455.89	587,134,002.91
	Total comprehensive income attributable to shareholders of the Company		223,285,021.36	606,678,476.38
	Total comprehensive income attributable to minority interests		-174,348,565.47	-19,544,473.47

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: Dong Lianming

4. Income statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item			Amounts for the reporting period	Amounts for the prior period
I.	Revenue		8,641,208,942.54	8,997,521,699.60
	Less:	Operating costs	7,177,585,076.21	7,477,073,368.37
		Business taxes and surcharges	45,538,835.46	38,828,780.64
		Selling and distribution expenses	287,036,491.45	284,936,730.61
		General and administrative expenses	531,555,114.76	478,414,289.42
		Finance expenses	509,080,279.98	251,663,081.97
		Loss on impairment of assets	-8,992,017.36	-67,463,391.85
	Plus:	Gain on change in fair value ("-" denotes loss)		
		Investment income ("-" denotes loss)	601,171,586.41	263,319,140.54
		Including: Investment income from associates and joint ventures	-19,380,904.84	-3,246,150.00
II.	Operating profit ("-" denotes loss)		700,576,748.45	797,387,980.98
	Plus:	Non-operating income	206,421,196.02	179,866,219.03
	Less:	Non-operating expenses	45,274,377.35	26,502,320.95
		Including: Loss on disposal of non-current assets	273,373.64	4,147,861.71
III.	Total profit ("-" denotes total loss)		861,723,567.12	950,751,879.06
	Less:	Income tax expenses	45,083,056.27	94,697,624.94
IV.	Net profit ("-" denotes net loss)		816,640,510.85	856,054,254.12
V.	Earnings per share:		--	--
	(I)	Basic earnings per share	0.40	0.42
	(II)	Diluted earnings per share	0.40	0.42
VI.	Other comprehensive income			
VII.	Total comprehensive income		816,640,510.85	856,054,254.12

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

5. Consolidated cash flow statement

Prepared by: Shandong Chenming Paper Holdings Limited

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	**18,898,272,759.78**	18,171,618,384.23
	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	**23,554,462.43**	25,768,916.35
	Cash received relating to other operating activities	**478,057,899.37**	460,889,042.22
Subtotal of cash inflows from operating activities		**19,399,885,121.58**	18,658,276,342.80
	Cash paid for goods and services	**13,883,922,321.10**	15,868,791,276.57
	Net increase in loans and advances to customers		
	Net increase in deposits with the central bank and other financial institutions		
	Cash paid for claims under original insurance contracts		
	Cash paid for interest, handling charges and commission		
	Cash paid for policyholder dividend		
	Cash paid to and for employees	**980,078,937.56**	858,514,134.68
	Payments of taxes and surcharges	**1,046,466,624.71**	1,353,466,742.90
	Cash paid relating to other operating activities	**1,532,550,760.22**	1,014,967,199.54
Subtotal of cash outflows from operating activities		**17,443,018,643.59**	19,095,739,353.69
	Net cash flows from operating activities	**1,956,866,477.99**	-437,463,010.89

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item		Amounts for the reporting period	Amounts for the prior period
II.	**Cash flows from investing activities:**		
	Cash received from investments		
	Cash received from investment income		
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**81,287,275.09**	25,503,242.42
	Net cash received from disposal of subsidiaries and other business units	**114,228,233.04**	85,833,861.65
	Cash received relating to other investing activities	**825,144,486.68**	789,995,907.49
	Subtotal of cash inflows from investing activities	**1,020,659,994.81**	901,333,011.56
	Cash paid for purchase of fixed assets, intangible assets and other long-term assets	**2,836,141,166.67**	5,079,862,426.10
	Cash paid on investments	**779,039,794.00**	96,641,800.00
	Net increase in pledged loans		
	Net cash paid for acquisition of subsidiaries and other business units	**51,603,949.43**	
	Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities		**3,666,784,910.10**	5,176,504,226.10
Net cash flows from investing activities		**-2,646,124,915.29**	-4,275,171,214.54

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item		Amounts for the reporting period	Amounts for the prior period
III.	**Cash flows from financing activities:**		
	Cash received from capital contribution	**30,000,000.00**	5,000,000.00
	Including: cash received from minority interest contribution to subsidiaries	**30,000,000.00**	5,000,000.00
	Cash received from borrowings	**20,431,257,575.12**	17,871,971,078.39
	Cash received from bond issue	**3,773,400,000.00**	2,473,750,000.00
	Cash received relating to other financing activities	**1,083,500,000.00**	
Subtotal of cash inflows from financing activities		**25,318,157,575.12**	20,350,721,078.39
	Cash repayments of amounts borrowed	**21,884,060,289.27**	12,449,904,961.19
	Cash paid for dividend and profit distribution or interest payment	**1,811,123,256.04**	1,599,494,479.86
	Including: dividend and profit paid to minority interests by subsidiaries	**34,709,480.76**	78,991,189.35
	Cash paid relating to other financing activities	**899,777,585.47**	1,116,270,631.02
Subtotal of cash outflows from financing activities		**24,594,961,130.78**	15,165,670,072.07
Net cash flows from financing activities		**723,196,444.34**	5,185,051,006.32
IV.	**Effect of foreign exchange rate changes on cash and cash equivalents**	**-7,436,441.12**	-10,604,141.16
V.	**Net increase in cash and cash equivalents**	**26,501,565.92**	461,812,639.73
	Plus: Balance of cash and cash equivalents as at the beginning of the period	**2,317,048,619.53**	1,855,235,979.80
VI.	**Balance of cash and cash equivalents as at the end of the period**	**2,343,550,185.45**	2,317,048,619.53

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

6. Cash flow statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

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	**10,633,676,349.76**	10,591,768,302.84
Tax rebates received		
Cash received relating to other operating activities	**224,089,911.79**	186,090,658.90
Subtotal of cash inflows from operating activities	**10,857,766,261.55**	10,777,858,961.74
Cash paid for goods and services	**7,687,404,057.11**	7,405,120,325.58
Cash paid to and for employees	**190,589,314.60**	290,407,296.36
Payments of taxes and surcharges	**447,492,526.52**	639,922,431.42
Cash paid relating to other operating activities	**2,395,664,137.91**	2,333,136,686.35
Subtotal of cash outflows from operating activities	**10,721,150,036.14**	10,668,586,739.71
Net cash outflows from operating activities	**136,616,225.41**	109,272,222.03
II. Cash flows from investing activities:		
Cash received from investments	**165,000,000.00**	1,785,965,599.18
Cash received from investment income	**62,413,545.49**	255,656,071.44
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**60,584,699.60**	599,046.24
Net cash received from disposal of subsidiaries and other business units		
Cash received relating to other investing activities	**11,753,324.01**	
Subtotal of cash inflows from investing activities	**299,751,569.10**	2,042,220,716.86
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	**444,035,770.10**	671,496,041.41
Cash paid on investments	**659,306,351.20**	2,841,003,755.00
Net cash paid for acquisition of subsidiaries and other business units		
Cash paid relating to other investing activities		
Subtotal of cash outflows from investing activities	**1,103,342,121.30**	3,512,499,796.41
Net cash flows from investing activities	**-803,590,552.20**	-1,470,279,079.55

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item		Amounts for the reporting period	Amounts for the prior period
III.	**Cash flows from financing activities:**		
	Cash received from capital contribution		
	Cash received from borrowings	**13,811,876,225.40**	10,764,488,694.56
	Cash received from bond issue	**3,773,400,000.00**	1,982,000,000.00
	Cash received relating to other financing activities	**1,083,500,000.00**	
Subtotal of cash inflows from financing activities		**18,668,776,225.40**	12,746,488,694.56
	Cash repayments of amounts borrowed	**15,569,143,192.60**	9,183,064,949.46
	Cash paid for dividend and profit distribution or interest payment	**1,118,202,959.20**	1,155,318,645.28
	Cash paid relating to other financing activities	**813,788,127.94**	415,445,919.04
Subtotal of cash outflows from financing activities		**17,501,134,279.74**	10,753,829,513.78
Net cash flows from financing activities		**1,167,641,945.66**	1,992,659,180.78
IV.	**Effect of foreign exchange rate changes on cash and cash equivalents**	**-4,083,843.36**	-3,822,851.98
V.	**Net increase in cash and cash equivalents**	**496,583,775.51**	627,829,471.28
	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**	**1,786,622,854.08**	1,290,039,078.57

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

7. Consolidated statement of changes in owners' equity

Prepared by: Shandong Chenming Paper Holdings Limited

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	2,062,045,941.00	6,098,264,836.00			1,132,116,106.40		4,237,783,996.54	-1,588,560.03	1,459,152,539.48	14,987,774,859.39
Plus: accounting policy change										
Corrections of prior period errors										
Others										
II. Balance as at the beginning of the year	2,062,045,941.00	6,098,264,836.00			1,132,116,106.40		4,237,783,996.54	-1,588,560.03	1,459,152,539.48	14,987,774,859.39
III. Changes in the period ("-" denotes decrease)		316,628,163.53					-88,272,068.66	2,517,765.07	-873,230,786.28	-642,356,926.34
(I) Net profit							221,034,822.54		-174,348,565.47	46,686,257.07
(II) Other comprehensive income		-267,566.25						2,517,765.07		2,250,198.82
Sub-total of (I) and (II) above		-267,566.25					221,034,822.54	2,517,765.07	-174,348,565.47	48,936,455.89
(III) Capital paid in and reduced by owners		316,895,729.78							-669,539,473.21	-352,643,743.43
1. Capital paid in by owners									156,396,050.57	156,396,050.57
2. Amounts of share-based payments recognised in owners' equity										
3. Others		316,895,729.78							-825,935,523.78	-509,039,794.00
(IV) Profit distribution							-309,306,891.20		-29,342,747.60	-338,649,638.80
1. Transfer to surplus reserves										
2. Transfer to general risk provision										
3. Distribution to owners (shareholders)							-309,306,891.20		-29,342,747.60	-338,649,638.80
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	2,062,045,941.00	6,414,892,999.53			1,132,116,106.40		4,149,511,927.88	929,205.04	585,921,753.20	14,345,417,933.05

Amounts for the prior year

Unit: RMB

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	Others	Minority interests	Total owners' equity
I. Balance as at the beginning of the prior year	2,062,045,941.00	6,093,493,004.71			1,046,510,680.99		4,333,731,947.96	4,219.88	1,724,413,211.96	15,260,199,006.50
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	6,093,493,004.71			1,046,510,680.99		4,333,731,947.96	4,219.88	1,724,413,211.96	15,260,199,006.50
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									5,000,000.00	5,000,000.00
2. Amounts of share-based payments recognised in owners' equity										
3. Others		4,771,831.29							-221,438,980.57	-216,667,149.28
(IV) Profit distribution					85,605,425.41		-704,219,207.71		-29,277,218.44	-647,891,000.74
1. Transfer to surplus reserves					85,605,425.41		-85,605,425.41			
2. Transfer to general risk provision										
3. Distribution to owners (shareholders)							-618,613,782.30		-29,277,218.44	-647,891,000.74
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	2,062,045,941.00	6,098,264,836.00			1,132,116,106.40		4,237,783,996.54	-1,588,560.03	1,459,152,539.48	14,987,774,859.39

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

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

Prepared by: Shandong Chenming Paper Holdings Limited

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	2,062,045,941.00	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	2,062,045,941.00	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)							507,333,619.65	507,333,619.65
(I) Net profit							816,640,510.85	816,640,510.85
(II) Other comprehensive income								
Sub-total of (I) and (II) above							816,640,510.85	816,640,510.85
(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							-309,306,891.20	-309,306,891.20
1. Transfer to surplus reserves								
2. Transfer to general risk provision								
3. Distribution to owners (shareholders)							-309,306,891.20	-309,306,891.20
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	2,062,045,941.00	6,184,215,988.77			1,119,926,524.49		4,079,103,308.16	13,445,291,762.42

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	2,062,045,941.00	6,184,215,988.77			1,034,321,099.08		3,419,934,642.10	12,700,517,670.95
Plus: accounting policy changes								
Corrections of prior period errors								
Others								
II. Balance as at the beginning of the year	2,062,045,941.00	6,184,215,988.77			1,034,321,099.08		3,419,934,642.10	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	-618,613,782.30
1. Transfer to surplus reserves					85,605,425.41		-85,605,425.41	
2. Transfer to general risk provision								
3. Distribution to owners (shareholders)							-618,613,782.30	-618,613,782.30
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	2,062,045,941.00	6,184,215,988.77			1,119,926,524.49		3,571,769,688.51	12,937,958,142.77

Legal Representative: Chen Hongguo Financial controller: Wang Chunfang Head of the financial department: Dong Lianming

III. General Information of the Company

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the "Company"), whose predecessor was Shandong Shouguang Paper Mill Corporation, was reformed as Shandong Shouguang Paper Making, Printing and Packaging Group Company Limited through "offering to specific investors" in May 1993, with registered capital of RMB66,647,400 and total share capital of 66,647,400 shares. Its shareholding structure is as follows: 46,497,400 sponsor's state-owned shares (accounting for 69.76% of total share capital), 1,558,500 domestic legal person shares (accounting for 2.34% of total share capital) and 18,591,500 staff shares, accounting for 27.90% of total share capital.

On 21 August 1993, replied by the Reply on Changing Shandong Shouguang Papermaking, Printing and Packaging (Group) Incorporated Company as Shandong Shouguang Papermaking (Group) Incorporated Company (Shou Gai Fa [1993] No. 23) verified and issued by the Shandong Shouguang Office for Restructuring Economic System, Shandong Shouguang Papermaking, Printing and Packaging (Group) Incorporated Company was changed as Shandong Shouguang Papermaking (Group) Incorporated Company, with the relevant industrial and commercial alteration registration procedures completed on 8 October 1993. On 4 December 1996, according to the Letter on Agreeing to Determine Shandong Shouguang Papermaking Group Incorporated Company (Lu Ti Gai Han Zi [1996] No. 123) verified and issued by the Shandong Commission for Restructuring Economic System and the Shandong Incorporated Company Approval Certificate (Lu Zheng Gu Zi [1996] No. 98) verified and issued by the People's Government of Shandong Province, it was agreed to change Shandong Shouguang Papermaking Group Incorporated Company as Shandong Chenming Paper Holdings Limited (present name of the Company).

On 27 October 1996, at the third general meeting of the Company, the Company passed the profit distribution plan to deliver 3.5 bonus shares per 10 shares for the year of 1995, and the proposal of converting such above shares into state-owned shares as well. After such bonus share issue and conversion into capital, the Company's share capital was changed from 66,647,400 shares into 99,840,990 shares.

In December 1996, with approval by the Letter on Recommending Shandong Shouguang Papermaking Group Incorporated Company to Issue B Shares (Lu Zheng Zi [1996] No. 270) verified and issued by the People's Government of Shandong Province and Zheng Wei [1996] No. 59 of the Securities Committee of the State Council, the Company was changed as the incorporated company established by share offer.

On 4 February 1997, the Company held the fourth general meeting, which passed the proposal that the Company absorbed and merged Shouguang Yongli Paper Co., Ltd. and the profit distribution plan to deliver 4 bonus shares per 10 shares for 1996. After bonus shares distribution, the Company's share capital was changed from 99,840,990 shares into 158,855,665 shares.

On 30 April 1997, according to approval by the Letter on Recommending Shandong Shouguang Papermaking Group Incorporated Company to Issue B Shares (Lu Zheng Zi [1996] No. 270) verified and issued by the People's Government of Shandong Province, the Reply on Shandong Chenming Paper Co., Ltd. to Issue Foreign Shares Listed in China (Zheng Wei Fa [1997] No. 26) verified and issued by the Securities Committee of the State Council, and Shen Zheng Fa [1997] No. 188 of the Shenzhen Stock Exchange, the Company issued 115,000,000 domestic listed foreign shares (B shares), which were listed on Shenzhen Stock Exchange on 26 May 1997. After issuance, the Company's total share capital was increased from 158,855,665 shares to 273,855,665 shares. The Company was changed as the foreign-invested incorporated company by the Reply on Changing Shandong Chenming Paper Group Incorporated Company as the Foreign-invested Incorporated Company ([1997] Wai Jing Mao Zi Er Han Zi No. 415) verified and issued by the original Ministry of Foreign Trade and Economic Cooperation.

III. General Information of the Company *(Cont'd)*

On 22 November 1997, the Company held the extraordinary general meeting in 1997 and passed the Proposal of Converting Capital Reserve into Share Capital by discussion, to convert capital reserve into share capital of 109,542,266 shares at the ratio of 10:4 according to the Company's share capital of 273,855,665 shares on 30 June 1997. Upon conversion, the Company's total share capital was changed to 383,397,931 shares.

With approval by the Notice about Approving Application of Shandong Chenming Paper Group Incorporated Company to Issue Shares (Zheng Jian Gong Si Zi [2000] No. 151) verified and issued by the China Securities Regulatory Commission on 30 September 2000 and the Notice of Listing (Sheng Zheng Shang [2000] No. 151) verified and issued by the Shenzhen Stock Exchange on 15 November 2000, the Company issued 70 million RMB ordinary shares (A shares), which were listed and traded on Shenzhen Stock Exchange on 20 November 2000. After issuance, the Company's total share capital was increased from 383,397,931 shares to 453,397,931 shares.

In May 2001, with approval by the Notice on Approving Non-listed Foreign Shares of Shandong Chenming Paper Group Incorporated Company for Circulation (Zheng Jian Gong Si Zi [2001] No. 44) verified and issued by the China Securities Regulatory Commission on 19 April 2001, 26,709,591 original non-tradable foreign legal person shares held by Guanghua Company were converted into B shares and listed on Shenzhen Stock Exchange. Listed tradable B shares of the Company were increased to 187,709,591 shares.

On 28 June 2001, the Company held 2000 general meeting and passed the year 2000 profit distribution plan by discussion. It presented 1 bonus share per 10 shares to all shareholders based on the total share capital of 453,397,931 shares at the end of 2000, to increase 45,339,793 shares in total. After the bonus shares distribution, the Company's total share capital was increased to 498,737,724 shares.

In May 2003, the Company implemented the 2002 profit distribution to present 2 bonus shares per 10 shares, and converted into 6 share capitals per 10 capital reserves to increase 398,990,179 shares in total. After the bonus shares distribution and conversion, the Company's total share capital was increased from 498,737,724 shares to 897,727,903 shares.

On 15 September 2004, with approval by the Notice on Approving Shandong Chenming Paper Group Incorporated Company to Publicly Issue Convertible Bonds ([2004] No. 147) verified and issued by the China Securities Regulatory Commission, the Company publicly issued 20 million convertible bonds with face value of RMB100, total issuance of RMB2 billion and term of five years, and listed and traded on Shenzhen Stock Exchange on 30 September 2004. The conversion period lasted from 15 March 2005 to 15 September 2009. The bond was called Chenming Convertible Bond as its short name, with the convertible bond code of 125488.

On 29 April 2005, the Company held 2004 general meeting and passed the 2004 profit distribution plan by discussion. It converted into 3 share capitals per 10 capital reserves based on the total share capital of 897,727,903 shares at the end of 2004. The Company's change of share capital was replied by the Reply on Agreeing Capital Increase of Shandong Chenming Paper Group Incorporated Company (Shang Zi Pi [2005] No. 1364) verified and issued by the Ministry of Commerce of the People's Republic of China. According to the above resolution and reply, the Company implemented the distribution plan to deliver 2 bonus shares per 10 shares to all shareholders and converting into 3 capital shares per 10 capital reserves based on the total share capital of 897,728,913 shares on 19 May 2005, the date of record (as of 19 May 2005, the Company converted into share capital of 1,010 shares from convertible bonds). After the bonus shares distribution and conversion, the Company's total share capital was increased to 1,346,593,369 shares.

III. General Information of the Company *(Cont'd)*

On 6 April 2007, the Company's 21st meeting of the fourth session of the board of directors discussed to pass the Proposal on Exercising Redemption Right for Convertible Bonds under Redemptive Condition but Not Converted. It decided that the Company could redeem the Chenming convertible bonds which were not converted before the date of redemption according to procedures agreed in the Prospectuses and 105% of face value (including the current interests) after actually meeting relevant redemptive condition of the Prospectuses of convertible bonds. On 14 May 2007, the Company converted the Chenming Convertible Bonds and total shares were increased to 1,706,345,941 shares.

Replied by Zheng Jian Xu Ke [2008] No. 290 document of the Reply on Approving Shandong Chenming Paper Group Incorporated Company to Issue Foreign Shares by the China Securities Regulatory Commission, and with reply by the Stock Exchange of Hong Kong Ltd. (hereinafter referred to as the Stock Exchange of Hong Kong), the Company was approved to publicly issue the overseas listed foreign shares (H shares). The Company publicly offered 355,700,000 H shares all over the world and listed for trading on the main board of Stock Exchange of Hong Kong on 18 June 2008. The share was called Chenming Paper as its short name with the stock code of HK1812. After offering, the Company's total shares were increased to 2,062,045,941 shares.

The Registration No. of the Business License for Enterprise Legal Person was 370000400001170.

As of 31 December 2012, the cumulatively issued total share capital of the Company was 2,062,045,941 shares. Please see Note VII. 37 for details.

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

Shouguang Chenming Holdings Co., Ltd is the parent company of the Group.

Shouguang Chenming Holdings Co., Ltd (hereinafter referred to as "Shouguang Chenming Holdings") was established on 30 December 2005 by State-owned Assets Supervision and Administration Commission of Shouguang City which contributed its state-owned shares to set up the Company. The China Securities Regulatory Commission finally approved the change in the holder of state-owned Shares of Chenming Paper and the change in nature of its equity interests arising from the establishment of Shouguang Chenming Holdings on 14 August 2006 (Guo Zi Chan Quan [2005] No. 1539). Since then, the largest shareholder of the Company was changed from State-owned Assets Supervision and Administration Commission of Shouguang City to Shouguang Chenming Holdings.

The Company's financial statements were approved for publication by the Board on 27 March 2013 (these financial statements will be proposed in the general meeting for approval in accordance with the Articles of Association of the Company).

IV. Significant accounting policies, accounting estimates and differences in the previous period

1. Basis of Preparation of the Financial Statements

The Company's financial statements have been prepared based on the going concern assumption. The financial statements have been prepared based on actual transactions and events, in accordance with the accounting standards for business enterprises promulgated by the Ministry of Finance of PRC in 15 February 2006 and 38 specific accounting standards, the subsequently promulgated application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as "ASBEs"), and the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" (revised in 2010) of China Securities Regulatory Commission.

The Group's financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments and consumable biological assets, the financial statements are prepared under the historical cost convention. Non-current assets held for sale are stated at the lower of fair value less estimated costs, and the original carrying value when it was qualified as held for sale. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

2. Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 31 December 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.

3. Accounting period

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

4. Reporting currency

The Company and its domestic subsidiaries recognise RMB as their reporting currency according to the primary economic environment in which they operate. The reporting currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). Overseas subsidiaries of the Company, namely Chenming (HK) Co., Ltd. and Chenming Paper Japan Co., Ltd. recognise U.S. dollar and Japanese Yen as their reporting currency according to the primary economic environment in which these subsidiaries operate. The Group prepares its financial statements in RMB.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

5. Accounting treatment of business combination under common control and not under common control

(1) Business combination under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

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

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquire plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial costs. Involved contingent consideration charged to the combination cost according to its fair value on the acquisition date, the combined goodwill be will be adjusted if new or addition evidence existed about the condition in the acquisition date within twelve months after the acquisition date, which is required to adjust the contingent consideration.

The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

6. Basis for preparation of consolidated financial statements

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

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term "control" means that the Company has the power to decide an investee's financial and operating policy. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is a business or entity controlled by the Company.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Group obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flow statements; for disposal of subsidiaries during the reporting period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For acquisition of subsidiaries arising from merger of entities not under same control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets.

All intra-group significant balances, transactions and unrealised profit are eliminated in the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period that is not attributable to the Company are presented separately under shareholders' equity and net profit in the consolidated financial statements. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the" "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interests.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

7. Standards for recognising cash and cash equivalents

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

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

(1) Foreign currency operations

(1) Basis for translation of foreign currency transactions
The foreign currency transactions of the Company, when initially recognised, are translated into functional currency at the prevailing spot exchange rate on the date of exchange while the Company's foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into functional currency at the exchange rate actually adopted.

(2) Basis for translation of foreign currency monetary items and foreign currency non-monetary items
On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate (generally, a spot exchange rate is the middle price quoted by the People's Bank of China on the day of transaction) on the balance sheet date. All differences are included in the consolidated income statement, except for: the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets which are qualified for capitalisation; and except for other carrying amounts of the amortisation costs, the differences arising from changes of the foreign currency items available for sale.

The foreign currency non-monetary items measured at historical cost shall still be measured by the functional currency translated at the spot exchange rate on the date of the transaction. Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate on the date of determination of the fair value. The difference between the amounts of reporting currency before and after the translation will be treated as changes in fair value (including changes in foreign exchange rates) and recognised in profit or loss for the period or recognised as other consolidated income and included in the capital reserves.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

8. Foreign currency operations and translation of statements denominated in foreign currency *(Cont'd)*

(2) Basis for translation of foreign currency financial statements

Exchange differences arising from change in exchange rate where the preparation of consolidated financial statements relates to overseas operation and foreign currency monetary items materially constitute net investment in overseas operation shall be recorded into "translation reserve" in the shareholders' equity: disposal of overseas operation shall be included into profits and losses on disposal in the current period.

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in comply with the following requirement: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; owner's equity items except for "retained profit" are translated at the spot exchange rates at the dates on which such items arose; income and expenses items in the income statement are translated at the average spot exchange rate at the date of transaction. The retained profit brought forward are reported at the prior year's closing balance; the retained profit as at the end of the year are presented after translated the profit appropriation items; differences between the aggregate of asset and liability items and owners' equity items are recognised as "translation differences arising on the translation of financial statements denominated in foreign currencies" in other consolidated income, and presented separately as under owners' equity items in the balance sheet. On disposal of foreign operations and loss of control, exchange differences arising from the translation of financial statements denominated in foreign currencies related to the disposed foreign operation which has been included in owners' equity in the balance sheet, shall be transferred to profit or loss in whole or in proportionate share in the period in which the disposal took place.

Cash flow dominated in foreign currency or from foreign subsidiaries shall be translated at the spot exchange rate when it incurs. Effects arising from changes of exchange rate of cash shall be presented separately in the cash flow statements.

The opening balance and the prior year's figures are presented according to the translated amounts of the prior year.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments

(1) Classification of financial instruments

Financial assets are divided into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for-sale financial assets when they are initially recognised.

Financial liabilities are classified into two categories at initial recognition: at fair value and changes are carried through profit and loss as financial liabilities (including financial liabilities held for trading as well as at fair value and changes are carried through profit and loss as financial liabilities) and other financial liabilities for the current period.

(2) Basis of recognition and method of measurement of financial instrument

Basis of recognition and method of measurement of financial assets

Conventionally traded financial assets shall be recognised and derecognised at the trading date. Financial assets shall be classified into the following four categories for initial recognition: the financial assets at fair value through profit or loss, hold-to-maturity financial assets, loans and the account receivables, and financial assets available for sale. Financial assets are initially recognised at fair value. For financial assets measured at fair value and whose changes are carried through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial assets classified as other categories, relevant transaction costs are included in the amount initially recognised.

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

They include financial assets held for trading and financial assets designated as at fair value through profit or loss for the current period.

Financial assets may be classified as financial assets held for trading if one of the following conditions is met: **A.** the financial assets is acquired or incurred principally for the purpose of selling it in the near term; **B.** the financial assets is part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; or **C.** the financial assets is a derivative, excluding the derivatives designated as effective hedging instruments, the derivatives classified as financial guarantee contract, and the derivatives linked to an equity instrument investment which has no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: **A.** Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or **B.** The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

A financial asset at fair value through profit or loss is subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial asset are recognised in profit or loss in the current period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(2) Basis of recognition and method of measurement of financial instrument *(Cont'd)*

② Held-to-maturity investments

They are non-derivative financial assets with fixed maturity dates and fixed or determinable payments that the Group has positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss on derecognition, impairment or amortisation is recognised through profit or loss for the current period.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income or expense over each period based on the effective interest of a financial asset or a financial liability (including a group of financial assets or financial liabilities). The effective interest is the rate that discounts future cash flows from the financial asset or financial liability over its expected life or (where appropriate) a shorter period to the carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group will estimate the future cash flows (excluding future credit losses) by taking into account all contract terms relating to the financial assets or financial liabilities whilst considering various fees, transaction costs and discounts or premiums which are part of the effective interest rate paid or received between the parties to the financial assets or financial liabilities contracts.

③ Loans and receivables

They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including bills receivable, accounts receivable, interest receivable, dividends receivable and other receivables are classified as loans and receivables by the Group.

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses incurred at the time of derecognition, impairment or amortisation are charged to profit or loss in the current period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(2) Basis of recognition and method of measurement of financial instrument *(Cont'd)*

④ Available-for-sale financial assets

They include non-derivative financial assets that are designated in this category on initial recognition, and the financial assets other than the financial assets at fair value through profit and loss, loans and receivables and held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value. The gain or loss on change in fair value are recognised as other comprehensive income and charged to capital reserves, except for impairment loss and exchange differences arising from foreign monetary financial assets and amortised cost which are accounted for through profit or loss for the current period. The financial assets will be transferred out of the financial assets on derecognition and accounted for through profit or loss for the current period.

Interests received from available-for-sale financial assets held and the cash dividends declared by the investee are recognised as investment income.

Basis of recognition and method of measurement of financial liabilities:

Financial liabilities are classified at initial recognition: at fair value and changes are carried through profit and loss as financial liabilities and other financial liabilities. Financial liabilities are initially recognised at fair value. For financial liabilities measured at fair value and whose changes are carried through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognised.

① Financial liabilities measured at fair value and whose changes are carried through profit or loss for the period

The criteria for a financial liability to be classified as held for trading and designated as at financial liabilities at fair value through profit or loss are the same as those for a financial asset to be classified as held for trading and designated as at financial assets at fair value through profit or loss.

Financial liabilities at fair value through profit or loss for the period are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial liabilities are included into the current profit or loss.

② Other financial liabilities

Derivative financial liabilities which are linked to equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably measured, and which shall be settled by delivery of equity instruments are subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from derecognition or amortisation is recognised in profit or loss for the current period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(2) Basis of recognition and method of measurement of financial instrument *(Cont'd)*

④ Available-for-sale financial assets *(Cont'd)*

③ Financial Guarantee Contracts and loan commitments

Financial guarantee contracts other than those designated as financial liabilities at fair value through profit or loss, or loan commitments other than those designated as financial liabilities at fair value through profit or loss with interest rate lower than market level, are initially recognised at fair value, and shall be subsequently measured at the higher of the following: the amount determined in accordance with Accounting Standard for Business Enterprises No. 13 "Contingencies" and the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in Accounting Standard for Business Enterprises No. 14 "Revenue".

(3) Recognition and measurement of transfers of financial asset

Financial asset that satisfied any of the following criteria shall be derecognised: ① the contract right to recover the cash flows of the financial asset has terminated; ② the financial asset, along with substantially all the risk and return arising from the ownership of the financial asset, has been transferred to the transferee; and ③ the financial asset has been transferred to the transferee, and the transferor has given up the control on such financial asset, though it does not assign maintain substantially all the risk and return arising from the ownership of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises it as a related financial asset and recognises the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

On derecognition of a financial asset, the difference between the following amounts is recognised in profit or loss for the current period: the carrying amount and the sum of the consideration received and any accumulated gain or loss that had been recognised directly in equity.

If a part of the financial assets qualifies for derecognition, the carrying amount of the financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognised in profit or loss for the period: the sum of the consideration received and the carrying amount of the part that qualifies for derecognition and the aforementioned carrying amount.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(4) Derecognition of financial liabilities

Financial liabilities are derecognised in full or in part only when the present obligation is discharged in full or in part. An agreement is entered between the Group (debtor) and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognise the original financial liabilities as well as recognise the new financial liabilities.

When financial liabilities is derecognised in full or in part, the difference between the carrying amount of the financial liabilities derecognised and the consideration paid (including transferred non-cash assets or new financial liability) is recognised in profit or loss for the current period.

(5) Method of determination of the fair value for financial assets and financial liabilities

The fair value refers to the amount, at which both willing parties to a fair transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. Financial instruments exist in an active market. Fair value is determined based on the quoted price in such market. An active market refers to where pricing is easily and regularly obtained from exchanges, brokers, industrial organisations and price-fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. While financial instruments do not exist in an active market, the fair value is determined using valuation techniques. Valuation technologies include reference to be familiar with situation and prices reached in recent market transactions entered into by both willing parties, reference to present fair values of similar other financial instruments, cash flow discounting method and option pricing models.

(6) Impairment tests and provision of financial assets (excluding amount receivables)

In addition to financial assets at fair value through profit or loss for the current period, the Group reviews the book value of other financial assets at each balance sheet date and provide for impairment where there is objective evidence that financial assets are impaired.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in the collective assessment for impairment.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(6) Impairment tests and provision of financial assets (excluding amount receivables) *(Cont'd)*

① Impairment of held-to-maturity investments and loans and receivables

The carrying amount of financial assets measured as costs or amortised costs are subsequently reduced to the present value discounted from its projected future cash flow. The reduced amount is recognised as impairment loss and recorded as profit or loss for the period. After recognition of the impairment loss from financial assets, if there is objective evidence showing recovery in value of such financial assets impaired and which is related to any event occurring after such recognition, the impairment loss originally recognised shall be reversed to the extent that the carrying value of the financial assets upon reversal will not exceed the amortised cost as at the reversal date assuming there is no provision for impairment.

② Impairment of available-for-sale financial assets

In the event that decline in fair value of the available-for-sale equity instrument is regarded as "severe decline" or "non-temporary decline" on the basis of comprehensive related factors, it indicates that there is impairment loss of the available-for-sale equity instrument. In particular, "severe decline" refers to accumulative decline in fair value is more than 20%. "Non-temporary decline" refers to the fair value decreased continuously for more than 12 months.

When the available-for-sale financial assets impair, the accumulated loss originally included in the capital reserve arising from the decrease in fair value was transferred out from the capital reserve and included in the profit or loss for the period. The accumulated loss that transferred out from the capital reserve is the balance of the acquired initial cost of asset, after deduction of the principal recovered, amortised amounts, current fair value and the impairment loss originally included in the profit or loss.

After recognition of the impairment loss, if there is objective evidence showing recovery in value of such financial assets impaired and which is related to any event occurring after such recognition in subsequent periods, the impairment loss originally recognised shall be reversed. The impairment loss reversal of the available-for-sale equity instrument will be recognised as other consolidated income, and the impairment loss reversal of the available-for-sale debt instrument will be included in the profit or loss for the period.

When an equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably, or the impairment loss of a derivative financial asset linked to the equity instrument that shall be settled by delivery of that equity instrument, then it will not be reversed.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

9. Financial instruments *(Cont'd)*

(7) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. For equity instruments, the price received during the issue shall be added to shareholder's equity after reducing the transaction fees.

(8) Offset of Financial Assets and Financial Liabilities

If the Group owns the legitimate rights of offsetting the recognised financial assets and financial liabilities, which are enforceable currently, and the Group plans to realise the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheep. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

10. Basis for recognition and measurement of bad debt provision for accounts receivables

Basis for recognition and measurement of bad debt provision

The Group carries out an overall inspection on the carrying amount of accounts receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganisations; ④ other objective evidences show that the accounts receivable are impaired.

(1) Bad debt provision for a an individually significant item of accounts receivable

Basis of determination or criterion of amount for individually significant items	Accounts receivable of more than RMB1 million is recognised as individually significant accounts receivable by the Group.
Method for making bad debt provision individually for individually significant items	For accounts receivable that is individually significant, the Group assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Accounts receivable for which an impairment loss is individually recognised are not included in a group of accounts receivable with similar credit risk characteristics and collectively assessed for impairment.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

10. Basis for recognition and measurement of bad debt provision for accounts receivables *(Cont'd)*

(2) Accounts receivable making bad debt provision by portfolio

Name of portfolio	Method for making bad debt provision by portfolio	Basis for determining the portfolio
No-risk portfolio		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.
General-risk portfolio	Ageing analysis	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.

Use of ageing analysis for making bad debt provision in the portfolio:

√ Applicable ☐ Not applicable

Age	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year)	5%	5%
1-2 years	10%	10%
2-3 years	20%	20%
Over 3 years	100%	100%

Use of percentage of amount outstanding for making bad debt provision in the portfolio:

☐ Applicable √ Not applicable

Use of other methods for making bad debt provision in the portfolio:

√ Applicable ☐ Not applicable

Name of portfolio	Method
No-risk portfolio	no bad debt is depreciated

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

10. Basis for recognition and measurement of bad debt provision for accounts receivables *(Cont'd)*

(3) Accounts receivable insignificant but making bad debt provisions individually

Reasons for making bad debt provisions individually	The Group conducts impairment tests for the single item with insignificant account receivables but with following features. if there is objective evidence indicating that the accounts receivable is impaired, then impairment loss will be recognised and provision for bad debts according to the difference when the present value of future cash flow is fewer than its carrying amounts: accounts receivable with dispute against counterparties or involved in litigation or arbitration; there is obvious objective of the accounts receivable indicated that the debtor is likely to fail to comply with the repayment obligation, etc.
Method for making bad debt provisions:	Bad debt provisions are made based on the difference between the present value of the future cash flow and the book value in determining the impairment loss.

(4) Reversal of provision

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

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

11. Inventories

(1) Classification of inventories

Inventories mainly include raw materials, work in progress and finished products, etc.

(2) Pricing of inventories dispatched

Pricing method: weighted average method

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated with weighted average method.

(3) Recognition of net realisable value of inventory and provision for inventory impairment

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. Provision for inventory impairment is made when the net realisable value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single item exceeds its net realisable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realisable value of an inventory is higher than its book-value, the original provision for inventory impairment shall be transferred back and incorporated into the profit or loss for the current period.

Net realisable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and other amounts after tax and levies in daily operation. The realisable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

(4) The inventory taking system

Taking system: permanent inventory system

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

Low-value consumables
Amortisation method: lump-sum

Packaging materials
Amortisation method: lump-sum

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

12. Long-term equity investments

(1) Determination of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the business combination cost is the aggregate of assets paid, liabilities incurred or undertook and fair value of equity securities issued by the acquirer. Agent fees incurred by the acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period at the time such expenses incurred. Transaction cost incurred for issuing equity securities or debt securities, which are used as consideration for the combination, are included in the initial recognition amount of the equity securities or debt securities.

The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost. Such cost is depended upon the acquired means of long-term equity investments, which is recognised based on the purchase cost actually paid by the Group in cash, the fair value of equity securities issued by the Group, the agreed value of investment contract or agreement, the fair value or original carrying amounts of the non-monetary asset exchange transaction which the asset will be transferred out of the Group, and the fair value of long-term equity investment itself. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investments are also included in the investment cost.

(2) Subsequent measurement and profit or loss recognition

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets or financial assets measured at fair value with any change in fair value charged to profit or loss.

In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

① Long-term equity investments accounted for using the cost method

Under the cost method, a long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognised as the cash dividends or profits declared by the investee.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

12. Long-term equity investments *(Cont'd)*

(2) Subsequent measurement and profit or loss recognition *(Cont'd)*

② Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. The unrealised gain or loss from internal transactions entered into between the Group and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. However, the unrealised gain or loss from internal transactions entered into between the Group and its investee is not set up if belonging to impairment loss from assets transferred according to regulations such as "Accounting Standards for Business Enterprises No. 8 "Assets impairment". In respect of the other consolidated income of investees, the carrying amount of long-term equity investments is accordingly adjusted and recognised as other consolidated income and included in the capital reserves.

The Group's share of net losses of the investee shall be recognised to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed shall be provided for and charged to the profit or loss as investment loss for the period. Where the investee is making profits in subsequent periods, the Group shall resume recognising its share of profits after setting off against the share of unrecognised losses.

If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the Accounting Standards for Business Enterprises by the Group on 1 January 2007, the amounts amortised over the original residual term using the straight-line method is included in the profit or loss for the period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

12. Long-term equity investments *(Cont'd)*

(2) Subsequent measurement and profit or loss recognition *(Cont'd)*

③ Acquisition of minority interests

Upon the preparation of the consolidated financial statements, since acquisition of minority interests increased of long-term equity investment which was compared to fair value of identifiable net assets recognised which are measured based on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares, the difference of which recognised as adjusted capital surplus, capital surplus insufficient to set off impairment and adjusted retained earnings.

④ Disposal of long-term equity investments

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and disposal of long-term equity investments relative to the net assets of the subsidiary is charged to the owners' equity.

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is recognised through profit or loss in the current period. Where the equity method is adopted, other comprehensive income attributable to the long term equity investments previously included in shareholders' equity shall be transferred to through profit or loss in the current period on a pro-rata basis. The remaining equity shall be recognised as the long-term equity investments or other relevant financial assets based on the carrying amount and subsequently measured in accordance with the accounting policies of the foresaid long-term equity investments or financial assets. The retrospective adjustment shall be made in accordance with the relevant provisions if the remaining equity is accounted for using the equity method instead of the cost method.

(3) Recognition of having joint control or significant influence over the investee

The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investee and other invested units held) were taken into account.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

12. Long-term equity investments *(Cont'd)*

(4) Impairment test method and impairment provision

The Group assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly.

An impairment loss recognised on long-term equity investments shall not be reversed in a subsequent period.

13. Investment Property

Investment property refer to real estate held to earn rentals or for capital appreciation, or both including the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Group adopts cost method for subsequent measurement of investment property, which is depreciated or amortised using the same policy as that for buildings and land use rights.

The method for impaired test of investment property and measurement of impairment provision are detailed in Note IV. "20. Impairment of non-current non-monetary financial asset".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

In the event that an investment property is converted to an owner-occupied property, such property shall become fixed assets or intangible assets since the date of its conversion. In the event that an owner-occupied property is converted to real estate held to earn rentals or for capital appreciation, such fixed assets or intangible assets shall become an investment property since the date of its conversion. Investment property is measured at cost during its conversion. Upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

14. Fixed assets

(1) Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

(2) Method for depreciation of different fixed assets

A fixed asset shall be initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use. Depreciation is provided over its estimated useful life from the next month after it has been brought to its working condition for its intended use using the straight-line method. The useful life, estimated residual value and annual depreciation rate of each category of a fixed asset are as follows:

Category	Useful lives of depreciation (Year)	Estimated residual value (%)	Annual depreciation rate (%)
Buildings and structures	20-40	5-10	2.25-4.75
Machinery and equipment	8-20	5-10	4.5-11.88
Transportation equipment	5-8	5-10	11.25-19.00
Electronic equipment and others	5	5-10	18.00-19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the stage and in the condition expected at the end of its useful life.

(3) Impairment testing methods and provision for impairment methods on fixed assets

The method for impaired test of fixed asset and measurement of impairment provision are detailed in Note IV. 20"Impairment of non-current non-monetary financial asset".

(4) Explanation on other matters

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Company and the relevant cost can be measured reliably; meanwhile the carrying amount of the replaced part shall be derecognised. Other subsequent expenditures shall be charged to profit or loss when incurred.

When a fixed asset is sold, transferred, retired or damaged, the Group shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

15 Construction in progress

(1) Types of the construction in progress

Construction in progress is recognised based on the actual construction cost, including all expenditures incurred for construction projects, capitalised borrowing costs for the construction in progress before it has reached the working condition for its intended use, and other related expenses during the construction period.

(2) Criteria and time for transferring construction in progress to fixed assets

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

(3) The method for impaired test of construction in progress and measurement of impairment provision

The method for impaired test of construction in progress and measurement of impairment provision are detailed in Note IV. 20 "Impairment of non-current non-monetary financial asset".

16. Borrowing costs

(1) Principles for recognising capitalisation of borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised as part of the cost of that asset; and capitalisation shall discontinue when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognised as expense in the period in which they are incurred.

Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

(2) Period for capitalisation of borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised as part of the cost of that asset; and capitalisation shall discontinue when the qualifying asset is ready for its intended use or sale.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

16. Borrowing costs *(Cont'd)*

(3) Period for suspension of capitalisation

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

(4) Calculation of the amount of capitalisation of borrowing costs

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific purpose borrowing denominated in foreign currency shall be capitalised as part of the cost of the qualifying asset. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

17. Biological assets

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

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

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

18. Intangible assets

(1) Measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Land use right acquired shall normally be recognised as an intangible asset. Self-constructed buildings (e.g. plants), related land use right and the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as fixed assets.

(2) Estimated useful life of intangible assets with a finite useful life

An intangible asset with a finite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortised using the straight-line method over its useful life when the asset is available for use. Intangible assets with indefinite life are not amortised.

The Group shall review the useful life of intangible asset with a finite useful life and the amortisation method applied at least at each financial year-end. A change in the useful life or amortisation method used shall be accounted for as a change in accounting estimate. For an intangible asset with an indefinite useful life, the Group shall review the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and apply the accounting policies accordingly.

(3) Impairment provision for intangible assets

The method for impaired test of intangible asset and measurement of impairment provision are detailed in Note IV. 20 "Impairment of non-current non-financial assets".

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

18. Intangible assets *(Cont'd)*

(4) Specific criteria for classifying internal research and development projects of the Company into the research phase and development phase

Expenses incurred during the development stage that satisfy the following conditions are recognised as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period:

① it is technically feasible that the intangible asset can be used or sold upon completion;

② there is intention to complete the intangible asset for use or sale;

③ the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;

④ there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;

⑤ the expenses attributable to the development stage of the intangible asset can be measured reliably.

(5) Accounting for internal research and development project expenditure

Expenditure arising from the research phase is recognised as profit or loss in the current period.

Expenses incurred during the development stage that satisfy condition (4) are recognised as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all development expenses incurred are accounted for in the profit or loss for the current period.

19. Long-term prepaid expenses

Long-term prepaid expenses are expenditures and other expenses which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. Long-term prepaid expenses are amortised over the estimated benefit period using the straight-line method.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

20. Impairment of non-current non-financial assets

The Group will judge if there is any indication of impairment as at the balance sheet date in respect of non-current non-financial assets such as fixed assets, construction in progress, intangible assets with a finite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill, intangible assets with an indefinite useful life and intangible assets beyond working conditions will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset groups or group of assets benefiting from synergy of business combination. If the recoverable amount is less than the carrying amount, the Group shall recognise an impairment loss. The amount of impairment loss shall first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of other assets (other than goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

21. Accrued liabilities

(1) Criteria for recognition of accrued liabilities

Obligations pertinent to the contingencies which satisfy the following conditions are recognised as accrued liabilities: (1) The obligation is a current obligation borne by the Group; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (3) the amount of the obligation can be reliably measured.

(2) Method for measuring accrued liabilities

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognised as asset separately, and compensation amount recognised shall not be more than the carrying amount of accrued liabilities.

22. Repurchase of the Company's shares

Share repurchase consideration paid and transaction costs to reduce the owner's equity, repurchase, transfer or cancellation of the Company's shares, the gains or losses are not recognised.

The difference between the amount actually received and the carrying amount of the treasury shares is credited to the capital reserve for the transfer of treasury shares. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits. Treasury shares are cancelled at par value and by the number of shares cancelled to reduce the share capital. The difference between the book balance and the nominal value of the treasury shares shall be offset against the capital reserve. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

23. Revenue

(1) The specific criteria for recognition of revenue from sales of goods

Revenue is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

(2) Basis for recognition of revenue from the use right of assigned assets

Confirmation time for sales revenue: In terms of domestic sales, confirmation will be made on the day when goods are delivered to the clients. While in terms of overseas sales, confirmation will be made on the day when goods are loaded on board and declared.

(3) Basis for recognition of revenue from the rendering of services

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: ① The relevant amount of revenue can be reliably measured; ② it is probable that the economic benefits will flow into the enterprise; ③ the completion schedule of the transaction can be reliably ascertained; and ④ transaction costs incurred and to be incurred can be reliably measured.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognised as an expense for the current period. If the cost of rendering services is expected not to be compensated, it shall be recognised as an expense.

When a contract or agreement signed by the Group includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognised respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognised as sales of goods in full.

(4) Basis and method for determination of completion schedule when revenue from the rendering of services and construction contracts is recognised based on the percentage-of-completion method

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the proportion of service costs incurred to the estimated total costs.

Where the outcome of a construction contracts can be reliably estimated, it shall, on the balance sheet date, recognise contract revenue and contacts expenses using the percentage of completion method. The completion schedule of a contract shall be ascertained according to the portion of accumulative actual contract costs incurred to the estimated total contract costs or the completed contract work to the estimated total contracts work or the actually measured completion schedule.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

24. Government grant

(1) Types

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration, excluding capital considerations from the government as an owner of the Group. Government grants are classified into government grants related to assets and government grants related to income.

(2) Accounting treatment

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognised immediately in profit or loss for the current period.

A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognised immediately in profit or loss for the current period.

For the repayment of a government grant already recognised, if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognised in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognised immediately in profit or loss for the current period.

25. Deferred income tax assets/deferred income tax liabilities

(1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

25. Deferred income tax assets/deferred income tax liabilities *(Cont'd)*

(2) Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognised as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Group able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognizes the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

25. Deferred income tax assets/deferred income tax liabilities *(Cont'd)*

(3) Income tax expense

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense (current income tax income) and deferred income tax expense (deferred income tax income) are included in profit or loss for the current period, except for: recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in other comprehensive income or owners' equity, which are recognised directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

(4) Offset of income tax

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

26. Operating lease and finance lease

(1) Accounting treatment of operating lease

Operating lease business with the Group recorded as lessee

Lease payment for operating lease is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period upon occurrence.

Operating lease business with the Group recorded as lessor

Rental income is recognised in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is fewer is included in the profit or loss for the period when incurred. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

(2) Accounting treatment of finance lease

With the Company recorded as a lessee, at the beginning of the leasing period, fair value at the beginning of the leasing period or the minimum leasing payment (which is lower) is credited as the accounting value of the leasing assets, while the minimum leasing payment is credited as the accounting value of the long-term payables. The difference between them is credited as unrecognised financing expenses. Direct expense incurred initially is credited as the value of the leasing assets. During each leasing period, the financing expense is recognised using the effective interest method. With the Company recorded as a lesser, at the beginning of the leasing period, the sum of the minimum leasing payment and direct expense incurred initially is credited as the accounting value of finance leasing payables. Unsecured balance will also be recorded. The difference between the sum of the minimum leasing payment and direct expense incurred initially and unsecured balance, and the sum of present value is recognised as unrealised financing earning. During each leasing period, the financing income is recognised using the effective interest method.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

27. Assets held for sale

(1) Criteria for recognition of assets held for sale

If the Group has made a resolution in respect of disposal of a non-current asset and signed an irrevocable transfer agreement with the transferee, and such transfer is likely to be completed within one year, this noncurrent asset shall be accounted for as non-current assets held for sale. Noncurrent assets held for sale include individual asset and disposal group. If the group of disposal is a set of asset groups and goodwill received from business combination is allocated to such asset groups in accordance with the "Accounting Standards for Business Enterprises No.8 "Assets Impairment" or such disposal group is an operation in the asset groups, it shall include the goodwill in business combination. If an asset or disposal group is classified as held for sale, but fails to meet recognition requirements for noncurrent assets held for sale, it shall no longer be classified as assets held for sale

(2) Accounting treatment for assets held for sale

The non-current assets held for sale are not depreciated nor amortised and calculated at the lower of carrying amount and net amount of the fair value less disposal cost. If an asset or disposal group is classified as held for sale, but fails to meet recognition requirements for noncurrent assets held for sale, it shall no longer be classified as assets held for sale and calculated at the lower of the following two amounts: **(1)** the carrying amount of such asset or disposal group before being classified as assets held for sale subsequent to the adjustment to the originally recognised depreciation, amortisation or impairment under the condition that they are not classified as assets held for sale; and **(2)** the recoverable amount at the date on which no future sale is decided.

28. Changes in Significant Accounting Policies and Estimates

Any changes in significant accounting policies and accounting estimates during the reporting period

☐ Yes √ No

(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

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

29. Corrections on accounting errors in prior periods

Any prior accounting errors identified during the reporting period

☐ Yes √ No

(1) Retrospective restatement

Any prior accounting errors based on retrospective restatement identified during the reporting period

☐ Yes √ No

(2) Prospective application

Any prior accounting errors based on prospective application identified during the reporting period

☐ Yes √ No

30. Other significant accounting policies, accounting estimates and preparation method of financial statements

Critical accounting judgments and estimate

The Group needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately calculated during the application of the Group's accounting policies. Such judgments, estimates and assumptions are made based on the historical experiences of the Group's management and taking into account other relevant factors, which may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the outcome from such estimate uncertainties may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Group regularly reviews the aforesaid judgments, estimates and assumptions on the basis of continued operation. A revision to accounting estimates is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

At the balance sheet date, the critical areas where Group needs to make judgments, estimates and assumptions as to the items amount of financial statements are set out below:

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

30. Other significant accounting policies, accounting estimates and preparation method of financial statements *(Cont'd)*

Critical accounting judgments and estimate *(Cont'd)*

(1) Provision for bad debts

The Group adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

(2) Allowance for inventories

Under the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Group makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the saleability of the evaluated inventory and their net realisable values. Given the management's judgments and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

(3) Subsequent measurement of biological assets

The Group has appointed an independent professional valuer to value the fair value of the biological assets. When the valuer determines the fair value, the valuation method used by the valuer includes some assumptions. Directors have judged that the valuation method reflects the prevailing market conditions.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

30. Other significant accounting policies, accounting estimates and preparation method of financial statements *(Cont'd)*

Critical accounting judgments and estimate *(Cont'd)*

(4) Provision for impairment of non-financial non-current assets

At the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing.

Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered. When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Group may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

The test shall be performed at least once a year as to whether there is any impairment. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Group needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

IV. Significant accounting policies, accounting estimates and differences in the previous period *(Cont'd)*

30. Other significant accounting policies, accounting estimates and preparation method of financial statements *(Cont'd)*

Critical accounting judgments and estimate *(Cont'd)*

(5) Depreciation and amortisation

The Group shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value, using straight-line method. The Group shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Group according to its previous experience on the similar assets and estimated technical innovation. If there is any material change in the previously made estimate, the depreciation and amortisation will be adjusted over the future period.

(6) Deferred income tax assets

It is probable that all unused tax loss will be recognised as the deferred income tax assets to the extent there will be sufficient taxable profits against which the deducible loss is available. This requires the Group's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy.

(7) Income tax

There are some uncertainties in tax treatment and calculation for some transactions of the Group during its ordinary course of business. The approval from the tax authority is required for pre-tax expending of some items. Any difference between the final recognition outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during their final recognition period.

V. Taxation

1. Main Tax Types and Tax Rates of the Company

Tax type	Basis of taxation	Tax rate
Value added tax	Sales of goods	17% for general and 13% for sales of gas and water. Value-added tax is computed on the difference after deduction of input value-added tax.
Consumption tax		
Business tax	Rent income	3%-5%
Urban maintenance and construction tax	Value-added tax and business tax payables	7%
Enterprise income tax	Taxable income	25%, 15% for high-tech enterprise and 20% for small-size enterprise
Educational surcharges	Value-added tax and business tax payables	3%
Local educational surcharges	Value-added tax and business tax payables	2%

V. Taxation *(Cont'd)*

1. Main Tax Types and Tax Rates of the Company *(Cont'd)*

Rate of income tax for subsidiaries and branch factories

Subsidiary	Rate of income tax	Subsidiary	Rate of income tax	Subsidiary	Rate of income tax
Shandong Chenming Paper Holdings Limited	15%	Huanggang Chenming Arboriculture Co., Ltd.	Tax free	Wuhan Xingzhilian Paper Company Limited	25%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	25%	Huanggang Chenming Paper Co., Ltd.	25%	Shandong Chenming Xinli Power Co., Ltd.	25%
Haicheng Haiming Mining Company Limited	25%	Shouguang Meilun Paper Co. Ltd.	25%	Shouguang Chenming Cement Co., Ltd.	25%
Shandong Chenming Power Supply Holdings Co., Ltd.	25%	Shouguang Shun Da Customs Declaration Co, Ltd.	25%	Shandong Chenming Panels Co., Ltd.	25%
Yanbian Chenming Paper Co., Ltd.	25%	Shandong Chenming Paper Sales Company Limited	25%	Shouguang Chenming Floor Board Co., Ltd.	25%
Jiangxi Chenmng Paper Co., Ltd.	25%	Shanghai Runchen Equity Investment Fund Co., Ltd.	25%	Yangjiang Chenming Arboriculture Co., Ltd.	Tax free
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	25%	Shouguang Chenming Industrial Logistics Co., Ltd.	25%	Zhanjiang Chenming Arboriculture Co., Ltd.	Tax free
Hailaer Chenming Paper Co., Ltd.	25%	Shouguang Chenming Papermaking Machine Co., Ltd.	25%	Jilin Chenming Waste Collection Co., Ltd.	25%
Japan Chenming Paper Company Limited	25%	Shouguang Chenming Import and Export Trade Co., Ltd.	25%	Jilin Chenming Machinery Manufacturing Co., Ltd.	25%
Jilin Chenming Paper Co., Ltd.	25%	Shouguang Chenming Jiatai Property Management Co., Ltd.	25%	Nanchang Chenming Arboriculture Co., Ltd.	Fax free
Shandong Grand View Hotel Co., Ltd.	25%	Shouguang Chenming Hongxin Packaging Co., Ltd.	25%	Wuxi Song Ling Paper Co., Ltd.	25%
Zhanjiang Chenming Paper Pulp Co., Ltd.	25%	Shouguang Hengfeng Storage Co., Ltd.	25%	Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	25%
Chenming (HK) Limited	17%	Chenming International Co., Ltd.	25%	Shouguang Hongyi Decorative Packaging Co., Ltd.	25%
Shouguang Chenming Modern Logistic Co., Ltd.	25%	Wuhan Chenming Qianneng Electric Power Co., Ltd.	25%	Shouguang Wei Yuan Logistics Company Limited	25%
Shouguang Chenming Art Paper Co., Ltd.	25%	Wuhan Chenjian New-style Wall Materials Co., ltd.	25%	Shouguang Xinyuan Coal Co., Ltd.	25%
Fuyu Chenming Paper Co., Ltd.	25%	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	25%	Zhanjiang Huirui Investment Co., Ltd.	25%

V. Taxation *(Cont'd)*

2. Tax Incentives and Approvals

Enterprise Income Tax

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得税法》) dated 16 March 2007, the Company is recognised as a high or new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Shouguang, Shandong. An enterprise income tax rate of 15% is applicable to the Company since 2012.

Pursuant to the requirements of Rule 27 of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得税法》) and Rule 86 of Regulations for the Implementation of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得税法實施條例》), subsidiaries of the Company, namely, Zhenjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd. and Huanggang Chenming Arboriculture Co., Ltd., are engaged in arboriculture cultivating and thus exempt from corporate income tax.

Pursuant to the "Revenue Bill 2008" passed by The Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, Chenming (HK) Limited, a subsidiary of the Company, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2012 was 16.5%.

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

Value-added Tax ("VAT") incentives:

Pursuant to Cai Shui [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources" issued by the State Administration of Taxation", enterprises engaged in utilisation of raw materials containing not less than 30% of coal gangue, stone coal, coal ash, bottom ash of coal boiler (excluding blast furnace water quenching residue) in the production of building material products shall be exempted from VAT. Wuhan Chenjian New-style Wall Materials Co., Ltd., a subsidiary of the Company, utilises raw materials containing above 30% of coal ash in its production. It is thus qualified as an enterprise engaged in the utilisation of waste in production and is exempted from VAT in 2012.

Pursuant to Cai Shui Zi [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources issued by the Ministry of Finance and the State Administration of Taxation" and the relevant requirements of Cai Shui [2001] Document No. 72, Shandong Chenming Panels Co., Ltd. (山東晨鳴板材有限責任公司), Qihe Chenming Panels Co., Ltd., Juancheng Chenming Panels Co., Ltd and Heze Chenming Panels Co., Ltd., all being subsidiaries of the Company and produce products that applied integrated use of resources, are subject to an immediate VAT refund policy.

3. Other explanation

Nil

VI. Business Combination and Consolidated Financial Statements

1. Subsidiaries

(1) Subsidiaries acquired through establishment or investment

Unit: RMB

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Controlling subsidiary	Wuhan, China	Manufacture of paper	211.36 million	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	202,820,000.00		50.93%	50.93%	Yes	229,222,700.00		
Haicheng Haiming Mining Company Limited	Controlling subsidiary	Haicheng, China	Mining	100 million	Processing and sales of magnesite and talc	70,000,000.00		70%	70%	Yes	30,000,000.00		
Shandong Chenming Power Supply Holdings Co., Ltd.	Controlling subsidiary	Shouguang, China	Electricity	99.55 million	Manufacture and supply of electricity and steam	157,810,000.00		86.71%	86.71%	Yes	21,757,700.00		
Yanbian Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Yanbian, China	Manufacture of paper	81.63 million	Mucilage glue fibre pulp, pulp and machine-made paper	96,730,000.00		100%	100%	Yes			
Jiangxi Chenmng Paper Co., Ltd.	Wholly-owned subsidiary	Nanchang, China	Manufacture of paper	US$ 172 million	Production and etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials processing,	697,550,000.00		51%	100%	Yes			
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Controlling subsidiary	Shouguang, China	Arboriculture	10.59 million	Development, nurture of fast growth poplar, forest, vegetable and fruit	7,200,000.00		68%	68%	Yes	-974,100.00		
Hailaer Chenming Paper Co., Ltd.	Controlling subsidiary	Hailaer, China	Manufacture of paper	16 million	Sales and processing; sales of machine- made paper and pulp paper	12,000,000.00		75%	75%	Yes	20,816,800.00		
Japan Chenming Paper Company Limited	Wholly-owned subsidiary	Tokyo, Japan	Trade of paper	US$ 1.50 million	Trade of paper and raw materials	9,310,000.00		100%	100%	Yes			

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

1. Subsidiaries *(Cont'd)*

(1) Subsidiaries acquired through establishment or investment *(Cont'd)*

Unit: RMB

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Jilin Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Jilin City, China	Manufacture of paper	1.5 billion	Processing and sales of machine-made paper, paperboard, paper product, paper pulp	1,501,350,000.00		100%	100%	Yes			
Shandong Grand View Hotel Co., Ltd.	Controlling subsidiary	Shouguang, China	Restaurant and beverage	US$ 13.91 million	Restaurant and beverage services	80,500,000.00		70%	70%	Yes	-11,399,500.00		
Zhanjiang Chenming Paper Pulp Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Manufacture of paper pulp	3 billion	Processing and sales of paper pulp	3,000,000,000.00		100%	100%	Yes			
Chenming (HK) Limited	Wholly-owned subsidiary	Hong Kong, China	Trade of paper	US$ 100,000	Export and import trade of paper products and market research	780,000.00		100%	100%	Yes			
Shouguang Chenming Modern Logistic Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	10 million	Transportation of goods	10,000,000.00		100%	100%	Yes			
Shouguang Chenming Art Paper Co., Ltd.	Controlling subsidiary	Shouguang, China	Manufacture of paper	US$ 20 million	Production and sales of machine-made paper	113,620,000.00		75%	75%	Yes	39,628,600.00		
Fuyu Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Fuyu, China	Manufacture of paper	208 million	Production and sales of machine-made paper and paperboard	208,000,000.00		100%	100%	Yes			
Huanggang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Arboriculture	70 million	Plantation, processing and sales of forests	70,000,000.00		100%	100%	Yes			
Huanggang Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Arboriculture, establishment of paper pulp projects	20 million	Operation and acquisition of forest; establishment of paper pulp projects	20,000,000.00		100%	100%	Yes			
Shouguang Meilun Paper Co. Ltd.	Wholly-owned subsidiary	Shouguang, China	Manufacture of paper	2,200 million	Production and sales of machine-made paper and paperboard	2,200,000,000.00		100%	100%	Yes			

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

1. Subsidiaries *(Cont'd)*

(1) Subsidiaries acquired through establishment or investment *(Cont'd)*

Unit: RMB

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang Shun Da Customs Declaration Co,Ltd.	Wholly-owned subsidiary	Shouguang, China	Customs declaration, inspection declaration	1.5 million	Business agency of professional customs declaration and inspection declaration	1,500,000.00		100%	100%	Yes			
Shandong Chenming Paper Sales Company Limited	Wholly-owned subsidiary	Shouguang, China	Sales of paper	100 million	Sales of machine-made paper, paperboard and paper making raw materials	100,000,000.00		100%	100%	Yes			
Shanghai Runchen Equity Investment Fund Co., Ltd.	Controlling subsidiary	Shanghai, China	Equity investment	305 million	Equity investment, investment management, investment consulting	300,000,000.00		98.36%	98.36%	Yes	5,324,600.00		
Shouguang Chenming Industrial Logistics Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	10 million	Land transport, storage of goods	10,000,000.00		100%	100%	Yes			
Shouguang Chenming Papermaking Machine Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Machinery manufacturing	2 million	Processing and repair of paper making machines	2,000,000.00		100%	100%	Yes			
Shouguang Chenming Import and Export Trade Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Import and export trade	10 million	Import and export of goods and technology	10,000,000.00		100%	100%	Yes			
Shouguang Chenming Jiatai Property Management Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Property management	1 million	Property management	1,000,000.00		100%	100%	Yes			
Shouguang Chenming Hongxin Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Packaging	1 million	Sales of paper packaging	1,000,000.00		100%	100%	Yes			
Shouguang Hengfeng Storage Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Storage of goods, leasing	500,000	Storage and leasing, storage service	500,000.00		100%	100%	Yes			

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

1. Subsidiaries *(Cont'd)*

(1) Subsidiaries acquired through establishment or investment *(Cont'd)*

Unit: RMB

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Chenming Internationa Co., Ltd.	Wholly-owned subsidiary	L.A., U.S.	Import and export, technology research and development	US$ 3 million	Import and export, technology research and development	19,860,000.00		100%	100%	Yes			
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Controlling subsidiary	Wuhan, China	Electricity	88.24 million	Generation and sales of electricity and steam	45,000,000.00		51%	51%	Yes	38,560,400.00		
Wuhan Chenjian New-style Wall Materials Co., ltd.	Controlling subsidiary	Wuhan, China	Wall materials of paper	10 million	Production, operation and sales of aerated fly ash concrete blocks	5,100,000.00		51%	51%	Yes	14,943,800.00		
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Wholly-owned subsidiary	Wuhan, China	Real estate	20 million	Development of real estate and sales of commodity house	20,000,000.00		100%	100%	Yes			
Wuhan Xingzhilian Paper Company Limited	Wholly-owned subsidiary	Wuhan, China	Manufacture of paper	20 million	Produce, processing and sale of machine-made paper	20,000,000.00		100%	100%	Yes			
Shandong Chenming Xinli Power Co., Ltd.	Controlling subsidiary	Shouguang, China	Electricity	US$ 11.8 million	Generation and sales of electricity and steam	49,820,000.00		51%	51%	Yes	71,971,500.00		
Shouguang Chenming Cement Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of cement	7 million	Utilisation of ash in the production of cement and sales of cement	7,000,000.00		100%	100%	Yes			
Shandong Chenming Panels Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of panels	30 million	Decorative board of the layer of laminated board, wooden products, laminated board and fortified wooden floorboard	30,000,000.00		100%	100%	Yes			

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

1. Subsidiaries *(Cont'd)*

(1) Subsidiaries acquired through establishment or investment *(Cont'd)*

Unit: RMB

Full name of subsidiary	Subsidiary type	Place of Incorporation	Business Nature	Registered capital	Business activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang Chenming Floor Board Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Production and sales of floor board	500,000	Production, processing and sales of fortified wooden floorboard and impregnated paper	500,000.00		100%	100%	Yes			
Yangjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Yangjiang, China	Arboriculture	1 million	Plantation and development of forest, and technology tconsultation of forestry	1,000,000.00		100%	100%	Yes			
Zhanjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Arboriculture	1 million	Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber	1,000,000.00		100%	100%	Yes			
Jilin Chenming Waste Collection Co., Ltd.	Wholly-owned subsidiary	Jilin, China	Purchase and sales of waste and old material	1 million	Purchase and sales of waste and old material	1,000,000.00		100%	100%	Yes			
Jilin Chenming Machinery Manufacturing Co., Ltd.	Wholly-owned subsidiary	Jilin, China	Processing of machinery	600,000	Processing of machinery, manufacture, installation and repair of the equipment of machinery	600,000.00		100%	100%	Yes			
Nanchang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Nanchang, China	Arboriculture	10 million	Processing and sales of wooden finished products, semi- finished products and by-products of timber	10,000,000.00		100%	100%	Yes			

Explanation on subsidiaries acquired through establishment or investment:

Nil

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

1. Subsidiaries *(Cont'd)*

(2) Subsidiaries acquired through business combination not under common control

Unit: RMB

Full name of subsidiary	Type of subsidiary	Place of incorporation	Nature of business	Registered Capital	Business Activity	Actual investment as at the end of the period	Balance of other projects that substantially forms net investment in the subsidiary	Shareholding (%)	Voting rights (%)	Whether consolidated	Minority interests	Minority interest used to offset the profit or loss of the minority interests	Setting off the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner s' equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiaries
Wuxi Songling Paper Co., Ltd.	Wholly-owned subsidiary	Wuxi, China	Papermaking	5.01 million	Sales, cutting and processing of paper	0.00		100%	100%	Yes			
Shouguang Runsheng Waste Paper Recycle Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Purchase and sales of waste and obsolete materials	1.00 million	Purchase and sales of waste and obsolete materials	1,000,000.00		100%	100%	Yes			
Shouguang Hongyi Decorative Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Packaging	1.55 million	Processing and sales of packaging products, indoor and outdoor decorations	1,700,000.00		100%	100%	Yes			
Shouguang Wei Yuan Logistics Company Limited	Wholly-owned subsidiary	Shouguang, China	Transportation	3.93 million	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency services	4,000,000.00		100%	100%	Yes			
Shouguang Xinyuan Coal Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Coal	3.00 million	Retail of coal, gasoline, construction materials and plumbing parts	2,000,000.00		100%	100%	Yes			
Zhanjiang Huirui Investment Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Investment	258.00 million	Investment in marine engineering projects	131,560,000.00		51%	51%	Yes	12,606.93		

Further explanation on subsidiaries acquired through business combination not under common control

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

2. Special purpose vehicles or operating entities whose control resulting from, among other things, entrusting to operate or lease

The Company has no special purpose vehicles or operating entities whose control resulting from, among other things, entrusting to operate or lease.

3. Explanation on changes in the scope of consolidation

Explanation on changes in the scope of consolidated statements

On 8 August 2012, a resolution on disposal of equity interest in Qihe Chenming was passed at the First Extraordinary Meeting of the Sixth Session of the Board of the Company. On 6 December 2012, the Company entered into an equity transfer contract with Henan Jianghe Paper Co., Ltd to dispose of 100% interest in Shandong Chenming Paper Group Qihe Paperboard Co., Ltd (hereinafter referred to as "Qihe Chenming") held by the Company at a consideration of RMB371,850,000. Since 6 December 2012, the Company ceased to control Qihe Chenming and ceased to include it into the consolidated statements. At the same time, as Qihe Chenming holds 100% equity interest in Qihe Waste Recovery Co., Ltd (hereinafter referred to as "Qihe Waste"), the Company ceased to include Qihe Waste in the consolidated financial statements.

On 20 December 2012, the Company and Shouguang Dongyu Hongxiang Wood Industry Co., Ltd entered in an equity transfer contract to transfer the 100% equity interest in Juancheng Chenming Panels Co., Ltd (hereinafter referred as "Juancheng Chenming") held by the Company at RMB15,000,000. Since 20 December 2012, the Company ceased to control Juancheng Chenming and ceased to include it in the consolidated statements.

On 21 December 2012, Shandong Chenming Panels Co., Ltd, a subsidiary of the Company, and Shandong Quanfuyuan Commercial Group Co., Ltd. entered into an equity transfer agreement to transfer 100% equity interest in Qihe Chenming Panels Co., Ltd. (hereinafter referred as "Qihe Panels") held by Shandong Chenming Panels Co., Ltd. to Shandong Quanfuyuan Commercial Group Co., Ltd. at RMB10,000,000. Since 21 December 2012, the Company ceased to control Qihe Panels and ceased to include it in the consolidated financial statements.

In January 2012, the Company invested and established Japan Chenming Paper Company Limited. In October 2012, the Company invested and etablished invested and established Haicheng Haiming Mining Company Limited. In December 2012, the Company acquired 51% equity interest in Guangdong Huirui Investment Co., Ltd. The above companies were included into the consolidated financial statements since formation or acquisition.

On 1 November 2012, the Company merged with Shouguang Liben Paper Making Co., Ltd. It ceased to be included in the consolidated financial statements since merger.

Details for the change in the scope of consolidation are set out in the Notes VI. 4.

√ Applicable □ Not applicable

During the year (period), three more companies were consolidated as compared to the prior year due to the reasons as follows:

During the reporting period, the Company established two companies through investments, namely Japan Chenming Paper Company Limited and Haicheng Haiming Mining Company Limited, respectively; Guangdong Huirui Investment Co., Ltd. was a subsidiary acquired through business combination not under common control during the year.

During the year (period), five companies were deconsolidated as compared to the prior year due to the reasons as follows:

The Company lost its control over Juancheng Chenming Panels Co., Ltd., Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. (including Qihe Chenming Waste Collection Co., Ltd., its wholly-owned subsidiary) and Qihe Chenming Panels Co., Ltd. due to disposal of equity interest during the year. Therefore, the above companies ceased to be included in the scope of consolidation. The Company merged its wholly-owned subsidiary, Shouguang Liben Paper Making Co., Ltd. on 1 November 2012.

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

4. Entities newly included in the scope of consolidation during the reporting period and entities ceasing to be included in the scope of consolidation during the reporting period

Subsidiaries, special purpose vehicles and operating entities whose control resulting from, among other things, entrusting to operating or leasing newly included in the scope of consolidation for the period

Unit: RMB

Name	Net assets at the end of the period	Net profit for the period
Japan Chenming Paper Company Limited	-9,331,956.38	-18,536,363.03
Haicheng Haiming Mining Company Limited	100,000,000.00	
Guangdong Huirui Investment Co., Ltd.	257,284,323.86	-715,676.14

Subsidiaries, special purpose vehicles and operating entities whose control resulting from, among other things, entrusting to operating or leasing not included in the scope of consolidation for the period

Unit: RMB

Name	Net assets as at the date of disposal	Net profit for the period from the beginning of the year to the date of disposal
Juancheng Chenming	14,528,766.51	-6,449,616.97
Qihe Chenming (merge with Qihe Waste, its wholly-owned subsidiary)	426,187,089.99	-26,108,403.88
Qihe Panels	-8,629,485.25	-2,063,831.86
Shouguang Liben Paper Making Co., Ltd.	61,845,696.29	4,277,669.87

Further explanation on entities newly included in the scope of consolidation and entities ceasing to be included in the scope of consolidation

(A) Japan Chenming Paper Company Limited and Haicheng Haiming Mining Company Limited were subsidiaries established by the Company through investments for the year. See Notes (VI). 1(1).

(B) Guangdong Huirui Investment Co., Ltd. was a subsidiary acquired through business combination not under common control for the year, with its net profit for the year representing the net profit during the period from the date of acquisition to the end of year. See Notes (VI). 1(3).

(C) The control over Juancheng Chenming, Qihe Chenming, Qihe Waste and Qihe Panels was lost during the year due to disposal of equity interest. Therefore, the above companies ceased to be included in the scope of consolidation. See Notes (VI). 3.

(D) The Company merged its wholly-owned subsidiary, Shouguang Liben Paper Making Co., Ltd. on 1 November 2012 with no effect on the consolidated statements.

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

5. Business combination not under common control during the reporting period

Unit: RMB

Mergee	Amount of goodwill	Calculation of the amount of goodwill
Guangdong Huirui Investment Co., Ltd.		Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill. Specific calculation is set out in the subsequent attachment.

Further explanation on business combination not under common control

On 26 December 2012, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, acquired 51% equity interest in Guangdong Huirui Investment Co., Ltd held by Zhanjiang Huasen Investment Co., Ltd. The acquisition date of the transaction was 26 December 2012, the date when the Group gained control over Guangdong Huirui Investment Co., Ltd. The control right is ascertained based on the fact that: the Company completed the payment for the consideration of the equity interest and the Group appointed two-thirds directors including the chairman to acquire the control right.

① Cost of combination and goodwill (or excess of the fair value of the identifiable net assets over the cost of combination recognised in profit or loss) are set out as follows:

Item	Amount
Cost of combination:	
Cash paid	131,555,073.05
Total cost of combination	131,555,073.05
Less: fair value of the identifiable net assets acquired	131,555,073.05
Goodwill (Excess of the fair value of the identifiable net assets over the cost of combination recognised in profit or loss)	—

The fair value of combined net assets has been audited by Guangdong Zhengzhong Zhujiang Certified Public Accountants and was confirmed by the Company after assessment.

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

5. Business combination not under common control during the reporting period *(Cont'd)*

② The assets, liabilities and cash flow relating to the acquisition of Guangdong Huirui Investment Co., Ltd. as at the acquisition date are set out below:

Item	Fair value as at the acquisition date	Carrying amount as at the acquisition date	Carrying amount as at the end of the prior year
Cash and cash equivalents	79,951,123.62	79,951,123.62	—
Accounts receivable	178,000,000.00	178,000,000.00	—
Less: liabilities	—	—	—
Net assets	257,951,123.62	257,951,123.62	—
Less: minority interests	—	—	—
Net assets acquired	257,951,123.62	257,951,123.62	—
Consideration paid in cash	131,555,073.05		
Less: cash and cash equivalents acquired of the acquired subsidiary	79,951,123.62		
Net cash acquired paid by the subsidiary	51,603,949.43		

The Company adopted valuation techniques to ascertain the fair value of assets and liabilities of Guangdong Huirui Investment Co., Ltd as at the acquisition date. Valuation method of major assets and its key assumptions are set out below:

The monetary funds measured at verified carrying amount as the assessed value amounted to RMB79,951,123.62;

Other receivables measured at verified carrying amount and estimated recoverable amount as the assessed value amounted to RMB178,000,000.00 and had been recovered in their entirety as at 31 December 2012.

③ Income, net profit and cash flow of Guangdong Huirui Investment Co., Ltd during the period from the acquisition date to the end of the year are set out below:

Item	Amount
Revenue from operations	—
Net profit	-666,799.76
Cash flows from operating activities	-772,865,916.43
Net cash flows	-72,865,916.43

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

6. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period

Name of the subsidiary	Date of disposal	Recognition method of gain or loss
Further explanation on subsidiaries eliminated due to disposal of controlling equity interest		
Juancheng Chenming (1)	20 December 2012	The excess of the disposal consideration over the share of the net assets of the subsidiary attributable to the equity interest disposed of as at the disposal date accounted for in the consolidated financial statements of the Company is recognised as the gain or loss on disposal.
Merge with Qihe Chenming (2)	6 December 2012	Ditto
Qihe Panels (3)	21 December 2012	Ditto

(1) Juancheng Chenming

On 20 December 2012, the Company transferred the 100% equity interest in Juancheng Chenming held by it to Shouguang Dongyu Hongxiang Wood Industry Co., Ltd. The date of disposal was the date when the Company actually no longer had control over the net assets and financial and operating decisions of Juancheng Chenming.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	15,000,000.00
Cash and cash equivalents received from disposal	15,000,000.00
Less: cash and cash equivalents held by Juancheng Chenming	1,240,724.48
Net cash received from disposal	13,759,275.52

② Net assets of disposal of Juancheng Chenming Panels are set as follows:

Item	Net assets as at the date of disposal	Net assets as at the end of the prior year
Current assets	14,968,493.55	12,853,304.94
Non-current assets	40,161,420.61	43,932,752.48
Current liabilities	34,180,534.54	65,238,070.43
Non-current liabilities	6,501,684.77	6,641,657.17
Total net assets	14,447,694.85	-15,102,688.18

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

6. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period *(Cont'd)*

(1) Juancheng Chenming *(Cont'd)*

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	15,000,000.00
Less: net assets of Juancheng Chenming as at the date of disposal	14,447,694.85
Plus: other consolidated income in relation to Juancheng Chenming transferred to gain or loss for the period of disposal	14,379.19
Investment gains arising from disposal	566,684.34

④ Revenue, expenses and profit of Juancheng Chenming from the beginning of the year of disposal to the date of disposal are set out as follows:

Item	Amount
revenue	46,195,326.77
Less: costs and expenses	52,644,943.74
Total profit	-6,449, 616.97
Less: income tax expenses	
Net profit	-6,449, 616.97

(2) Qihe Chenming

On 6 December 2012, the Company transferred the 100% equity interest in Qihe Chenming held by it to Henan Jianghe Paper Co., Ltd. The date of disposal was the date when the Company actually no longer had control over the net assets and financial and operating decisions of Qihe Chenming.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	371,850,000.00
Cash and cash equivalents received from disposal	100,000,000.00
Less: cash and cash equivalents held by Qihe Chenming	9,531,042.48
Net cash received from disposal	90,468,957.52

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

6. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period *(Cont'd)*

(2) Qihe Chenming *(Cont'd)*

② Net assets of disposal of Qihe Chenming are set as follows:

Item	Net assets as at the date of disposal	Net assets as at the end of the prior year
Current assets	541,546,699.30	701,109,593.12
Non-current assets	763,196,563.11	784,468,750.10
Current liabilities	869,001,172.72	613,760,926.61
Non-current liabilities	9,555,000.00	10,290,000.00
Total net assets	426,187,089.69	861,527,416.61

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	371,850,000.00
Less: net assets of Qihe Chenming as at the date of disposal	426,187,089.69
Plus: other consolidated income in relation to Qihe Chenming transferred to gain or loss for the period of disposal	253,187.06
Investment gains arising from disposal	-54,083,902.63

④ Revenue, expenses and profit of Qihe Chenming from the beginning of the year of disposal to the date of disposal are set out as follows:

Item	Amount
revenue	1,382,819,461.81
Less: costs and expenses	1,417,790,883.18
Total profit	-34,971,421.37
Less: income tax expenses	-8,863,017.49
Net profit	-26,108,403.88

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

6. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period *(Cont'd)*

(3) Qihe Panels

On 21 December 2012, the Company transferred 100% equity interest in Qihe Panels held by it to Shandong Quanfuyuan Commercial Group Co., Ltd. The date of disposal was the date when the Company actually no longer had control over the net assets and financial and operating decisions of Qihe Panels.

① Disposal price and the cash flows are set out as follows:

Items	Amount
Disposal price	10,000,000.00
Cash and cash equivalents received from disposal	10,000,000.00
Less: cash and cash equivalents held by Qihe Panels	
Net cash received from disposal	10,000,000.00

② Net assets of disposal of Qihe Panels are set as follows:

Item	Net assets as at the date of disposal	Net assets as at the end of the prior year
Current assets	7,117,886.41	22,568,536.78
Non-current assets	72,252,628.34	72,923,098.34
Current liabilities	88,000,000.00	102,057,288.51
Non-current liabilities	—	—
Total net assets	-8,629,485.25	-6,565,653.39

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	10,000,000.00
Less: net assets of Qihe Panels as at the date of disposal	-8,629,485.25
Plus: other consolidated income in relation to Qihe Panels transferred to gain or loss for the period of disposal	
Investment gains arising from disposal	18,629,485.25

VI. Business Combination and Consolidated Financial Statements *(Cont'd)*

6. Subsidiaries eliminated due to disposal of controlling equity interest during the reporting period *(Cont'd)*

(3) Qihe Panels *(Cont'd)*

④ Revenue, expenses and profit of Qihe Panels from the beginning of the year of disposal to the date of disposal are set out as follows:

Item	Amount
revenue	—
Less: costs and expenses	2,063,831.86
Total profit	-2,063,831.86
Less: expense of income tax	—
Net profit	-2,063,831.86

7. Merger during the reporting period

The Company merged its wholly-owned subsidiary, Shouguang Liben Paper Making Co., Ltd. on 1 November 2012 with no effect on the consolidated statements.

8. Exchange rate of translating major financial statement items of overseas operating entities

	Assets and liabilities	
Item	31 December 2012	1 January 2012
Chenming (HK) Limited	USD1 = RMB6.2855	USD1 = RMB6.3009
Japan Chenming Paper Company Limited	JPY100 = RMB7.3049	

	Cash flow items of revenue and expense	
Item	2012	2011
Chenming (HK) Limited	USD1 = RMB 6.3029	USD1 = RMB6.4505
Japan Chenming Paper Company Limited	JPY100 = RMB 7.7856	

VII. Notes to major items of the Consolidated Financial Statements

1. Monetary funds

Unit: RMB

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
Cash	–	–	1,398,324.17	–	–	1,908,702.31
RMB	–	–	937,182.22	–	–	1,556,425.31
– USD	46,900.00	6.2855	294,789.95	30,000.00	6.3009	189,027.00
– EUR	20,000.00	8.3176	166,352.00	20,000.00	8.1625	163,250.00
Cash deposited in banks:	–	–	2,342,151,861.28	–	–	2,315,139,917.22
RMB	–	–	2,187,734,778.74	–	–	1,830,469,433.66
– USD	23,459,592.25	6.2855	147,455,267.10	76,809,550.06	6.3009	483,969,293.97
– EUR	61,101.44	8.3176	508,217.34	82,977.09	8.1625	677,300.50
– HKD	218,778.49	0.81085	177,396.54	29,467.24	0.8107	23,889.09
– JPY	85,917,693.00	0.073049	6,276,201.56			
Other monetary funds:	–	–	2,112,667,177.41	–	–	1,212,889,591.94
RMB	–	–	1,953,372,355.46	–	–	1,212,112,028.70
– USD	25,343,206.29	6.2855	159,294,723.14	123,389.73	6.3009	777,466.35
– EUR	11.88	8.3176	98.81	11.87	8.1625	96.89
Total	–	–	4,456,217,362.86	–	–	3,529,938,211.47

Amounts subject to limitations, deposited overseas and exposed to recovery risk due to security, pledge or immobilisation should be separately stated:

Notes: ① On 31 December 2012, the ownership of other monetary funds amounted to RMB136,092,448.78 (31 December 2011: RMB402,100,000.00) of the Group was restricted, of which certificates of time deposits of RMB136,092,448.78 were the pledge for the bank loans of USD20,000,000.00 from J.P. Morgan for a term of two years.

② Other monetary funds of RMB987,167,187.90 (31 December 2011: RMB263,942,118.89) were the guarantee deposit for the application for bank acceptance with the banks by the Group;

③ Other monetary funds of RMB595,207,540.73 (31 December 2011: RMB546,847,473.05) were the guarantee deposit for the application for letter of credit with the banks by the Group.

④ Other monetary funds of RMB394,200,000.00 (31 December 2011: Nil) were the guarantee deposit for the application for guarantees with the banks by the Group.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

2. Bills receivable

(1) Classification of bills receivable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance	1,852,478,364.46	2,444,508,997.74
Total	1,852,478,364.46	2,444,508,997.74

(2) Bills receivable pledged at the end of the period

Unit: RMB

Issuing Company	Issuing date	Maturity date	Amount	Remark
Wuxi Yifa Paper Co., Ltd.	31 July 2012	31 January 2013	5,000,000.00	
Zhenjiang Golden Dragon Packaging Material Co., Ltd.	27 July 2012	27 January 2013	3,200,000.00	
Hainan Renjiao Wenhai Published Co., Ltd.	24 July 2012	24 January 2013	3,000,000.00	
Chengdu Jintaiyuan Paper Industry Co., Ltd.	30 July 2012	30 January 2013	3,000,000.00	
Hainan Renjiao Wenhai Published Co., Ltd.	10 August 2012	10 February 2013	3,000,000.00	
Total	–	–	17,200,000.00	–

(3) Bills reclassified into accounts receivable due to default on the part of the drawer and outstanding notes endorsed to other parties by the Company at the end of the period

Bills reclassified into accounts receivable due to default on the part of the drawer

Nil

Outstanding notes endorsed to other parties by the Company

Unit: RMB

Issuing Company	Issuing date	Maturity date	Amount	Remark
Shenzhen Jiyazhi Paper Products Co., Ltd.	24 August 2012	24 February 2013	5,000,000.00	De-recognise
Changshu Shuangle Color-printing Packing Co., Ltd.	28 November 2012	28 May 2013	4,680,000.00	De-recognise
Jiangxi Lanhai International Trading Co., Ltd.	27 September2012	27 March 2013	4,600,000.00	De-recognise
Beijing New Building Material (Group) Co., Ltd.	12 September2012	11 March 2013	4,426,642.00	De-recognise
Zhejiang Yiniao Hechang Paper Co., Ltd.	16 August 2012	15 February 2013	3,000,000.00	De-recognise
Total	–	–	21,706,642.00	–

Note:

Nil

Description of discounted or pledged commercial acceptance

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable

(1) Disclosure of accounts receivable according to classification

Unit: RMB

	Closing balance				Opening balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
Category	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	48,696,549.72	1.26%	48,696,549.72	100%	56,089,509.86	1.79%	56,089,509.86	100%
Accounts receivable that are provided for bad debts on portfolio basis								
Risk-free portfolio	358,778,459.12	9.27%			241,485,698.41	7.72%		
General portfolio	3,461,286,305.68	89.47%	217,109,713.62	6.27%	2,831,411,794.16	90.49%	186,459,737.88	6.59%
Sub-total for portfolio	3,820,064,764.80	98.74%	217,109,713.62	5.68%	3,072,897,492.57	98.21%	186,459,737.88	6.07%
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis	86,850.13		86,850.13	100%				
Total	3,868,848,164.65	–	265,893,113.47	–	3,128,987,002.43	–	242,549,247.74	–

Description of the classification of accounts receivable

The presentation of accounts receivable according to ageing analysis is as follows:

Item	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	3,709,154,191.60	95.88%	3,011,123,696.78	96.23%
1-2 years	65,152,312.73	1.68%	23,656,767.35	0.76%
2-3 years	3,440,056.06	0.09%	14,291,872.31	0.46%
Over 3 years	91,101,604.26	2.35%	79,914,665.99	2.55%
Total	3,868,848,164.65	100.00%	3,128,987,002.43	100.00 %

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable *(Cont'd)*

(1) Disclosure of accounts receivable according to classification *(Cont'd)*

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

Ageing	Closing balance	Opening balance
Within 1 year	3,541,635,404.98	2,872,638,580.01
1-2 years	58,637,081.46	9,869,976.13
2-3 years	2,682,564.74	3,929,198.55
Total	3,602,955,051.18	2,886,437,754.69

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

Ageing	Closing balance	Opening balance
Within 1 year	897,287,266.76	520,677,251.23
1-2 years	58,637,081.46	9,869,976.13
2- 3 years	2,682,564.74	3,929,198.55
Total	958,606,912.96	534,476,425.91

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

Accounts receivable that are individually significant and are provided for bad debts on individual basis at the end of the period

√ Applicable □ Not applicable

Unit: RMB

Particulars of accounts receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for bad debts provision
Payment for goods	48,696,549.72	48,696,549.72	100%	Principally refers to loans overdue for over 3 years and estimated the possibility to recover is least.
Total	48,696,549.72	48,696,549.72	—	—

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable *(Cont'd)*

(1) Disclosure of accounts receivable according to classification *(Cont'd)*

Use of ageing analysis for making bad debt provision in the portfolio:

√ Applicable ☐ Not applicable

Unit: RMB

	Closing balance			Opening balance		
	Book balance			Book balance		
Ageing	Amount	Ratio (%)	Provision for bad debts	Amount	Ratio (%)	Provision for bad debts
Within 1 year						
Of which:	–	–	–	–	–	–
Within 1 year	3,350,375,732.48	96.8%	167,518,786.62	2,769,702,335.26	97.82%	138,485,116.77
Sub-total within 1 year	3,350,375,732.48	96.8%	167,518,786.62	2,769,702,335.26	97.82%	138,485,116.77
1-2 years	65,152,312.73	1.88%	6,515,231.27	10,895,154.72	0.38%	1,089,515.48
2-3 years	3,353,205.93	0.1%	670,641.19	4,911,498.20	0.18%	982,299.65
Over 3 years	42,405,054.54	1.22%	42,405,054.54	45,902,805.98	1.62%	45,902,805.98
Total	3,461,286,305.68	–	217,109,713.62	2,831,411,794.16	–	186,459,737.88

Accounts receivables using percentage of balance for making bad debt provision in the portfolio:

☐ Applicable √ Not applicable

Accounts receivables using other methods for making bad debt provision in the portfolio:

√ Applicable ☐ Not applicable

Unit: RMB

Name of portfolio	Book balance	Provision for debt debts
Risk-free portfolio	358,778,459.12	0.00
Total	358,778,459.12	0.00

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable *(Cont'd)*

(1) Disclosure of accounts receivable according to classification *(Cont'd)*

Accounts receivable that are individually insignificant but are provided for bad debts on individual basis at the end of the period

√ Applicable ☐ Not applicable

Unit: RMB

Particulars of accounts receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for bad debts provision
Payment for goods	86,850.13	86,850.13	100%	Principally refers to loans overdue for over 3 years and estimated the possibility to recover is least.
Total	86,850.13	86,850.13	—	—

(2) Reversal or recovery of accounts receivable during the reporting period

Unit: RMB

Particulars of accounts receivable	Reason for reversal or recovery	Original basis for bad debt provision	Cumulative bad debt provision prior to reversal or recovery	Amount of reversal or recovery
Payment for goods	Collection of payment for goods	Overdue for over 3 years and estimated the possibility to recover is least.	7,306,110.01	7,306,110.01
Payments for goods	Collection of bad debts previously written-off		28,253.86	28,253.86
Total	—	—	7,334,363.87	—

Description of accounts receivable that are individually insignificant but with higher risk according to credit risk characteristics

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable *(Cont'd)*

(3) Particulars of accounts receivables actually written off during the reporting period

Accounts receivables written off represented:

Accounts receivables originally written off of RMB28,253.86 were recovered. Accounts receivables originally provided for impairment in full of RMB7,306,110.01 were recovered.

Accounts receivables written off accumulated to RMB72,305.63. There is no accounts receivable in large sum actually written off.

(4) Particulars of top five accounts receivable

Unit: RMB

Name of entity	Relation with the Company	Amount	Term	As a percentage of the total of accounts receivable (%)
Shanxi Printing Materials Company	Non-related party	46,471,623.79	Within 1 year	1.2%
Dongguan Huafa Paper Co., Ltd.	Non-related party	45,067,685.96	Within 1 year	1.16%
Hubei Daily Media Group (Hubei Daily Agency)	Non-related party	30,538,530.24	Within 1 year	0.79%
Beijing Youth Daily Logistics Company Limited	Non-related party	28,606,078.65	Within 1 year	0.74%
Shenzhen Jingdi Paper Co., Ltd.	Non-related party	26,327,190.00	Within 1 year	0.68%
Total	—	177,011,108.64	—	4.58%

(5) Particulars of accounts receivables of the related parties

Unit: RMB

Name of entity	Relation with the Company	Amount	As a percentage of the total of accounts receivable (%)
Anhui Time Source Corporation	Associate	15,739,073.73	0.41%
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	Associate	21,627.00	
Total	—	15,760,700.73	0.41%

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

3. Accounts receivable *(Cont'd)*

(6) Accounts receivable denominated in foreign currency stated in original currency and exchange rate are as follows

	Closing balance			Opening balance		
Item	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	46,883,111.89	6.2855	294,683,799.78	39,529,969.13	6.3009	249,074,382.49
JPY	102,504,709.99	0.073049	7,487,866.56			
Total			302,171,666.34			249,074,382.49

4. Other receivables

(1) Disclosure of other receivable according to classification

Unit: RMB

	Closing balance				Opening balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
Category	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	8,918,424.06	0.66%	8,918,424.06	100%	9,330,331.45	2.38%	9,330,331.45	100%
Accounts receivable that are provided for bad debts on portfolio basis								
Risk-free portfolio	1,213,593,786.15	89.91%			252,019,690.65	64.41%		
General portfolio	113,580,888.39	8.41%	42,519,331.91	37.44%	114,387,017.39	29.23%	40,855,794.32	35.72%
Sub-total for portfolio	1,327,174,674.54	98.32%	42,519,331.91	3.2%	366,406,708.04	93.64%	40,855,794.32	11.15%
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis	13,771,354.38	1.02%	13,771,354.38	100%	15,554,009.74	3.98%	15,554,009.74	100%
Total	1,349,864,452.98	–	65,209,110.35	–	391,291,049.23	–	65,740,135.51	–

Description of the classification of other receivable

The presentation of accounts receivable according to ageing analysis is as follows

	Closing balance		Opening balance	
Item	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,145,721,315.64	84.88%	290,861,260.47	74.33%
1-2 years	131,913,116.61	9.77%	22,447,913.22	5.74%
2 -3 years	13,139,381.38	0.97%	12,523,529.69	3.20%
Over 3 years	59,090,639.35	4.38%	65,458,345.85	16.73%
Total	1,349,864,452.98	100.00%	391,291,049.23	100.00%

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

4. Other receivables *(Cont'd)*

(1) Disclosure of other receivable according to classification *(Cont'd)*

Accounts receivable that are individually significant and are provided for bad debts on individual basis at the end of the period

√ Applicable ☐ Not applicable

Unit: RMB

Particulars of other receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for provision
Amounts with customers	8,918,424.06	8,918,424.06	100%	Principally refers to amounts with customers overdue for over 5 years and estimated the possibility to recover is least.
Total	8,918,424.06	8,918,424.06	–	–

Use of ageing analysis for making bad debt provision in the portfolio

√ Applicable ☐ Not applicable

Unit: RMB

	Closing balance			Opening balance		
	Book balance			Book balance		
Ageing	Amount	Ratio (%)	Provision for bad debts	Amount	Ratio (%)	Provision for bad debts
Within 1 year						
Of which:						
Within 1 year	52,096,861.35	45.87%	2,604,843.05	63,395,635.64	55.42%	3,169,781.77
Sub-total within 1 year	52,096,861.35	45.87%	2,604,843.05	63,395,635.64	55.42%	3,169,781.77
1-2 years	13,434,171.09	11.83%	1,343,417.10	3,856,994.93	3.37%	385,699.49
2 -3 years	11,848,480.25	10.43%	2,369,696.05	12,292,592.20	10.75%	2,458,518.44
Over 3 years	36,201,375.70	31.87%	36,201,375.70	34,841,794.62	30.46%	34,841,794.62
Total	113,580,888.39	–	42,519,331.90	114,387,017.39	–	40,855,794.32

Other receivables using percentage of balance for making bad debt provision in the portfolio

☐ Applicable √ Not applicable

Other receivables using other methods for making bad debt provision in the portfolio

√ Applicable ☐ Not applicable

Unit: RMB

Name of portfolio	Book balance	Provision for debt debts
Risk-free portfolio	1,213,593,786.15	0.00
Total	1,213,593,786.15	0.00

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

4. Other receivables *(Cont'd)*

(1) Disclosure of other receivable according to classification *(Cont'd)*

Other receivable that are individually insignificant but are provided for bad debts on individual basis at the end of the period

√ Applicable ☐ Not applicable

Unit: RMB

Particulars of other receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for provision
Amounts with customers	13,771,354.38	13,771,354.38	100%	Principally refers to amounts with customers overdue for over 5 years and estimated the possibility to recover is least.
Total	13,771,354.38	13,771,354.38	—	—

(2) Reversal or recovery of other receivable during the reporting period

Unit: RMB

Particulars of other receivable	Reason for reversal or recovery	Original basis for bad debt provision	Cumulative bad debt provision prior to reversal or recovery	Amount of reversal or recovery
Amounts with customers	Collection of amounts with customers	Overdue for over 5 years and estimated the possibility to recover is least.	2,194,562.75	2,194,562.75
Total	—	—	2,194,562.75	—

Description of accounts receivable that are individually insignificant but with higher risk according to credit risk characteristics

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

4. Other receivables *(Cont'd)*

(3) Particulars of other receivables actually written off during the reporting period

Other receivables written off accumulated to RMB749,916.42. There is no accounts receivable in large sum actually written off.

(4) Particulars of top five other receivable

Unit: RMB

Name of entity	Relation with the Company	Amount	Term	As a percentage of the total of other receivable (%)
Henan Jianghe Paper Co., Ltd.	Non-related party	274,032,976.36	Within 1 year	20.3%
Qihe Chenming	Non-related party	592,675,418.65	Within 1 year	43.91%
Zhanjiang Finance Bureau	Non-related party	160,000,000.00	Within 1 year	11.85%
Development Area branch of Bureau of Land Resources of Wuhan	Non-related party	108,000,000.00	3-4 years	8%
Zhanjiang Construction Exchange Centre	Non-related party	50,000,000.00	Within 1 year	3.7%
Total	—	1,184,708,395.01	—	87.76%

(5) Particulars of other receivables of the related parties

Unit: RMB

Name of entity	Relation with the Company	Amount	As a percentage of the total of other receivable (%)
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Associate	1,290,901.12	0%
Total	—	1,290,901.12	0%

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

5. Prepayments

(1) Prepayments stated according to ageing

Unit: RMB

Ageing	Closing balance Amount	Closing balance Ratio (%)	Opening balance Amount	Opening balance Ratio (%)
Within 1 year	1,458,377,404.07	89.13%	582,653,900.45	76.18%
1-2 years	177,856,520.57	10.87%	182,226,337.45	23.82%
Total	1,636,233,924.64	—	764,880,237.90	—

Description of ageing of prepayments

The significant prepayments of 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.

(2) Particulars of top five prepayments

Unit: RMB

Name of entity	Relation with the Company	Amount	Term	Reasons for unsettlement
Jiangsu Xinhai Port Engineering Co., Ltd	Non-related party	780,000,000.00	Within 1 year	Prepayments for construction fee according to the agreed contract
Each village of Huanggang City	Non-related party	90,413,883.00	Within 1 year, 1-2 years	Prepayments for forestry deposits according to the agreed contract
Hebei Wentong Trading Co., Ltd.	Non-related party	82,919,628.61	Within 1 year	Prepayments for the goods according to the agreed contracts
Suzhou Kaiyuan Chemical Co., Ltd.	Non-related party	27,460,000.00	Within 1 year	Prepayments for the goods according to the agreed contracts
Valtra Inc. of Finland	Non-related party	17,348,238.77	Within 1 year, 1-2 years	Prepayments for spare parts according to the agreed contract
Total	—	998,141,750.38	—	—

Description of prepayments by major entities:

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

5. Prepayments *(Cont'd)*

(3) Description of payments

Prepayments denominated in foreign currency stated in original currency and exchange rate are as follows

	Closing balance			Opening balance		
Items	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	42,598,033.82	6.2855	267,749,941.56	52,882,534.55	6.3009	333,207,561.94
EUR	5,685,388.64	8.3176	47,288,788.51	8,835,086.28	8.1625	72,116,391.72
Total			315,038,730.07			405,323,953.66

6. Inventories

(1) Categories of inventories

Unit: RMB

	Closing balance			Opening balance		
Item	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	1,961,862,887.18		1,961,862,887.18	2,892,631,003.19	21,071,145.40	2,871,559,857.79
Work-in-process products	179,769,195.77		179,769,195.77	105,925,380.16		105,925,380.16
Goods in stock	2,285,369,746.18	14,453,128.45	2,270,916,617.73	2,644,574,241.70	35,587,358.28	2,608,986,883.42
Total	4,427,001,829.13	14,453,128.45	4,412,548,700.68	5,643,130,625.05	56,658,503.68	5,586,472,121.37

(2) Impairment provision for inventories

Unit: RMB

			Decrease during the period		
Type of inventories	Opening book balance	Provision during the period	Reversal	Write-off	Closing book balance
Raw materials	21,071,145.40			21,071,145.40	
Goods in stock	35,587,358.28	14,419,123.18		35,553,353.01	14,453,128.45
Total	56,658,503.68	14,419,123.18		56,624,498.41	14,453,128.45

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

6. Inventory *(Cont'd)*

(3) Impairment provision for inventories

Item	Basis of impairment provision for inventory	Reason for reversal of impairment provision for inventory during the period	percentage of the reversal during the period to the closing balance of such inventory (%)
Goods in stock	The realisable net value of the finished goods was lower than the cost of the inventory due to decreases in the market price for coated paper and chemical pulp.		

Description of inventories:

Nil

7. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Prepaid enterprise income tax	103,139,626.04	37,199,570.80
Non-credited VAT proceeds	1,700,116,681.57	1,661,162,690.83
Total	1,803,256,307.61	1,698,362,261.63

Description of other current assets:

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

8. Investments in joint ventures and associates

Unit: RMB

Name of investee	Equity interest held by the Company (%)	Voting right in the investee by the Company (%)	Total assets as at the end of the period	Total liabilities as at the end of the period	Total net assets as at the end of the period	Total revenue from operations during the period	Net profit for the period
1. Joint venture							
2. Associate							
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	30%	30%	24,942,125.97	49,305,023.17	-24,362,897.20	2,047,165.57	-88,980,567.78
Qingzhou Chenming Denaturation Amylum Co., Ltd.	30%	30%					
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21.16%	21.16%	39,192,081.49	16,542,388.08	22,649,693.41	16,132,274.94	10,077.37
Shanghai Anzhou New Energy Co., Ltd.	49%	49%	528,743,677.13		528,743,677.13	22,500,000.00	18,743,677.13

Description of significant differences in significant accounting policies and accounting estimates of joint ventures and associates with the accounting policies and accounting estimates of the Company: Nil

Qingzhou Chenming Denaturation Amylum Co., Ltd. was made impairment provision in full over the prior years due to its underperformance.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

9. Long-term investments in equity

(1) The breakdown of long-term investment in equity

Unit: RMB

Name of investee	Accounting method	Cost of investment	Opening balance	Changes	Closing balance	Shareholding in the investee (%)	Voting right in the investee (%)	Explanation of the inconsistency of shareholding and voting right in the investee	Impairment provision	Impairment provision for the period	Cash dividend for the period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	19,385,301.17	-19,385,301.17		30%	30%				
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Equity method	900,000.00	900,000.00		900,000.00	30%	30%		900,000.00		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	4,788,278.79	4,396.33	4,792,675.12	21.16%	21.16%				
Shanghai Anzhou New Energy Co., Ltd.	Equity method	250,000,000.00		268,743,677.13	268,743,677.13	49%	49%				
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00		200,000.00	2%	2%		200,000.00		
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00		350,000.00	5%	5%		350,000.00		
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00		2,000,000.00	9.96%	9.96%				
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00		20,000,000.00	19.46%	19.46%				
Shanghai Forest & Paper E-Commerce Co., Ltd.	Cost method	1,400,000.00	1,400,000.00		1,400,000.00	14%	14%		1,139,574.47		
Anhui Time Source Corporation	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	10%	10%				
Weifang Xinye Capital Investment Co., Ltd.	Cost method	10,000,000.00		10,000,000.00	10,000,000.00	3.76%	3.76%				
Shandong Hongqiao Venture Capital Co., Ltd.	Cost method	50,000,000.00	30,000,000.00	20,000,000.00	50,000,000.00	16.67%	16.67%				
Total	–	421,950,000.00	80,023,579.96	279,362,772.29	359,386,352.25	–	–	–	2,589,574.47		

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

9. Long-term investments in equity *(Cont'd)*

(2) Particulars of investments in associates

Unit: RMB

Name of investee entity	Types of enterprise	Registration place	Legal representative	Nature of business	Registered capital	Percentage of the shareholding of the investee (%)	Percentage of the voting rights in the investee (%)
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Sino-foreign joint venture	Shandong, China	Tong Chong	Papermaking	267,368,330.00	30.00%	30.00%
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Limited liability company	Shandong, China	Fang Shiming	Starch	3,000,000.00	30.00%	30.00%
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	Limited liability company	Jiangxi, China	Ou Yang	Printing	23,140,000.00	21.16%	21.16%
Shanghai Anzhou New Energy Co., Ltd.	Limited liability company	Shanghai, China	Chen Feng	Investment In energy	510,000,000.00	49.00%	49.00%

(Cont'd)

Name of investee entity	Total assets at the end of the year	Total liabilities at the end of year	Total net assets at the end of the year	Revenue from operation for the year	Net profit for the year	Relationship	Organisation code
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	24,942,125.97	49,305,023.17	-24,362,897.20	2,047,165.57	-88,980,567.78	Associate	78233868-9
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Provided for impairment in full due to its under-performance over prior years					Associate	16937769-8
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	39,192,081.49	16,542,388.08	22,649,693.41	16,132,274.94	10,077.37	Associate	79479506-X
Shanghai Anzhou New Energy Co., Ltd.	528,743,677.13		528,743,677.13	22,500,000.00	18,743,677.13	Associate	55426653-X

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

9. Long-term investments in equity *(Cont'd)*

(3) The breakdown of impairment provision for long-term investment in equity interest

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Qingzhou Chenming Denaturation Amylum Co., Ltd.	900,000.00			900,000.00
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd.	1,139,574.47			1,139,574.47
Total	2,589,574.47			2,589,574.47

10. Investment properties

(1) Investment properties measured at cost

Unit: RMB

Item	Opening book balance	Increase for the period	Decrease for the period	Closing book balance
I. Total original carrying amount	38,291,395.70			38,291,395.70
1. Building	38,291,395.70			38,291,395.70
II. Accumulated depreciation and accumulated amortisation in total	15,341,439.67	1,738,256.04		17,079,695.71
1. Building	15,341,439.67	1,738,256.04		17,079,695.71
III. Net book value of Investment properties in total	22,949,956.03	-1,738,256.04		21,211,699.99
1. Building	22,949,956.03	-1,738,256.04		21,211,699.99
IV. Book value of Investment properties in total	22,949,956.03	-1,738,256.04		21,211,699.99
1. Building	22,949,956.03	-1,738,256.04		21,211,699.99

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

10. Investment properties *(Cont'd)*

(1) Investment properties measured at cost *(Cont'd)*

Unit: RMB

	For the period
Depreciation and amortisation for the period	1,738,256.04
Impairment provision for investment properties for the period	0.00

11. Fixed assets

(1) Particulars of fixed assets

Unit: RMB

Item	Opening book balance		Increase for the period	Decrease for the period	Closing book balance
I. Total original carrying amount:	31,201,018,906.91		811,764,735.76	3,599,860,627.83	28,412,923,014.84
Of which: Building	5,032,859,983.26		307,410,816.96	800,500,708.90	4,539,770,091.32
Machinery and equipment	25,330,303,624.43		441,760,864.66	2,732,930,271.63	23,039,134,217.46
Vehicle	223,585,996.49		20,611,976.29	27,354,659.33	216,843,313.45
Electronic equipment and other	614,269,302.73		41,981,077.85	39,074,987.97	617,175,392.61
–	Opening book balance	Increase for the period	Provision for the period	Decrease for the period	Closing book balance
II. Accumulated depreciation and accumulated amortisation in total:	8,443,871,036.17		1,471,443,592.08	1,266,747,603.32	8,648,567,024.93
Of which: Building	859,052,452.86		153,243,611.36	184,487,260.60	827,808,803.62
Machinery and equipment	7,142,181,254.41		1,248,947,709.18	1,036,279,137.53	7,354,849,826.06
Vehicle	86,365,989.64		22,187,248.49	20,269,672.50	88,283,565.63
Electronic equipment and other	356,271,339.26		47,065,023.05	25,711,532.69	377,624,829.62
–	Opening book balance		–		Closing book balance
III. Net carrying amount of fixed assets	22,757,147,870.74		–		19,764,355,989.91
Of which: Buildings	4,173,807,530.40		–		3,711,961,287.70
Machinery and equipment	18,188,122,370.02		–		15,684,284,391.40
Vehicles	137,220,006.85		–		128,559,747.82
Electronic equipment and others	257,997,963.47		–		239,550,562.99
IV. Total impairment provision	16,243,839.72		11,220,000.00	14,447,840.87	13,015,998.85
Machinery and equipment	16,243,839.72		11,220,000.00	14,447,840.87	13,015,998.85
Electronic equipment and other			–		
V. Total carrying amount of fixed assets	22,740,904,031.02		–		19,751,339,991.06
Of which: Buildings	4,173,807,530.40		–		3,711,961,287.70
Machinery and equipment	18,171,878,530.30		–		15,671,268,392.55
Vehicles	137,220,006.85		–		128,559,747.82
Electronic equipment and other	257,997,963.47		–		239,550,562.99

Notes: Depreciation for the current period amounted to RMB1,471,443,592.08. RMB777,726,110.96 was reclassified from construction in progress into the original value of fixed assets for the current period.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

11. Fixed assets *(Cont'd)*

(1) Particulars of fixed assets *(Cont'd)*

The decrease of the original value of fixed assets arising from disposal of subsidiaries was RMB1,322,775,077.52. The decrease of depreciation of fixed assets arising from the disposal of subsidiaries was RMB632,154,302.82.

The decrease of the original value of fixed assets arising from relocation of Jilin Chenming Paper Co., Ltd. was RMB2,098,119,187.46, with deduction in accumulated depreciation and net value of fixed assets amounted to RMB506,694,324.55 and RMB1,591,424,862.91, respectively, of which net value of fixed assets available of RMB716,539,051.34 was transferred into new project in progress of new plant and net value of fixed assets not of use of RMB874,885,811.57 was reclassified into disposal of fixed assets.

(2) Details of restricted fixed assets

As at 31 December 2012, the ownership of buildings and structures and equipment of the carrying amount of approximately RMB6,351,131,719.77 (the original value of RMB6,654,874,429.83) (31 December 2011: carrying amount of RMB7,601,941,606.98 and original value of RMB8,001,160,491.56) and intangible assets - land cooperation rights of the carrying amount of RMB330,717,493.46 (31 December 2011: RMB407,560,348.35) was restricted as collateral for long-term borrowings of RMB3,098,403,800.00 (31 December 2011: RMB3,099,817,990.11) (Note VII. 33) and long-term borrowings due within one year of RMB290,625,800.00 (31 December 2011: RMB539,993,458.22) (Note VII. 31).

(3) Particular of Temporarily unused fixed assets

Unit: RMB

tem	Original carrying amount	Accumulated depreciation	Provision for impairment	Net carrying amount	Remark
Building	23,058,457.01	1,614,160.18		21,444,296.83	
Machinery and equipment	82,392,126.87	14,762,667.61		67,629,459.26	
vehicles	3,180.13	597.87		2,582.26	
Electronic equipment and other	443,968.61	311,566.41		132,402.20	
Total	105,897,732.62	16,688,992.07		89,208,740.55	

(4) Particulars of fixed assets without obtaining property right certificates

Item	Reason for not yet obtaining property right certificates	Estimated year for obtaining property right certificates
Meilun Paper Co., Ltd.	Processing	2013
Shandong Chenming Paper Holdings Limited	Processing	2013
Fuyu Chenming Paper Co., Ltd.	Processing	2013
Jiangxi Chenming Paper Co., Ltd.	Processing	2013

Details of fixed assets:

Fixed asset impairment provisions of RMB14,447,840.87 was reversed during the year, which were originally the fixed asset impairment provisions for Qihe Panels. The enterprise was wholly disposed of during the year.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

12. Construction in progress

(1) Particulars of construction in progress

Unit: RMB

Item	Book balance	Closing balance Impairment provisions	Carrying amount	Book balance	Opening balance Impairment provisions	Carrying amount
The high-end coated paper project of annual production capacity of 800,000 tonnes				114,294,573.34		114,294,573.34
The household paper project of annual production capacity of 98,000 tonnes				45,812,895.20		45,812,895.20
Huanggang forestry pulp integration project	120,872,039.53		120,872,039.53	54,100,442.98		54,100,442.98
Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)				10,812,188.35		10,812,188.35
Relocation of Jilin	1,358,160,725.92		1,358,160,725.92	139,852,111.44		139,852,111.44
Technological improvements to white cardboard project, etc.	18,231,971.17		18,231,971.17	125,241,798.08		125,241,798.08
Reclamation of recyclable water (electricity and steam)				21,984,737.22		21,984,737.22
Mihe River view wetland (Grand View Hotel)				69,314,704.82		69,314,704.82
600,000 tonnes white coated linerboard project (Meilun)	2,488,623,232.74		2,488,623,232.74	1,557,621,431.73		1,557,621,431.73
Power plant phase III further expansion (the Company)	483,981,213.99		483,981,213.99	206,777,982.80		206,777,982.80
60,000 tonnes sewage advanced treatment (the Company)				47,901,473.19		47,901,473.19
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade	116,258,400.00		116,258,400.00	43,862,858.73		43,862,858.73
Magnesite mining	196,118,936.12		196,118,936.12			
Other projects of construction in progress	235,358,302.12		235,358,302.12	180,462,426.97		180,462,426.97
Total	5,017,604,821.59		5,017,604,821.59	2,618,039,624.85		2,618,039,624.85

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

12. Construction in progress *(Cont'd)*

(2) Changes in material construction in progress projects

Unit: RMB

Name of project	Budget	Opening balance	Increase for the period	Transfer to fixed assets	Other deductions	Investment to budget (%)	Construction progress	Accumulated capitalised interest amount	Of which: capitalised interest amount for the period (%)	Capitalisation rate of the interest amount for the period	Source of funds	Closing balance
The high-end coated paper project of annual production capacity of 800,000 tonnes	5,200,000,000.00	114,294,573.34		114,294,573.34		100%	Completed	184,775,491.95			Capital and borrowings	
The household paper project of annual production capacity of 98,000 tonnes	580,000,000.00	45,812,895.20		45,812,895.20		100%	Completed	13,000,000.00			Capital and borrowings	
Huanggang forestry pulp integration project (Huanggang)		54,100,442.98	66,771,596.55				To be completed				Self-raised	120,872,039.53
Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)	15,000,000.00	10,812,188.35		10,812,188.35		100%	Completed				Self-raised	
Relocation of Jilin	2,300,000,000.00	139,852,111.44	1,251,482,860.71	3,674,150.62	29,500,095.61	59%	To be completed	5,499,999.99	5,499,999.99	6.06%	Capital and borrowings	1,358,160,725.92
Technological improvements to white cardboard project, etc.	200,000,000.00	125,241,798.08	58,799,305.23	165,809,132.14		85%	To be completed				Self-raised	18,231,971.17
Reclamation of recyclable water (electricity and steam)	23,000,000.00	21,984,737.22	11,409,286.62	33,394,023.84		100%	Completed	3,794,413.84	1,764,705.85	6.36%	Capital and borrowings	
Mihe River view wetland (Grand View Hotel)	60,000,000.00	69,314,704.82	30,239,675.07	99,554,379.89		100%	Completed	1,799,756.58			Self-raised	
600,000 tonnes white coated linerboard project (Meilun)	2,600,000,000.00	1,557,621,431.73	931,001,801.01			95.72%	96%	200,669,260.09	115,607,432.10	6.56%	Capital and borrowings	2,488,623,232.74
Power plant phase III further expansion (the Company)	580,000,000.00	206,777,982.80	277,203,231.19			83.45%	95%	30,111,980.85	22,099,407.07	6.4%	Self-raised	483,981,213.99
60,000 tonnes sewage advanced treatment (the Company)	50,000,000.00	47,901,473.19	11,001,987.23	58,903,460.42		100%	Completed				Self-raised	
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade	230,000,000.00	43,862,858.73	72,395,541.27			50.55%	43%	3,558,425.08	3,558,425.08	6.42%	Capital and borrowings	116,258,400.00
Magnesite mining	500,000,000.00		196,118,936.12				40%				Self-raised	196,118,936.12
Other projects of construction in progress		180,462,426.97	420,932,105.90	245,471,307.16	120,564,923.59			210,371,743.37	1,654,713.26		Capital and borrowings	235,358,302.12
Total		2,618,039,624.85	3,327,356,326.90	777,726,110.96	150,065,019.20	–	–	653,581,071.75	150,184,683.35	–	–	5,017,604,821.59

Explanation on changes in material construction in progress projects:

Deduction in construction in progress of the relocation of Jilin Chenming: some assets were written off due to the relocation.

Other reason for deduction in other construction in progress: project prepayments made by Jiangxi Chenming was reclassified as other receivables and change in the consolidation scope due to disposal of subsidiaries.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

12. Construction in progress *(Cont'd)*

(3) Construction progress of material construction in progress

Projects	Construction progress	Remark
600,000 tonnes white coated linerboard project (Meilun)	96%	Construction progress was estimated on the basis of the percentage of investment to budget
plant phase III further expansion (the Company)	95%	Construction progress was estimated on the basis of the percentage of investment to budget
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade	43%	Construction progress was estimated on the basis of the percentage of investment to budget
Magnesite mining	40%	Construction progress was estimated on the basis of the percentage of investment to budget

13. Materials for projects

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Special materials	43,961,331.91	15,259,288.96	20,547,952.32	38,672,668.55
Special equipment	17,963,249.94	37,520,107.10	19,101,033.50	36,382,323.54
Total	61,924,581.85	52,779,396.06	39,648,985.82	75,054,992.09

14. Disposal of fixed assets

Unit: RMB

Item	Opening carrying amount	Closing carrying amount	Reasons for transferring to disposal
Disposal of fixed assets arising from the relocation of Jilin Chenming Paper Co., Ltd.		287,015,185.63	Relocation
Fuyu Chenming Paper Co., Ltd.		294,632.40	
Total		287,309,818.03	—

Explanation on progress of disposal of fixed assets for fixed assets reclassified into disposal for one year or above since transference.

The net value of fixed assets of Jilin Chenming Paper Co., Ltd. amounting to RMB874,885,811.57 was reclassified into disposal due to its relocation. Construction in progress reclassified into disposal of fixed assets was RMB29,500,095.61, while materials for projects reclassified into disposal of fixed assets was RMB365,025.64. Disposal expenses fee incurred for clearing assets amounted to RMB707,063.86. The net value of assets cleared was RMB618,442,811.05.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

15. Consumable biological assets

(1) Measured at fair value

Unit: RMB

Item	Opening carrying amount	Increase for the period	Decrease for the period	Closing carrying amount
Timber	959,061,500.85	216,482,643.02	6,275,089.72	1,169,269,054.15
Total	959,061,500.85	216,482,643.02	6,275,089.72	1,169,269,054.15

Explanation on consumable biological assets

Note: (1) Consumable biological assets are measure at fair value. The fair value of timber increased by RMB12,030,651.26 due to acquisition, increased by RMB156,629,914.89 due to breeding, decreased by RMB6,275,089.72 due to disposal, and increased by RMB47,822,076.87 due to change of fair value.

(2) As of 31 December 2012, there was no significant difference between the fair value and cost of the timbers planted during the year or unable to form any level of stocking in the consumable biological assets so their carrying amount was taken as their fair value. The timbers forming a level of stocking were measured at fair value and their fair value was determined based on the valuation of Jones Lang LaSalle Sallmanns Limited. The consumable biological assets measured at carrying amount as their fair value amounted to RMB152,293,223.18 and the consumable biological assets measured at assessed value as their fair value amounted to RMB1,016,975,830.97.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

16. Intangible assets

(1) Particulars of intangible assets

Unit: RMB

Item	Opening book balance	Increase for the period	Decrease for the period	Closing carrying amount
I. Total original carrying amount	1,690,347,916.95	1,329,270.74	84,005,236.74	1,607,671,950.95
Land use rights	1,672,649,254.38	1,111,920.74	83,255,576.74	1,590,505,598.38
Software	17,698,662.57	217,350.00	749,660.00	17,166,352.57
II. Total accumulated amortisation	173,210,715.59	38,461,236.57	20,497,160.43	191,174,791.73
Land use rights	162,800,378.78	36,376,304.04	19,779,300.63	179,397,382.19
Software	10,410,336.81	2,084,932.53	717,859.80	11,777,409.54
III. Total net carrying amount of intangible asset	1,517,137,201.36	-37,131,965.83	63,508,076.31	1,416,497,159.22
Land use rights	1,509,848,875.60	-36,264,383.30	63,476,276.11	1,411,108,216.19
Software	7,288,325.76	-1,867,582.53	31,800.20	5,388,943.03
Land use rights				
Software				
Total carrying amount of intangible asset	1,517,137,201.36	-37,131,965.83	63,508,076.31	1,416,497,159.22
Land use rights	1,509,848,875.60	-36,264,383.30	63,476,276.11	1,411,108,216.19
Software	7,288,325.76	-1,867,582.53	31,800.20	5,388,943.03

The amortisation amount was RMB 38,461,236.57 during the period.

(2) Explanation on intangible assets

① The original value of the decreased intangible assets due to disposal of subsidiaries amounted to RMB81,375,554.02 during the year. The cumulative amortisation of the decreased intangible assets due to the disposal of subsidiaries amounted to RMB17,151,118.55.

② On 31 December 2012, the ownership of intangible assets of carrying amount of RMB330,717,493.46 (31 December 2011: RMB407,560,348.35) was restricted, of which land use rights and fixed assets of carrying amount of RMB330,717,493.46 were the pledge for long-term borrowings of RMB3,098,403,800.00 (31 December 2011: RMB3,099,817,990.11) and long-term borrowings due within one year of RMB290,625,800.00 (31 December 2011: RMB39,993,458.22) (For details, see Note VII. 11). The amortisation of such land use rights in 2012 amounted to RMB7,215,654.36 (2011: RMB8,896,794.04).

③ The state-owned land use rights obtained by the Group in China were in compliance with PRC laws with a term of grant of 40-50 years upon receipt.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

17. Goodwill

Unit: RMB

Name of investee or item generating goodwill	Opening book balance	Increase for the period	Decrease for the period	Closing carrying amount	Impairment provisions at the end of the period
Jilin Chenming Paper Co., Ltd.	14,314,160.60			14,314,160.60	
Shandong Chenming Panels Co., Ltd.	5,969,626.57			5,969,626.57	
Total	20,283,787.17			20,283,787.17	

Explanation on impairment test method and impairment provision on goodwill

The goodwill of the Company arose from the business combined not under common control during the prior years.

On the balance sheet date, the management of the Company assessed the recoverable amount of cash-generating unit which results goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating unit is determined based on the estimated cash flow in financial budget of five years in the future by management, using the steady annual growth rate in the industry of 5% (2011: 5%) expected by the market, and time value of currency was estimated using the discount rate of 8.32% (2011: 8.32%). Management of the Company expects no provision for impairment loss is necessary to be made for goodwill during the reporting period.

For methods to test impairment on goodwill will, see Note IV. 20.

18. Long-term prepaid expenses

Unit: RMB

Item	Opening balance	Increase for the period	Amortisation for the period	Other deductions	Closing balance	Reasons for other deductions
Expenses on improvement of leased assets	20,916,986.51	2,837.18	7,398,295.73	1,412,915.31	12,108,612.65	Disposal of Qihe Chenming during the period
Woodland expenses	169,752,657.81	7,907,603.50	7,199,305.57		170,460,955.74	
Other	2,247,601.30		46,484.04		2,201,117.26	
Total	192,917,245.62	7,910,440.68	14,644,085.34	1,412,915.31	184,770,685.65	–

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

19. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities not stated as the net amount after offsetting

Recognised deferred income tax assets and deferred income tax liabilities

Unit: RMB

Item	Closing balance	Opening balance
Deferred income tax assets:		
Provision for impairment of assets	76,283,989.46	71,751,853.16
Deductible losses	244,104,208.24	49,859,143.71
Elimination of unrealised profit arising from intra-group	20,805,987.85	15,739,516.99
Unpaid payables	17,531,699.23	16,443,903.23
Deferred income	18,212,201.82	20,232,117.18
Sub-total	376,938,086.60	174,026,534.27

Deferred income tax liabilities:

Breakdown of unrecognised deferred income tax assets

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary differences	118,431,196.57	139,486,221.34
Deductible loss	329,374,556.35	548,006,631.56
Total	447,805,752.92	687,492,852.90

Deductible loss of unrecognised deferred income tax assets will expire by the following periods

Unit: RMB

Year	Closing balance	Opening balance	Remark
2012		14,585,476.04	
2013	74,170.94	72,648,810.53	
2014	38,442,223.21	69,020,481.95	
2015	67,208,911.93	129,791,262.25	
2016	70,887,235.48	261,960,600.79	
2017	152,762,014.79		
Total	329,374,556.35	548,006,631.56	—

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

19. Deferred income tax assets and deferred income tax liabilities *(Cont'd)*

(1) Deferred income tax assets and deferred income tax liabilities not stated as the net amount after offsetting *(Cont'd)*

The breakdown of tax payable differences and deductible differences

Unit: RMB

Item	Amount of temporary differences	
	The end of the period	The beginning of the period
Tax payable differences		
Deductible differences		
Provision for impairment of assets	322,820,452.56	314,787,643.19
Elimination of unrealised profit arising from intra-group	83,223,951.42	63,204,734.93
Unpaid payables	95,609,060.53	101,004,317.87
Deferred income	86,010,898.97	91,467,775.41
Deductible losses	976,416,833.00	199,436,574.84
Sub-total	1,564,081,196.48	769,901,046.24

20. Breakdown of provision for impairment of assets

Unit: RMB

Item	Opening balance of carrying amount	Increase for the period	Decrease for the period			Closing balance of carrying amount
			Reversal	Write-off	Other	
I. Provisions for bad debts	308,289,383.25	54,111,708.52	9,500,672.76	793,968.19	21,004,227.00	331,102,223.82
II. Provisions for inventory impairment	56,658,503.68	14,419,123.18		56,072,051.72	552,446.69	14,453,128.45
V. Provisions for long-term equity investment impairment	2,589,574.47					2,589,574.47
IV. Provisions for fixed assets impairment	16,243,839.72	11,220,000.00			14,447,840.87	13,015,998.85
Total	383,781,301.12	79,750,831.70	9,500,672.76	56,866,019.91	36,004,514.56	361,160,925.59

Explanation on provision for impairment of assets:

Other deduction in provision for impairment of assets resulted from the disposal of its subsidiaries, namely Juancheng Chenming, Qihe Chenming and Qihe Panels.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

21. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Investments		10,000,000.00
Total		10,000,000.00

Explanation on other non-current assets:

Closing balance was lower than opening balance, mainly because investment in Weifeng Xinye Capital Investment Co., Ltd. (an associate of the Company) was transferred into equity interest investment.

22. Assets with limited ownership or use rights

Items	Closing balance	Reason for limitation
Sub-total of assets used for providing guarantees:	6,836,817,095.88	
Land (Zhanjiang Chenming)	330,717,493.46	As collaterals for bank borrowings
Fixed assets (Zhanjiang Chenming)	6,351,131,719.77	As collaterals for bank borrowings
Bills receivable (Shouguang Meilun)	154,967,882.65	As collaterals for bank borrowings
Sub-total of assets with limited ownership or use rights due to other reasons:	2,112,667,177.41	
Other monetary funds	2,112,667,177.41	Secured bank borrowings, bank acceptance bills and letter of credit deposits
Total	8,949,484,273.29	

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

23. Short-term borrowings

(1) Types of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowings		176,133,062.41
Guarantee loans	3,893,489,091.48	2,223,510,136.38
Credit loans	5,925,909,403.68	7,957,531,746.95
Discounted loans	3,057,000,000.00	1,729,809,660.95
Total	12,876,398,495.16	12,086,984,606.69

Description of types of short-term borrowings:

① Guarantee loans are the loans obtained by the subsidiaries of the Company from financial institutions when the Company acts as their guarantee;

② Discounted borrowings were discounted with bank acceptance and accounted for as short-term borrowings by the Group.

24. Bills payable

Unit: RMB

Type	Closing balance	Opening balance
Bank acceptance	1,285,627,762.07	615,327,402.85
Total	1,285,627,762.07	615,327,402.85

Amount to be due in the next accounting period amounted to RMB1,285,627,762.07.

Description of bills payable:

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

25. Accounts payable

(1) Particulars of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	2,937,983,262.67	4,420,184,816.30
1-2 years	158,572,722.64	117,265,142.92
2-3 years	49,693,420.80	67,792,980.94
Over 3 years	93,532,318.70	80,343,057.44
Total	3,239,781,724.81	4,685,585,997.60

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

(3) Explanation on significant trade payables aged over 1 year

Name of creditors	Amount	Reason of being outstanding	Repaid after the reporting date
Artemis Forestry Co., Ltd	21,879,231.84	Temporary outstanding	No
BTG Eclepens S.A	4,920,487.56	Temporary outstanding	No
Shandong Swan water Engineering Co., Ltd.	4,377,011.99	Temporary outstanding	No
Henan Kaifeng High Pressure Valve Co., Ltd.	3,600,220.34	Temporary outstanding	No
PASABAN,S.A	3,299,587.45	Temporary outstanding	No
Total	38,076,539.18		

(4) Accounts payable comprised the following balances in foreign currencies:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	95,627,910.37	6.2855	601,069,230.63	109,789,379.20	6.3009	691,771,899.52
GBP	19,125.00	10.1611	194,331.04	19,125.00	9.7116	185,734.35
EUR	1,574,136.46	8.3176	13,093,037.42	3,802,570.02	8.1625	31,038,477.79
Total			614,356,599.09			722,996,111.66

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

26. Advance receipts

(1) Particulars of advance receipts

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	340,139,089.13	211,879,347.81
1-2 years	7,696,711.74	19,548,665.64
Total	347,835,800.87	231,428,013.45

(2) During the reporting period, advance receipts were not due to any shareholders holding over 5% (5% inclusive) voting rights of the Company's shares.

(3) Explanation on significant advance receipts aged over one year

Name of creditors	Amount	Reason for not being carried forward
Shandong Kailong Paper Science and Technology Co., Ltd.	1,082,000.00	No delivery requirement from the counterparty
Wuxi Yifa Paper Co., Ltd.	492,297.30	No delivery requirement from the counterparty
Total	1,574,297.30	

(4) Advance receipts comprised the following balances in foreign currencies:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	30,582,379.55	6.2855	192,225,546.66	18,133,899.02	6.3009	114,259,884.34
EUR				1,117,098.18	8.1625	9,118,313.89
Total			192,225,546.66			123,378,198.23

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

27. Staff remuneration payables

Unit: RMB

Item	Opening book balance	Increase for the period	Decrease for the period	Closing book balance
I. Salaries, bonuses, allowance and subsidies	89,914,662.03	744,194,481.52	721,047,583.60	113,061,559.95
II. Staff welfare	433,903.26	52,636,544.02	53,070,447.28	
III. Social insurance premium	12,495,889.17	162,471,605.26	162,657,710.46	12,309,783.97
Of which: 1. Medical insurance premium	8,683,901.99	34,600,609.76	35,470,189.69	7,814,322.06
2. Pension insurance premium	2,249,723.97	108,797,475.92	107,917,101.49	3,130,098.40
3. Unemployment insurance premium	154,033.86	10,236,978.69	10,355,773.80	35,238.75
4. Work-related injury insurance premium	27,545.09	5,109,619.30	5,073,242.25	63,922.14
5. Maternity insurance premium	1,380,684.26	3,726,921.59	3,841,403.23	1,266,202.62
IV. Housing provident funds	7,489,616.55	55,646,975.36	53,116,398.35	10,020,193.56
V. Lay off welfare		1,770,435.66	1,767,351.69	3,083.97
VI. Others	18,804,595.54			18,804,595.54
VII. Union operation costs and employee education costs	17,925,225.10	18,560,363.45	12,837,035.83	23,648,552.72
Total	147,063,891.65	1,035,280,405.27	1,004,496,527.21	177,847,769.71

Amount of default payment within staff remuneration payables amounted to RMB0.00.

Union operation costs and employee education costs amounted to RMB23,648,552.72, non-monetary welfare amounted to RMB0.00 and compensation arising from termination of service amounted to RMB3,083.97.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

28. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Value added tax	39,231,100.57	8,847,121.90
Business tax	962,094.33	6,510,523.22
Enterprise income tax	42,565,684.15	21,030,687.55
Individual income tax	170,709.08	5,201,988.58
Urban maintenance and construction tax	2,792,836.34	2,669,994.50
Land use tax	8,114,849.29	14,021,262.09
Property tax	8,224,888.15	5,382,575.62
Educational surcharges and others	2,678,529.97	2,775,009.93
Stamp duty	2,075,721.99	1,800,842.52
Total	106,816,413.87	68,240,005.91

Description of taxes payable:

The local tax authority should state the process of calculating tax whenever it consents the mutual adjustments in respect of income tax payable between branch companies and branch plants.

Nil

29. Interest payable

Unit: RMB

Item	Closing balance	Opening balance
Interest on corporate bonds	65,900,289.97	62,113,952.74
Interest on medium-term notes	67,145,833.34	44,740,750.00
Total	133,046,123.31	106,854,702.74

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

30. Other payables

(1) Particulars of other payables

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	310,080,861.84	525,381,372.20
1-2 years	58,740,745.82	176,020,931.91
2-3 years	16,748,468.93	20,604,081.20
Over 3 years	50,202,212.39	41,615,153.64
Total	435,772,288.98	763,621,538.95

(2) During the reporting period, other payables were not due to any shareholders holding over 5% (5% inclusive) voting rights of the Company's shares.

(3) Explanation on significant other payables aged over 1 year

Name of creditors	Amount	Reason of being outstanding	Repaid after the reporting date
State-owned Shouguang Qingshuipo Farm	8,800,000.00	Temporarily outstanding	No
Fujian Industrial Equipment Installation Co., Ltd. Sanming Branch Company	1,000,000.00	Temporarily outstanding	No
Meng Feng (Security deposit)	688,411.30	Temporarily outstanding	No
Shandong Swan Water Engineering Co., Ltd. Sanming Branch Company	540,000.00	Temporarily outstanding	No
Shouguang Hongyun Transportation Co., Ltd.	505,326.50	Temporarily outstanding	No
Total	11,533,737.80		

(4) Explanation of the significant other payables

Name of creditors	Closing balance	Nature or details
Hotoli Group Zhanjiang Runbao Development Co., Ltd.	40,000,000.00	Amounts with customers
Liaoning BeiHai Industries Group Co., Ltd.	30,000,000.00	Amounts with customers
Shandong Fudi Environment Engineering Co., Ltd.	9,600,000.00	Amounts with customers
State-owned Shouguang Qingshuipo Farm	8,800,000.00	Amounts with customers
Hubei Zhongjian Haohua Environment Protection Co., Ltd.	4,420,000.00	Amounts with customers
Total	92,820,000.00	

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

31. Non-current liabilities due within one year

(1) Particulars of non-current liabilities due within one year

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within one year	1,368,108,800.00	1,203,616,858.22
Total	1,368,108,800.00	1,203,616,858.22

(2) Long-term borrowings due within one year

Long-term borrowings due within one year

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowings	125,710,000.00	
Secured borrowings	290,625,800.00	39,993,458.22
Guarantee borrowings	562,640,000.00	519,800,000.00
Credit borrowings	389,133,000.00	643,823,400.00
Total	1,368,108,800.00	1,203,616,858.22

Rollover of overdue borrowings within long-term borrowing due within a year amounted to RMB0.00.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

31. Non-current liabilities due within one year *(Cont'd)*

(2) Long-term borrowings due within one year *(Cont'd)*

Top five long-term borrowings due within one year

Unit: RMB

Borrowed by	Date of commencement	Date of termination	Currency	Rate (%)	Closing balance		Opening balance	
					Amount in foreign currency	Functional currency	Amount in foreign currency	Functional currency
Sumitomo Mitsui Banking Corporation (China) Limited	10 September 2010	10 September 2013	USD	3.36%	64,000,000.00	402,272,000.00		
The Export-Import Bank of China Qingdao branch	28 June 2010	27 June 2013	USD	3.76%	36,000,000.00	226,278,000.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2023	USD	3.15%	30,000,000.00	188,565,000.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2013	RMB	5.9%		102,060,800.00		
Agricultural Bank of China Shouguang sub-branch	26 January 2011	28 December 2013	RMB	4.7%		100,000,000.00		
Sumitomo Mitsui Banking Corporation (China) Limited	10 September 2009	09 September 2012	USD	3.6%			16,000,000.00	100,814,400.00
The Export-Import Bank of China Nanchang branch	10 December 2009	09 December 2012	RMB	4.06%				450,000,000.00
The Export-Import Bank of China Qingdao branch	28 September 2009	27 September 2012	RMB	3.51%				280,000,000.00
China Construction Bank Corporation Shouguang sub-branch	17 June 2009	15 June 2012	RMB	5.76%				170,000,000.00
Hong Kong and Shanghai Banking Corporation Limited	15 September 2010	14 September 2012	USD	3.55%			10,000,000.00	63,009,000.00
Total	–	–	–	–	–	1,019,175,800.00	–	1,063,823,400.00

Overdue borrowings within long-term borrowings due within one year: Nil.

32. Other current liabilities

Unit: RMB

Item	Detail	Closing book balance	Opening book balance
Deferred income to be amortised within one year	Government subsidy in relation to assets	17,659,498.56	10,227,001.60
Total		17,659,498.56	10,227,001.60

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

33. Long-term borrowings

(1) Types of long-term borrowings

Unit: RMB

Item	Closing book balance	Opening book balance
Pledged borrowings	125,710,000.00	126,018,000.00
Secured borrowings	3,389,029,600.00	120,891,118.33
Guarantee borrowings	895,292,000.00	5,034,728,300.00
Credit borrowings	891,245,035.94	1,065,046,935.94
Less: long-term borrowings due within one year, see Note VII. 31	1,368,108,800.00	1,203,616,858.22
Total	3,933,167,835.94	5,143,067,496.05

Description of types of long-term borrowings

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

For the category and amount of secured assets under pledged borrowings, please see Note VII. 11.

(2) Top five long-term borrowings

Unit: RMB

Borrowed by	Date of commencement	Date of termination	Currency	Rate (%)	Closing balance		Opening balance	
					Amount in foreign currency	Functional currency	Amount in foreign currency	Functional currency
China Development Bank Guangdong branch	25 March 2008	24 March 2023	USD	3.15%	320,000,000.00	2,011,360,000.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2023	RMB	5.9%		1,087,043,800.00		
Sumitomo Mitsui Banking Corporation (China) Limited	11 April 2011	11 March 2014	USD	2.98%	40,000,000.00	251,420,000.00		
Mitsui Bank	11 April 2011	11 March 2014	USD	2.98%	39,909,633.28	250,852,000.00		
The Export-Import Bank of China Qingdao branch	13 April 2011	12 April 2014	RMB	5.51%		100,000,000.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2023	USD	3.15%			380,000,000.00	2,394,342,000.00
China Development Bank Guangdong branch	25 March 2009	24 March 2023	RMB	4.86%				1,124,578,300.00
Sumitomo Mitsui Banking Corporation (China) Limited	10 September 2009	10 September 2013	USD	3.6%			104,000,000.00	655,293,600.00
J.P. Morgan Chase	27 June 2011	27 June 2013	USD	2.37%			20,000,000.00	126,018,000.00
The Export-Import Bank of China Qingdao branch	28 June 2010	27 June 2013	USD	3.95%			36,000,000.00	226,832,400.00
Total	–	–	–	–	–	3,700,675,800.00	–	4,527,064,300.00

Description of long-term borrowings, such as long-term borrowings arising from obtaining extension of overdue borrowings, the terms, principal, interest and expected repayment arrangements for the extension should be stated:

Nil

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

34. Bonds payable

Bond name	Nominal value	Issue date	Term	Issued amount	Amortised issue expenses at the beginning of the period	Amortised issue expenses for the year	Closing balance
11 Chenming debt	2,000,000,000.00	2011.07.06	5 years	1,982,000,000.00			1,986,721,639.42
12 Chenming debt	3,800,000,000.00	2012.12.26	5 years	3,773,400,000.00	1,425,123.62	3,296,515.80	3,773,478,936.51
11 Chenming Hong Kong debt	500,000,000.00	2011.04.13	5 years	491,750,000.00		78,936.51	496,062,661.07
Total	6,300,000,000.00			6,247,150,000.00	1,425,123.62	3,375,452.31	6,256,263,237.00

35. Special accounts payable

Unit: RMB

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Note
Relocation of Jilin Chenming due to environmental reason	660,000,000.00	679,240,000.00	697,713,127.30	641,526,872.70	
Total	660,000,000.00	679,240,000.00	697,713,127.30	641,526,872.70	–

Note on special accounts payable

During the year, pursuant to the relocation compensation agreement entered into with China Development Jilin Co., Ltd., the Company received relocation compensation of RMB660 million and compensation from the Ministry of Finance of Jilin Financial Bureau for eliminating outdated production capacity of RMB19.24 million. The Company utilised the relocation compensation to offset loss on disposal of fixed asset and suspension of production of RMB601,736,059.60 and RMB95,977,067.70, respectively.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

36. Other Non-current liabilities

Unit: RMB

Item	Closing balance of carrying amount	Opening balance of carrying amount
Deferred income	375,881,264.56	151,733,337.22
Medium-term notes	2,184,270,106.80	2,292,360,559.92
Total	2,560,151,371.36	2,444,093,897.14

Explanation on other non-current liabilities, including asset-related and revenue-related Government grants received during the reporting period and their closing balances

The breakdown of the above deferred income is as follows:

Item	Closing balance	Opening balance
Government grants in respect of assets		
Special subsidy funds for environmental protection	63,922,883.01	43,981,654.62
Project fund for National technological support scheme	7,605,425.00	2,770,125.00
Special subsidy fund for Songhuajiang environmental protection project	27,790,829.88	29,354,246.60
Modification of alkaline recycling system	4,883,749.85	5,070,416.57
Atmospheric pollution prevention and treatment subsidy fund		800,000.00
Sewage treatment and water conservation reconfiguration project	12,899,569.87	22,562,488.46
Financial grants for technological modification project	1,972,781.97	2,771,015.05
Project on integrated development of pulp and paper in Zhejiang	273,472,850.82	53,633,800.00
Others	992,672.72	1,016,592.52
Less: deferred income to be amortised within 1 year	17,659,498.56	10,227,001.60
Total	375,881,264.56	151,733,337.22

Note: Deferred income of RMB261,754,257.18 was received during the period. Deferred income amortisation recognised through profit or loss was RMB19,148,832.88. The decrease in deferred income due to disposal of subsidiaries was RMB11,025,000.00.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

37. Share capital

Unit: RMB

		Change during the period (Increase/decrease)					
	Opening balance	New issue	Bonus shares	Shares converted from reserve	Others	Sub-total	Closing balance
Total number of shares	2,062,045,941.00						2,062,045,941.00

Explanation on changes in share capital: the name of the auditors carrying out the capital review and the number of the capital review report should be disclosed for increase or decrease in share capital during the reporting period; for joint stock companies operating for less than three years, only the net assets had to be stated for those years before establishment; capital review at the establishment of the company should be stated when a limited liability company wholly changed into a joint stock company.

	Opening balance		Change during the year (Increase/decrease)					Closing balance	
Item	Amount	Percentage (%)	New issue	Bonus shares	Shares transferred from reserve	Others	Sub-total	Amount	Percentage (%)
I. Restricted shares	302,211,557.00	14.66%				-292,875,153.00	-292,875,153.00	9,336,404.00	0.45%
1. State-owned legal person shares	293,003,657.00	14.21%				-293,003,657.00	-293,003,657.00		
2. Shares held by the Senior Management	9,207,900.00	0.45%				128,504.00	128,504.00	9,336,404.00	0.45%
II. Non-restricted shares	1,759,834,384.00	85.34%				292,875,153.00	292,875,153.00	2,052,709,537.00	99.55%
1. RMB ordinary shares (A shares)	811,066,899.00	39.33%				292,875,153.00	292,875,153.00	1,103,942,052.00	53.54%
2. Domestic listed foreign shares (B shares)	557,497,485.00	27.04%						557,497,485.00	27.04%
3. Overseas listed foreign shares (H shares)	391,270,000.00	18.97%						391,270,000.00	18.97%
III. Total number of shares	2,062,045,941.00	100.00%						2,062,045,941.00	100.00%

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

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

38. Capital reserves

Unit: RMB

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Capital premium (share premium)	5,396,253,001.55	316,895,729.78		5,713,148,731.33
Of which: capital contribution from investors	3,373,256,665.49			3,373,256,665.49
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98			2,018,215,301.98
Acquisition of minority interests	4,781,034.08	316,895,729.78		321,676,763.86
Other capital reserves	702,011,834.45		267,566.25	701,744,268.20
Of which: conversion from capital reserves under the original system	702,011,834.45		267,566.25	701,744,268.20
Gain or loss directly charged to owners' equity				
Total	6,098,264,836.00	316,895,729.78	267,566.25	6,414,892,999.53

Explanation on capital reserves

At the 2012 second extraordinary general meeting of the Company convened on 5 November 2012, the resolution in respect of the acquisition of equity interest of Jiangxi Chenming held by SAPPI was passed. Chenming (HK) Limited, a wholly-owned subsidiary of the Company, entered into equity transfer agreements with each of SAPPI, International Finance Corporation and Moorim Paper in respect to the acquisition of 34%, 7.5% and 7.5% equity interest of Jiangxi Chenming, respectively. The total consideration amounted to US$80,870,000.00, equivalent to RMB509,039,794.00. On the acquisition date, the net assets of Jiangxi Chenming Paper amounted to RMB1,685,582,701.59. The corresponding net assets of 49% equity interest were RMB825,935,523.78. The difference between consideration paid and the net asset value of RMB316,895,729.78 had been included in capital reserves in the consolidated financial statements of the Group. In December 2012, the Company disposed of Qihe Chenming and Juanchen Chenming. The amount originally included in capital reserves of the Company of RMB267,566.25 was transferred to current investment income.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

39. Surplus reserve

Unit: RMB

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	1,132,116,106.40			1,132,116,106.40
Total	1,132,116,106.40			1,132,116,106.40

Explanation on surplus reserve, the relevant resolutions should be stated when using the surplus reserve for increasing share capital, making up shortfall and paying dividends.

Pursuant to the Companies Law and the Articles of Association, the Group transferred 10% of the net profit to the statutory surplus reserves. There was no need to transfer if the accumulated amount of the statutory reserves exceeded 50% of the Company's registered capital.

The Group can transfer the discretionary surplus reserve upon the transfer of statutory surplus reserve. After being approved, the discretionary surplus reserve can be used to offset loss of prior years or increase in share capital.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

40. Retained profit

Unit: RMB

Item	Amounts	Proportion of appropriation or allocation
Retained profit as at the end of prior year before adjustment	4,237,783,996.54	—
Retained profit as at the beginning of the year after adjustment	4,237,783,996.54	—
Plus : Net profit for year attributable to shareholders of the parent company	221,034,822.54	—
Ordinary dividend payable	309,306,891.20	
Retained profit as at the end of the period	4,149,511,927.88	—

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 RMB0.00.
2. The effect of changes in accounting policies on the retained profit as at the beginning of the year amounted to RMB0.00.
3. The effect of corrections of significant accounting errors on the retained profit as at the beginning of the year amounted to RMB0.00.
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 RMB0.00.
5. The effect of other adjustments on the retained profit as at the beginning of the year amounted to RMB0.00.

Note to retained profit

For the retain profit of a company which had its initial public offering, if the accumulated profit before its new issue has been approved by the general meeting to be shared by the old and new shareholders, the company should clearly make a related statement; if the accumulated profit before its new issue has been approved by the general meeting to be distributed among the old shareholders before its new issue, the company should clearly disclose the dividend payable which is corresponding to the audited profit attributable to the old shareholders.

Note to the breakdown of profit distribution

According to the proposed profit distribution plan for 2011 approved by 2012 annual general meeting of the Company on 29 May 2012, the Company paid a cash dividend of RMB0.15 (2011: RMB0.3) per share to all shareholders, totalling RMB309,306,891.20 (2011: RMB618,613,782.30), which was calculated based on 2,062,045,941 shares in issue. Pursuant to PRC tax laws, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

Breakdown of the transfer to surplus reserve of subsidiaries during the reporting period

The transfer to surplus reserve of subsidiaries in 2012 was RMB38,320,636.05, of which RMB38,117,847.60 was attributable to the parent company.

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

41. Revenue and operating costs

(1) Revenue and operating costs

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Revenue from principal activities	19,418,385,445.41	17,535,452,305.79
Revenue from other activities	343,293,784.64	212,037,595.08
Operating costs	16,693,768,322.36	14,931,153,175.89

(2) Principal activities (by industry)

Unit: RMB

Industry name	Amounts during the period		Amounts during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Machine-made paper	18,148,184,354.47	15,448,210,584.92	16,340,097,056.12	13,874,585,926.00
Electricity and steam	800,330,990.18	603,017,916.41	660,177,424.83	601,127,173.53
Construction materials	344,778,147.53	301,384,927.59	376,995,349.10	285,692,731.80
Paper chemicals	63,109,642.95	47,193,191.78	99,210,362.32	70,836,680.37
Hotel	48,334,822.55	12,493,732.14	49,052,205.69	12,908,369.30
Others	13,647,487.73	10,492,427.23	9,919,907.73	6,191,630.80
Total	19,418,385,445.41	16,422,792,780.07	17,535,452,305.79	14,851,342,511.80

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

41. Revenue and operating costs *(Cont'd)*

(3) Principal activities (by product)

Unit: RMB

Product name	Amounts during the period		Amounts during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Light weight coated paper	1,170,332,533.70	1,039,609,451.91	1,296,169,432.28	1,160,515,979.84
Duplex press paper	2,893,040,859.96	2,486,129,792.61	2,318,131,944.85	2,053,539,848.41
Writing paper	278,621,119.55	265,618,292.24	355,489,878.40	322,189,663.33
Coated paper	4,039,555,866.49	3,763,791,638.91	3,742,387,476.91	3,202,258,169.25
News press paper	1,774,456,795.28	1,253,184,006.48	1,654,548,819.60	1,411,325,174.47
Paperboard	527,059,863.45	513,468,478.94	631,485,120.83	602,856,008.97
White paper board	2,009,960,531.99	1,646,210,297.10	2,274,400,313.52	1,788,912,191.36
Static paper	1,590,707,172.04	1,225,698,307.75	127,629,116.56	98,661,574.49
Other machine-made paper	3,864,449,612.01	3,254,500,318.98	3,939,854,953.17	3,234,327,315.88
Electricity and steam	800,330,990.18	603,017,916.41	660,177,424.83	601,127,173.53
Building materials	344,778,147.53	301,384,927.59	376,995,349.10	285,692,731.80
Paper chemicals	63,109,642.95	47,193,191.78	99,210,362.32	70,836,680.37
Hotel	48,334,822.55	12,493,732.14	49,052,205.69	12,908,369.30
Others	13,647,487.73	10,492,427.23	9,919,907.73	6,191,630.80
Total	19,418,385,445.41	16,422,792,780.07	17,535,452,305.79	14,851,342,511.80

(4) Principal activities (by geographical areas)

Unit: RMB

Region	Amounts during the period		Amounts during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Mainland China	16,652,392,812.02	13,832,363,392.83	14,914,975,252.92	12,367,843,355.92
Other countries and regions	2,765,992,633.39	2,590,429,387.24	2,620,477,052.87	2,483,499,155.88
Total	19,418,385,445.41	16,422,792,780.07	17,535,452,305.79	14,851,342,511.80

(5) Revenue from top 5 customers of the Company

Unit: RMB

Name of customer	Revenue from principle activities	Percentage of the total revenue of the Company (%)
2012	809,133,619.82	4.09%
2011	890,211,819.38	5.02%

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

42. Business taxes and surcharges

Unit: RMB

Item	Amounts during the period	Amounts during the prior period	Calculation standard
Business tax	12,913,487.64	12,305,486.90	
Urban maintenance and construction tax	36,055,424.89	35,808,598.04	
Educational surcharges	25,503,982.87	24,867,037.20	
Others	4,217,095.54	2,736,406.45	
Total	78,689,990.94	75,717,528.59	—

Description of Business taxes and surcharges

For details on the calculation standard of business taxes and surcharges, please refer to note "V. Taxation".

43. Selling and distribution expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Wages	106,775,704.85	84,658,343.14
Depreciation expense	21,819,218.81	22,043,153.21
Office expense	6,794,411.68	6,534,007.49
Travel expense	27,239,405.77	20,858,605.78
Sales commission	6,406,566.86	18,463,822.73
Transportation expense	708,273,839.04	600,151,151.50
Cargo handling charges	25,234,845.39	23,099,320.30
Rental expense	6,865,846.36	9,774,884.93
Hospitality expense	75,188,472.21	52,740,766.77
Warehouse expense	11,896,779.46	6,949,464.88
Others	147,994,155.61	87,611,097.24
Total	1,144,489,246.04	932,884,617.97

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

44. General and administrative expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Wages and surcharges	191,908,796.59	187,205,292.88
Welfare expense	22,478,619.26	40,437,750.27
Insurance premium for staff	20,136,048.25	13,309,458.08
Insurance premium	14,829,959.11	22,790,160.49
Depreciation expense	60,751,168.63	46,807,425.17
Waste disposal expense	28,983,197.70	35,237,867.15
Hospitality expense	34,413,765.89	18,003,123.82
Amortisation of intangible assets	23,835,110.94	24,921,269.65
Technological development expense	293,698,298.28	272,863,115.77
Tax	36,156,445.61	59,844,542.52
Production interruption loss	74,297,144.39	81,583,041.97
Others	308,758,348.10	211,491,560.73
Total	1,110,246,902.75	1,014,494,608.50

45. Finance expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Interest expenses	1,434,634,633.92	986,692,433.15
Less: interest income	167,001,504.37	50,427,710.99
Less: capitalised interest amount	212,844,904.48	469,735,941.14
Foreign exchange gains and losses	-11,933,355.58	-81,877,446.18
Capitalised foreign exchange gains and losses amount		
Others	49,905,145.55	47,370,693.00
Total	1,092,760,015.04	432,022,027.84

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

46. Gain on change in fair value

Unit: RMB

Source of gain on change in fair value	Amounts during the period	Amounts during the prior period
Biological assets measured at fair value	47,822,076.87	48,173,926.26
Total	47,822,076.87	48,173,926.26

47. Investment income

(1) Breakdown of investment income

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Income from long-term equity investments accounted for using the equity method	-637,227.71	-3,246,150.00
Investment gain on disposal of long-term equity investments	-34,887,733.04	10,859,460.82
Others		258,109.35
Total	-35,524,960.75	7,871,420.17

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

47. Investment income *(Cont'd)*

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

Unit: RMB

Investee	Amounts during the period	Amounts during the prior period	Reason for change
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	-19,385,301.17	-2,266,198.68	Change in revenue of investee
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	4,396.33	-149,675.19	Change in revenue of investee
Shouguang Liben Paper Making Co., Ltd.		-830,276.13	Change in revenue of investee
Shanghai Anzhou New Energy Co., Ltd.	18,743,677.13		Change in revenue of investee
Total	-637,227.71	-3,246,150.00	—

Description of investment income: If there are no significant restrictions on remittance of investment income back to the Company, please make a related statement; it there is no such significant restriction, please also make a related statement.

Nil

48. Loss on impairment of assets

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
I. Loss on bad debts	44,611,035.76	-15,527,024.37
II. Loss on inventory impairment	14,419,123.18	56,072,051.72
III. Loss on long-term equity investments impairment		671,422.24
IV. Loss on fixed asset impairment	11,220,000.00	
Total	70,250,158.94	41,216,449.59

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

49. Non-operating income

(1) Non-operating income

Unit: RMB

Item	Amounts during the period	Amounts during the prior period	Amounts included in current extraordinary gains and losses
Total gain on disposal of non-current assets	30,576,886.51	21,181,499.17	30,576,886.51
Of which: Gain on disposal of fixed assets	30,576,886.51	21,181,499.17	30,576,886.51
Gain on debt reconstructuring	11,256,702.04	1,726,083.28	11,256,702.04
Government grants	258,711,984.00	249,703,804.50	235,157,521.57
Business combination not under common control		44,188,866.15	
Transfer of special compensation payables for suspension of production of Jilin	95,977,067.70		95,977,067.70
Other	25,005,706.31	48,026,667.21	25,005,706.31
Total	421,528,346.56	364,826,920.31	397,973,884.13

(2) Breakdown of government grants

Unit: RMB

Item	Amounts during the period	Amounts during the prior period	Note
Expansion grants	235,157,521.57	236,198,625.29	Amortised deferred income amounted to RMB19,148,832.88 and income-related expansion grants amounted to RMB216,008,688.69.
Value-added tax refund	23,554,462.43	13,505,179.21	
Total	258,711,984.00	249,703,804.50	—

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

50. Non-operating expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period	Amounts included in current extraordinary gains and losses
Total loss on disposal of non-current assets	4,484,098.29	5,791,866.58	4,484,098.29
Of which: Loss on disposal of fixed assets	4,484,098.29	5,791,866.58	4,484,098.29
Loss on debt reconstructuring	10,315,257.61	19,905,972.60	10,315,257.61
Other	6,640,682.20	16,186,023.35	6,640,682.20
Total	21,440,038.10	41,883,862.53	21,440,038.10

51. Income tax expenses

(1) Breakdown of income tax expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Current income tax calculated according to tax laws and relevant rules	156,822,377.11	138,729,714.22
Adjustment to deferred income tax	-219,648,615.62	-28,466,600.34
Total	-62,826,238.51	110,263,113.88

(2) The relationship between income tax expenses and gross profit

Item	Amounts during the year	Amounts during the prior year
Profit before tax	-16,139,981.44	698,989,896.70
Income tax calculated at statutory tax rate	-4,034,995.36	174,747,474.18
Add: effect of non-deductible costs, expenses and losses	43,947,272.95	41,288,716.07
Less: effect of tax concessions	59,472,189.81	133,431,268.73
Less: tax effect of utilisation of deductible tax losses and deductible temporary differences previously not recognised	60,826,791.73	9,975,239.81
Add: effect of deductible tax losses and deductible temporary differences not recognised during the current year	17,560,465.44	37,633,432.17
Income tax expenses	-62,826,238.51	110,263,113.88

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

52. Calculation of basic earnings per share and diluted earnings per share

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

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

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

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

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

	Amounts during the year		Amounts during the prior year	
Profit for the reporting period	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	0.11	0.11	0.29	0.29
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	-0.08	-0.08	0.14	0.14

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

52. Calculation of basic earnings per share and diluted earnings per share *(Cont'd)*

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

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

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

Item	Amounts during the year	Amounts during the prior year
Net profit for the period attributable to ordinary shareholders	221,034,822.54	608,271,256.29
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	-159,717,900.37	285,121,911.63

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

Item	Amounts during the year	Amounts during the prior year
Number of outstanding ordinary shares as at the beginning of the year	2,062,045,941	2,062,045,941
Add: number of weighted ordinary shares issued during the year		
Less: number of weighted ordinary shares repurchased during the year		
Number of outstanding ordinary shares as at the end of the year	2,062,045,941	2,062,045,941

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

53. Other comprehensive income

Unit: RMB

Item		Amounts during the period	Amounts during the prior period
(1)	Translation difference of financial statements denominated in foreign currency	2,517,765.07	-1,592,779.91
	Less: net amount of disposal of overseas operations transferred to profit or loss during the period		
	Sub-total	2,517,765.07	-1,592,779.91
(2)	Others		
	Less: income tax effect arising from other items charged to other comprehensive income		
	Net amount of other items previously charged to other comprehensive income and transferred to profit or loss during the current year	267,566.25	
	Sub-total	267,566.25	
Total		2,250,198.82	-1,592,779.91

54. Notes to the cash flow statements

(1) Cash received relating to other operating activities

Unit: RMB

Item	Amounts
Finance support fund	216,008,688.69
Interest income	167,001,504.37
Income on default penalty and fine	6,205,112.74
Bank balances and other income	88,842,593.57
Total	478,057,899.37

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

54. Notes to the cash flow statements *(Cont'd)*

(2) Cash paid relating to other operating activities

Unit: RMB

Item	Amounts
Transportation expense	762,494,590.62
Hospitality expense	111,439,584.29
Rental expense	17,583,308.43
Travel expense	34,592,279.76
Office expense	14,818,776.19
Waste disposal expense	28,983,197.70
Insurance premium	18,830,180.15
Repair expense	18,103,034.84
Advertising expense	1,934,818.20
Intermediary service expense	3,979,348.07
Financial institutions charge	49,905,145.55
Paid on other expense and bank balances	469,886,496.42
Total	1,532,550,760.22

(3) Cash received relating to other investing activities

Unit: RMB

Item	Amounts
Special subsidy funds received	61,754,257.18
Demolition and relocation compensation received	660,000,000.00
Prepayments received for land sale	
Business combination not under common control	
Government grants on phasing out backward production equipment	19,240,000.00
Equity transfer deposits received	84,150,229.50
Total	825,144,486.68

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

54. Notes to the cash flow statements *(Cont'd)*

(4) Cash received relating to other financing activities

Unit: RMB

Item	Amounts
Issuance of medium-term notes	1,083,500,000.00
Total	1,083,500,000.00

(5) Cash paid relating to other financing activities

Unit: RMB

Item	Amounts
Increase in restricted bank deposits during the period	899,777,585.47
Total	899,777,585.47

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

55. Supplementary information on cash flow statements

(1) Supplementary information on cash flow statements

Unit: RMB

Supplementary information		Amounts during the period	Amounts during the prior period
1.	Reconciliation of net profit as cash flows from operating activities:	—	—
	Net profit	46,686,257.07	588,726,782.82
	Add: Provision for impairment of assets	69,456,190.75	41,216,449.59
	Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	1,473,181,848.12	1,206,175,316.98
	Amortisation of intangible assets	38,461,236.57	34,988,533.32
	Amortisation of long-term prepaid expenses	14,644,085.34	7,057,269.94
	Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" denotes gain)	-26,092,788.22	-15,389,632.59
	Loss on change in fair value ("-" denotes gain)	-47,822,076.87	-48,173,926.26
	Finance expenses ("-" denotes gain)	1,229,226,170.56	527,560,633.17
	Investment loss ("-" denotes gain)	35,524,960.75	-7,871,420.17
	Decrease in deferred income tax assets("-" denotes increase)	-219,648,615.62	-26,516,055.04
	Increase in deferred income tax liabilities ("-" denotes decrease)		1,340,281.66
	Decrease in inventories ("-" denotes increase)	1,216,128,795.92	-2,588,229,997.88
	Decrease in consumable biological assets ("-" denotes increase)	-162,385,476.43	-184,145,006.15
	Decrease in operating receivables("-" denotes increase)	-1,006,510,462.52	-1,572,607,592.36
	Increase in operating payables("-" denotes decrease)	-703,983,647.43	1,598,405,352.08
	Others		
	Net cash flows from operating activities	1,956,866,477.99	-437,463,010.89
2.	Major investing and financing activities not involving cash settlements:	—	—
3.	Net change in cash and cash equivalents:	—	—
	Cash balance at the end of the period	2,343,550,185.45	2,317,048,619.53
	Less: cash balance at the beginning of the period	2,317,048,619.53	1,855,235,979.80
	Net increase in cash and cash equivalents	26,501,565.92	461,812,639.73

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

55. Supplementary information on cash flow statements *(Cont'd)*

(2) Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the reporting period

Unit: RMB

Supplementary information	Amounts during the period	Amounts during the prior period
I. Relevant information with respect to acquisition of subsidiaries and other operating units:	—	—
1. Cash and cash equivalents paid on acquisition of subsidiaries and other operating units	131,555,073.05	
Less: cash and cash equivalents held by subsidiaries and other operating units	79,951,123.62	5,474,107.49
2. Net cash paid on acquisition of subsidiaries and other operating units	51,603,949.43	
3. Net assets of subsidiaries acquired	257,951,123.62	60,039,220.31
Current assets	257,951,123.62	53,282,686.08
Non-current assets		22,523,482.20
Current liabilities		15,766,947.97
II. Relevant information with respect to disposal of subsidiaries and other operating units:	—	—
1. Consideration from disposal of subsidiaries and other operating units	396,850,000.00	179,479,961.00
2. Cash and cash equivalents received from disposal of subsidiaries and other operating units	125,000,000.00	91,989,981.50
Less: cash and cash equivalents held by subsidiaries and other operating units	10,771,766.96	6,156,119.85
3. Net cash received from disposal of subsidiaries and other operating units	114,228,233.04	85,833,861.65
4. Net assets of subsidiaries disposed of	432,005,299.29	328,562,383.64
Current assets	563,633,079.26	293,510,418.91
Non-current assets	875,610,612.06	402,088,992.19
Current liabilities	991,181,707.26	360,977,493.90
Non-current liabilities	16,056,684.77	6,059,533.56

VII. Notes to major items of the Consolidated Financial Statements *(Cont'd)*

55. Supplementary information on cash flow statements *(Cont'd)*

(3) Cash and cash equivalents composition

Unit: RMB

Item		Closing amount	Opening amount
I.	Cash	2,343,550,185.45	2,317,048,619.53
	Of which: Treasury cash	1,398,324.17	1,908,702.31
	Bank deposit that can be used for payment at any time	2,342,151,861.28	2,315,139,917.22
III.	Balance of cash and cash equivalent at end of period	2,343,550,185.45	2,317,048,619.53

Explanation on supplementary information of cash flow statements

Restricted cash and cash equivalent used by the Group is not included in cash and cash equivalent.

VIII. Segment reporting

The Company determined the reporting segments and disclosed the segments information according to the requirements of China Accounting Standards Explanatory Notice No.3 in 2010, and the Group no longer adopted the requirements of China Accounting Standards Explanatory Notice No.35 which was related to the determination of the geographical segment and business segments, and the requirements of disclosure of segment information of the primary reporting format and the secondary reporting format.

According to the internal organisation structure, the requirement of management and the internal reporting system of the Company, the operating businesses of the Company is categorised into 4 reporting segments, such reporting segments is based on its primary product categories. The management of the Group evaluates the financial results of such reporting segments in regular basis, in order to allocate the resources and evaluate its result. The primary products or services provided by each reporting segments of the Company are machine-made paper, construction materials, electricity and steam supply and others.

The segment reporting information disclosed according to the accounting standards and the measurements basis which reported from each segments to the management, such measurement basis is consistent with accounting and measurement basis of the preparation of the financial statements.

VIII. Segment reporting *(Cont'd)*

1. Segment revenue

Amounts unit: RMB'0,000

Item	Machine-made paper		Construction materials		Electricity and steam	
	The year	Prior year	The year	Prior year	The year	Prior year
External transaction sales	1,814,818.44	1,634,009.71	34,477.81	37,699.53	80,033.10	66,017.74
Inter-segment sales			6,512.70	7,512.95	70,568.56	59,401.97
Total segment operating revenue	1,814,818.44	1,634,009.71	40,990.51	45,212.48	150,601.66	125,419.71
Operating costs	1,668,138.63	1,485,475.14	40,129.05	44,727.45	132,503.75	121,815.38
Segment operating profit	146,679.81	148,534.57	861.46	485.03	18,097.91	3,604.33

Amounts unit: RMB'0,000

Item	Others		Eliminations among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year
External transaction sales	46,838.57	37,022.01			1,976,167.92	1,774,748.99
Inter-segment sales	169,880.38	22,530.35	246,961.64	89,445.27		
Total segment operating revenue	216,718.95	59,552.36	246,961.64	89,445.27	1,976,167.92	1,774,748.99
Operating costs	209,867.01	47,082.32	246,961.64	89,445.27	1,803,676.80	1,609,655.02
Segment operating profit	6,851.94	12,470.04			172,491.12	165,093.97
Adjustment items						
Administrative expenses					53,155.86	49,103.88
Finance expenses					122,178.97	51,695.65
Profit or loss from change in fair value					-4,782.21	-4,817.39
Investment income					3,552.50	-787.14
Gross profit					-1,614.00	69,898.99
Income tax					-6,282.62	11,026.31
Net profit					4,668.62	58,872.68

VIII. Segment reporting *(Cont'd)*

1. Segment assets and liabilities *(Cont'd)*

Amounts unit: RMB'0,000

Item	Machine-made paper		Construction materials		Electricity and steam	
	The year	Prior year	The year	Prior year	The year	Prior year
Segment assets	4,441,797.61	4,304,279.47	23,011.10	42,577.44	252,032.41	188,429.90
Segment liabilities	3,298,322.54	3,021,404.40	11,974.84	31,505.57	21,122.71	23,852.82

(Cont'd)

Amounts unit: RMB'0,000

Item	Others		Eliminations among each segment		Total	
	The year	Prior year	The year	Prior year	The year	Prior year
Segment assets	114,936.41	92,986.72	59,235.34	65,190.63	4,772,542.19	4,563,082.90
Segment liabilities	65,815.65	52,733.25	59,235.34	65,190.63	3,338,000.40	3,064,305.41

IX. Related parties and related party transactions

1. Parent company of the Company

Unit: RMB

Name of parent company	Relationship	Company type	Place of incorporation	Legal representative	Business nature	Registered capital	Currency Shareholding of the parent company on the Company (%)	Voting right of the parent company on the Company (%)	Ultimate controlling party of the Company	Organisation code
Shouguang Chenming Holdings Co., Ltd.	Controlling shareholder	Limited liability company	Shouguang City	Chen Hongguo	Investment in manufacture of paper, electricity, steam, arboriculture	168,542.00	14.21%	14.21%	Shouguang Chenming Holdings Co., Ltd.	78348518-9

2. Subsidiaries of the Company

Details please refer to Note (VI).1.Subsidiaries.

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

Details please refer to Note (VII).9. Long-term equity investments (5).

4. Related party transactions

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

Table on sales of goods and provision of services

Unit: RMB

Related party	Details of related party transactions	Pricing principle of related party transactions and decision making process	Amounts during the period		Amounts during the prior period	
			Amount	As a percentage of similar transaction amounts (%)	Amount	As a percentage of similar transaction amounts (%)
Anhui Time Source Corporation	Sales of paper	Market price Authorised by the Board	78,374,277.12	0.40%	954,360.44	
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Sales of paper	Market price Authorised by the Board	18,484.62		1,497,390.00	

IX. Related parties and related party transactions *(Cont'd)*

4. Related party transactions *(Cont'd)*

(2) Guarantees provided for related parties

Unit: RMB

Guarantor	Party being guaranteed	Amounts under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
The Company	Huanggang Chenming Arboriculture Co., Ltd.	20,000,000.00	29 April 2010	28 April 2013	No
The Company	Huanggang Chenming Arboriculture Co.	30,000,000.00	8 July 2010	7 July 2013	No
The Company	Huanggang Chenming Arboriculture Co.	29,800,000.00	19 September 2011	18 September 2014	No
The Company	Huanggang Chenming Arboriculture Co.	26,000,000.00	27 June 2012	26 June 2015	No
The Company	Shouguang Meilun Paper Co., Ltd.	402,272,000.00	10 September 2010	10 September 2013	No
The Company	Shouguang Meilun Paper Co., Ltd.	251,420,000.00	11 April 2011	11 March 2014	No
The Company	Shouguang Meilun Paper Co., Ltd.	100,000,000.00	26 January 2011	28 December 2013	No
The Company	Jilin Chenming Paper Co., Ltd.	150,000,000.00	9 July 2012	9 July 2013	No
The Company	Jiangxi Chenming Paper Co., Ltd.	100,000,000.00	13 December 2012	12 December 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co., Ltd.	70,000,000.00	24 May 2012	24 May 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	50,000,000.00	7 December 2012	7 November 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	50,000,000.00	7 December 2012	7 December 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	130,000,000.00	27 June 2012	27 June 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	75,000,000.00	13 November 2012	13 November 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	20,150,526.56	16 October 2012	14 January 2013	No
The Company	Zhanjiang Chenming Paper & Pulp Co.	62,855,000.00	13 November 2012	13 November 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	188,554,505.37	30 August 2012	1 March 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	104,355,195.17	23 August 2012	23 February 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	200,000,000.00	17 September 2012	16 September 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	200,000,000.00	26 July 2012	26 January 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	300,000,000.00	27 August 2012	27 February 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	200,000,000.00	10 September 2012	10 March 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	300,000,000.00	25 September 2012	25 March 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	100,000,000.00	26 September 2012	26 March 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	300,000,000.00	31 October 2012	31 April 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	240,000,000.00	6 November 2012	6 May 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	300,000,000.00	23 November 2012	23 May 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	392,623,352.40	8 November 2012	8 May 2013	No
The Company	Shandong Chenming Paper Sales Company Limited	359,950,511.98	13 November 2012	13 May 2013	No
The Company	Chenming (HK) Limited	500,000,000.00	13 April 2011	13 April 2014	No

IX. Related parties and related party transactions *(Cont'd)*

4. Related party transactions *(Cont'd)*

(3) Other related party transactions

Entrusted loans to subsidiaries of the Company

Related party	Loan amount	Starting date	Expiry date	Explanation
Jiangxi Chenming Paper Co., Ltd.	190,000,000.00	2007.5.24	2017.5.24	Entrusted loan
Jiangxi Chenming Paper Co., Ltd.	110,000,000.00	2007.5.25	2017.5.25	Entrusted loan
Jiangxi Chenming Paper Co., Ltd.	200,000,000.00	2010.4.19	2013.4.18	Entrusted loan

(4) Distribution band of remuneration of key management staff

① Distribution band of remuneration of key management staff

Band of annual remuneration	Amounts during the year	Amounts during the prior year
Total	RMB21.1587 million	RMB24.2910 million
Of which: (number of staff in each band of amount)		
RMB4.80-5.00 million		1
RMB3.60-4.00 million	1	
RMB3.20-3.60 million		
RMB2.80-3.20 million		1
RMB2.40-2.80 million	1	
RMB1.60-2.00 million	1	1
RMB1.20-1.60 million	1	2
RMB0.80-1.20 million	8	6
Below RMB0.80 million	19	20

IX. Related parties and related party transactions *(Cont'd)*

4. Related party transactions *(Cont'd)*

(4) Distribution band of remuneration of key management staff *(Cont'd)*

② Breakdown of remuneration of key management staff

Unit: RMB'0,000

	Amounts during the year			
Key management staff	Basic annual remuneration	Social welfare contribution	Payments of housing funds	Total
Wang Yumei	5			5
Wang Aiguo	5			5
Wang Xiangfei	12.50			12.50
Zhang Zhiyuan	5			5
Zhang Hong	5			5
Sub-total of Independent Non-executive Directors	32.5			32.5
Cui Youping	5			5
Wang Fengrong	5			5
Wang Xiaoqun	5			5
Sub-total of Non-executive Directors	15			15
Chen Hongguo	394.92	2.98	1.30	399.20
Yin Tongyuan	263.92	2.98	1.30	268.20
Li Feng	95.90	2.98	1.30	100.18
Hou Huancai	87.51	2.98	1.30	91.79
Zhou Shaohua	119.01	0.65	0.23	119.89
Geng Guanglin	117.18	2.98	1.30	121.46
Tan Daocheng	55.74	2.98	1.30	60.02
Sub-total of Executive Directors	1,134.18	18.53	8.03	1,160.74
Gao Junjie	45.72	2.98	1.30	50.00
Wang Ju	13.72	2.98	1.30	18.00
Yang Hongqin	12.37	2.88	1.30	16.55
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisor	76.81	8.84	3.90	89.55
Sub-total of other senior management	781.37	25.89	10.82	818.08
Total	2,039.86	53.26	22.75	2,115.87

IX. Related parties and related party transactions *(Cont'd)*

4. Related party transactions *(Cont'd)*

(4) Distribution band of remuneration of key management staff *(Cont'd)*

② Breakdown of remuneration of key management staff *(Cont'd)*

Key management staff	Amounts during the prior year			
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	Total
Wang Yumei	5			5
Wang Aiguo	5			5
Wang Xiangfei	12.50			12.50
Zhang Zhiyuan	5			5
Zhang Hong	5			5
Sub-total of Independent Non-executive Directors	32.50			32.50
Cui Youping	5			5
Wang Fengrong	5			5
Wang Xiaoqun	5			5
Sub-total of Non-executive Directors	15			15
Chen Hongguo	499.00	2.89	1.18	503.07
Yin Tongyuan	298.00	2.89	1.18	302.07
Li Feng	105.45	2.89	1.18	109.52
Hou Huancai	78.61	2.89	1.18	82.68
Zhou Shaohua	126.20	0.57	0.22	126.99
Geng Guanglin	127.85	2.89	1.18	131.92
Tan Daocheng	41.49	2.89	1.18	45.56
Sub-total of Executive Directors	1,276.60	17.91	7.30	1301.81
Gao Junjie	40.00	2.89	1.18	44.07
Wang Ju	19.43	2.80	1.15	23.38
Yang Hongqin	16.69	2.56	1.05	20.30
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisor	81.12	8.25	3.38	92.75
Sub-total of other senior management	950.41	25.99	10.64	987.04
Total	2,355.63	52.15	21.32	2,429.10

Note: The performance related incentive payments are determined by reference to the stipulations of the Group and individual performance of directors, and approved by the Remuneration Committee.

③ All of the five highest paid individuals of the Group during the year were directors of the Company.

④ During the year, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

IX. Related parties and related party transactions *(Cont'd)*

5. Related party accounts receivables and accounts payables

Accounts receivables of the listed company due from the related party

Unit: RMB

Item	Related party	At the end of period		At the beginning of the period	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	Anhui Time Source Corporation	15,739,073.73	786,953.69	819,534.42	40,976.71
Accounts receivable	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21,627.00	1,081.35	847,390.00	42,369.50
Other receivables	Arjo Wiggins Chenming Specialty Paper Co., Ltd.	1,290,901.12	1,290,901.12	1,290,901.12	258,180.22

Accounts payables of the listed company due to the related party

Unit: RMB

Item	Related party	Closing balance	Opening balance
Other payables	Shouguang Chenming Holdings Co., Ltd.		30,000,000.00

X. Contingency

As of 31 December 2012, no significant contingent event had to be disclosed by the Group.

XI. Commitments

1. Significant commitments

(1) Capital commitments

RMB

Item	Closing balance	Opening balance
Contracted but not yet recognised in the financial statements		
– Commitments in relation to acquisition and construction of long-term assets	3,492,740,126.70	3,367,499,794.06
Total	3,492,740,126.70	3,367,499,794.06

(2) Operating lease commitments

As at the balance sheet date, the Group entered into irrevocable operating lease contracts with non-group companies as follows:

RMB

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	25,750,281.07	39,043,673.69
The second year after balance sheet date	14,197,441.54	20,588,005.02
The third year after balance sheet date	13,894,570.34	15,599,245.62
In the years thereafter	592,968,638.49	666,563,916.25
Total	646,810,931.44	741,794,840.58

2. Performance of commitments for the prior period

As of 31 December 2012, no significant commitments had to be disclosed by the Company.

XII. Other material matters

1. Assets and liabilities measured at fair value

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value for the period	Accumulated change in fair value charged to equity	Provision for impairment during the period	Closing balance
Financial assets					
Consumable biological assets	959,061,500.85	47,822,076.87	177,821,813.40		1,169,269,054.15

XII. Other important matter *(Cont'd)*

2. Financial assets and liabilities denominated in foreign currency

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value for the period	Accumulated change in fair value charged to equity	Provision for impairment during the period	Closing balance
Financial assets					
Monetary funds	485,800,323.80				314,173,046.44
Accounts receivable	249,074,382.49				302,171,666.34
Prepayments	405,323,953.66				315,038,730.07
Sub-total of financial assets	1,140,198,659.95				931,383,442.85
Financial liabilities	6,261,633,933.79				6,195,056,274.80

3. Explanation on the repurchase of domestic listed foreign shares (B shares) of the Company

The resolution on the repurchase of part of the domestic listed foreign shares (B shares) of the Company proposed in the Fourteenth Meeting of the Sixth Session of the Board of the Company was considered and approved at the 2012 Third Extraordinary General Meeting, the 2012 first class meeting for holders of overseas listed shares (H Shares) and the 2012 first class meeting for holders of domestic listed shares (A Shares and B Shares) convened on 12 December 2012. The Company proposed to repurchase not more than 150 million domestic listed foreign shares (B shares) within 12 months from the date of passing of the resolution at the general meeting and the class meetings with the repurchase price equal to or below HK$4 per share. The total funds to be used for the shares repurchase will not exceed HK$400 million or RMB327 million (conversion of HK$ into RMB at the middle exchange rate of HK$1 to RMB0.8175 on 20 September 2012).

Upon the expiration of the aforementioned repurchase or the completion of the implementation of the repurchase scheme, the Company will cancel the repurchased B shares pursuant to the law and reduce the registered capital accordingly. According to the maximum limit of the repurchase, the registered capital of the Company will then decrease from the current RMB2,062,045,941 to not less than RMB1,912,045,941. The total number of the share capital will then be reduced from the current 2,062,045,941 shares to no less than 1,912,045,941 shares.

As of 27 February 2013, the Company had completed all the approval process relating to B share repurchase.

4. Material contract of Guangdong Huirui

On 6 February 2013, Guangdong Huirui Investment Co., Ltd, a controlling subsidiary of the Group, entered into a major contract with Zhanjiang City Construction Project Administration Bureau: Zhanjiang City Haidong New District Waterfront & Mudflat Comprehensive Regulation Works BT Project — Build — Transfer (BT) Contract. The investment of the project amounted to approximately RMB4,607,000,000.

5. Agreed repurchase type securities trading by the controlling shareholder of the Company

On 21 January 2013, Chenming Holdings, the largest shareholder of the Company, disposed of 86,600,000 shares, representing 4.2% of the total share capital of the Company through agreed repurchase type securities trading. The repurchase period is not more than 365 days. While the repurchase is pending, the rights to attend and to make proposal and to vote at the general meetings corresponding to the subject shares will be executed pursuant to the advice of Chenming Holdings and the relevant rights arising from the subject shares are vested in Chenming Holdings.

XIII. Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks: market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

1. Market risk

(1) Foreign currency risk

The Group's principal operations are conducted in the PRC and its major activities are settled in RMB. The foreign currency risk of the Group arises from financing activities and commercial activities using foreign currencies (mainly of which are USD). The finance department of the headquarters of the Group is responsible for monitoring the size of the Group's transactions in foreign currency and its foreign currency-denominated assets and liabilities to minimise its foreign currency risk exposure. As a result, the Group may enter into forward foreign exchange contracts to avoid foreign currency risk. In 2012, the Group did not entered into any forward foreign exchange contracts.

As at 31 December 2012 and 31 December 2011, the foreign currency-denominated assets and foreign currency-denominated liabilities held by the Group were translated into RMB as follows:

31 December 2012

Item	USD	EUR	GBP	HKD	YEN
Assets denominated in foreign currency-					
Monetary funds	307,044,780.19	674,668.15		177,396.54	6,276,201.56
Accounts receivable	294,683,799.78				7,487,866.56
Prepayments	267,749,941.56	47,288,788.51			
Sub-total	869,478,521.53	47,963,456.66		177,396.54	13,764,068.12
Liabilities denominated in foreign currency-					
Short-term borrowing	1,867,902,093.11				
Accounts payable	601,069,230.63	13,093,037.42	194,331.04		
Advance receipts	192,225,546.66				
Non-current liabilities due within one year	1,006,248,000.00				
Long-term borrowings	2,514,324,035.94				
Sub-total	6,181,768,906.34	13,093,037.42	194,331.04	–	

XIII. Financial risk management and financial instruments *(Cont'd)*

1. Market risk *(Cont'd)*

(1) Foreign currency risk *(Cont'd)*

31 December 2011

Item	USD	EUR	GBP	HKD	YEN
Assets denominated in foreign currency-					
Monetary funds	484,935,787.32	840,647.39		23,889.09	
Accounts receivable	249,074,382.49				
Prepayments	333,207,561.94	72,116,391.72			
Sub-total	1,067,217,731.75	72,957,039.11		23,889.09	
Liabilities denominated in foreign currency-					
Short-term borrowing	1,631,383,851.83				
Accounts payable	691,771,899.52	31,038,477.79	185,734.35		
Advance receipts	114,259,884.34	9,118,313.89			
Non-current liabilities due within one year	41,017,624.02				
Long-term borrowings	3,742,858,148.05				
Sub-total	6,221,291,407.76	40,156,791.68	185,734.35		

As at 31 December 2012, for various USD, EUR, GBP, HKD and YEN financial assets and financial liabilities of the Group, if RMB against USD, EUR and GBP had appreciated or depreciated by 5% with all other variables held constant, the Group's profit would have been approximately RMB263,183,641.60 (31 December 2011: approximately RMB256,071,763.69) higher or lower.

(2) Interest rate risk

The interest rate risk of the Group arises from the interest bearing debt such as bank loans and bonds payable. Variable-rate financial liabilities make the Group expose to cash flow interest rate risk. Fixed-rate financial liabilities make the Group expose to fair value interest rate risk. The Group determines the proportion between fixed-rate and variable-rate contracts based on the prevailing market environment. As at 31 December 2012, the interest bearing debts of the Group mainly consisted of variable-rate borrowing contract in RMB and USD amounting to RMB18,177,675,131.10 (31 December 2011: RMB18,433,668,960.96), and fixed-rate interest rate contracts in RMB amounting to RMB8.5 billion (31 December 2011: RMB4.8 billion).

The finance department of the headquarters of the Group continuously monitors the interest rate level of the Group. When the interest rate increases, the cost of the new interest bearing debts and the outstanding interest expenses incurred by the variable-rate interest bearing debts of the Group will increase, thereby having an adverse effect on the financial results of the Group. The management will make timely adjustment based on the latest market conditions. Directors of the Company believe that the future interest rate change will not have significant adverse effect on the operating results of the Group.

On 31 December 2012, if the interest rate of the interest bearing debts increases or decrease by 10% with all other variables held constant, the profit for the year would have would have been approximately RMB100,696,983.81 (2011: RMB35,292,312.78) higher or lower mainly due to the increase and decrease of the interest expenses.

XIII. Financial risk management and financial instruments *(Cont'd)*

2. Credit risk

The Group manages the credit risk by portfolio. Credit risk mainly arises from bank deposit, accounts receivable, other receivables and bills receivable. The majority of the Group's cash at banks are deposited in state-owned banks and other medium or large listed banks. All of the bills receivable are bank acceptance. There is no significant credit risk in the opinion of the Group and no significant loss will be incurred due to default by the counterparties. Sales are settled through the combination of advance and credit. Customers are granted a credit period through a strict credit approval system. The Group has set up a department specialising in reviewing the credibility of the trade customers regularly, thereby reasonably control the credit line and term of each trade customer, recovering amounts in arrears on a timely basis and examining the recoverable amounts in respect of accounts receivables one by one and making corresponding bad debt provisions in full as at the end of the period. As a result, there is no significant credit risk in trade customers.

The management of the Group believe that no significant loss will be incurred due to default by the aforesaid parties.

3. Liquidity risk

Each subsidiary of the Group is responsible for its own cash flows forecast. The finance department of the headquarters continuously monitors the short-term and long-term funding needs at the group level based on the consolidated cash flow forecast of each subsidiary, thereby ensuring a sufficient cash reserve. The department continues to monitor the compliance of borrowing agreements and obtains sufficient facilities from major financial institutions to satisfy the Group's short-term and long-term funding needs.

As at the balance sheet date, the undiscounted contracted cash flows of various financial assets and financial liabilities of the Group are set out according to the maturity date as follows:

31 December 2012

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets-					
Monetary funds	4,456,217,362.86				4,456,217,362.86
Bills receivable	1,852,478,364.46				1,852,478,364.46
Accounts receivable	3,709,154,191.60	65,152,312.73	94,541,660.32		3,868,848,164.65
Other receivables	1,145,721,315.64	131,913,116.61	72,230,020.73		1,349,864,452.98
Prepayments	1,458,377,404.07	177,856,520.57			1,636,233,924.64
Sub-total	12,621,948,638.63	374,921,949.91	166,771,681.05		13,163,642,269.59
Financial liabilities-					
Short-term borrowing	12,876,398,495.16				12,876,398,495.16
Bills payable	1,285,627,762.07				1,285,627,762.07
Accounts payable	2,937,983,262.67	158,572,722.64	143,225,739.50		3,239,781,724.81
Advance receipts	340,139,089.13	4,460,841.54	3,235,870.20		347,835,800.87
Other payables	310,080,861.84	58,740,745.82	66,950,681.32		435,772,288.98
Non-current liabilities due within one year	1,368,108,800.00				1,368,108,800.00
Long-term borrowing		732,072,000.00	102,692,035.94	3,098,403,800.00	3,933,167,835.94
Bonds payable			6,300,000,000.00		6,300,000,000.00
Medium-term notes	1,100,000,000.00		1,100,000,000.00		2,200,000,000.00
Sub-total	20,218,338,270.87	953,846,310.00	7,716,104,326.96	3,098,403,800.00	31,986,692,707.83

XIII. Financial risk management and financial instruments *(Cont'd)*

3. Liquidity risk *(Cont'd)*

31 December 2011

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	3,529,938,211.47				3,529,938,211.47
Bills receivable	2,444,508,997.74				2,444,508,997.74
Accounts receivable	3,011,123,696.78	23,656,767.35	94,206,538.30		3,128,987,002.43
Other receivables	290,861,260.47	22,447,913.22	77,981,875.54		391,291,049.23
Prepayments	582,653,900.45	182,226,337.45			764,880,237.90
Sub-total	9,859,086,066.91	228,331,018.02	172,188,413.84		10,259,605,498.77
Financial liabilities-					
Short-term borrowing	12,086,984,606.69				12,086,984,606.69
Bills payable	615,327,402.85				615,327,402.85
Accounts payable	4,420,184,816.30	117,265,142.92	148,136,038.38		4,685,585,997.60
Advance receipts	211,879,347.81	19,548,665.64			231,428,013.45
Other payables	525,381,372.20	176,020,931.91	62,219,234.84		763,621,538.95
Non-current liabilities due within one year	1,203,616,858.22				1,203,616,858.22
Long-term borrowing		1,232,657,500.00	390,797,660.11	3,519,612,335.94	5,143,067,496.05
Bonds payable			2,500,000,000.00		2,500,000,000.00
Medium-term notes	1,200,000,000.00	1,100,000,000.00			2,300,000,000.00
Sub-total	20,263,374,404.07	2,645,492,240.47	3,101,152,933.33	3,519,612,335.94	29,529,631,913.81

An analysis of the repayment of bank loans and bonds payable is as follows:

	Closing balance		Opening balance	
	Bank loans	Bonds payable	Bank loans	Bonds payable
Loans with the last repayment date within five years	15,079,271,331.10	8,500,000,000.00	14,914,056,625.02	4,800,000,000.00
Loans with the last repayment date over five years	3,098,403,800.00		3,519,612,335.94	
Total	18,177,675,131.10	8,500,000,000.00	18,433,668,960.96	4,800,000,000.00

XIII. Financial risk management and financial instruments *(Cont'd)*

4. Fair value

(1) Financial instruments not measured at fair value

The financial assets and liabilities not measured at fair value mainly consist of: accounts receivable, short-term borrowings, accounts payable, long-term borrowings, bonds payable and long-term payables.

Except the financial liabilities below, the carrying amount of other financial assets and liabilities not measured at fair value deviates from the fair value by a small amount.

	Closing balance		Opening balance	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities-Bonds payable	8,440,533,343.80	8,500,000,000.00	4,769,303,254.71	4,800,000,000.00

For long-term borrowings, long-term payables and bonds payable, their fair value is determined by the present value of the contracted future cash flows discounted by the interest rate which is comparable in terms of credit rating and offers substantially same cash flows on equal conditions in the market.

(2) **As at 31 December 2012, the Group had no financial instruments measured at fair value (31 December 2011: Nil).**

XIV. Notes to major financial statement items of the parent company

1. Accounts receivable

(1) Accounts receivable

Accounts receivable stated according to classification

Unit: RMB

	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
Category	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable which are individually significant and individually provided for bad debt					56,089,509.86	3.08%	56,089,509.86	100%
Accounts receivable collectively provided for bad debt								
No-risk portfolio	335,827,030.39	96.73%			1,730,082,770.43	95.07%		
General-risk portfolio	11,346,123.83	3.27%	4,675,772.65	41.21%	33,541,440.60	1.85%	20,589,929.06	61.39%
Portfolio sub-total	347,173,154.22	100%	4,675,772.65	1.35%	1,763,624,211.03	96.92%	20,589,929.06	1.17%
Total	347,173,154.22	–	4,675,772.65	–	1,819,713,720.89	–	76,679,438.92	–

Accounts receivable stated according to ageing

	Closing balance		Opening balance	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	342,848,452.68	98.75%	1,718,434,986.05	94.43%
1 to 2 years			35,110,491.10	1.93%
2 to 3 years			13,018,745.26	0.72%
Over 3 years	4,324,701.54	1.25%	53,149,498.48	2.92%
Total	347,173,154.22	100.00%	1,819,713,720.89	100.00%

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

☐ Applicable √ Not applicable

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

√ Applicable ☐ Not applicable

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

1. Accounts receivable *(Cont'd)*

(1) Accounts receivable *(Cont'd)*

Unit: RMB

	Closing balance			Opening balance		
	Book balance			Book balance		
Ageing	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year						
Of which:	–	–	–	–	–	–
Within 1 year	7,021,422.29	61.88%	351,071.11	7,038,534.93	20.98%	351,926.75
Sub-total of within 1 year	7,021,422.29	61.88%	351,071.11	7,038,534.93	20.98%	351,926.75
1 to 2 years				3,726,896.05	11.11%	372,689.61
2 to 3 years				3,638,371.15	10.85%	727,674.23
Over 3 years	4,324,701.54	38.12%	4,324,701.54	19,137,638.47	57.06%	19,137,638.47
Total	11,346,123.83	–	4,675,772.65	33,541,440.60	–	20,589,929.06

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

☐ Applicable √ Not applicable

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

√ Applicable ☐ Not applicable

Unit: RMB

Name of portfolio	Book balance	Bad debt provision
No-risk portfolio	335,827,030.39	0.00
Total	335,827,030.39	0.00

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

☐ Applicable √ Not applicable

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

1. Accounts receivable *(Cont'd)*

(2) Reversal or recovery of accounts receivable during the reporting period

Unit: RMB

Accounts receivable	Reason for reversal or recovery	Reason for recognising bad debt provision	Amounts provided for bad debts before reversal or recovery	Amounts reversed or recovered
Payment for goods	Recovery of payment for goods	Aged over 3 years and unlikely to be recovered	7,306,110.01	7,306,110.01
Payment for goods	Recovery of cancelled bad debt		28,253.86	28,253.86
Total	–	–	7,334,363.87	–

Provision for accounts receivable not individually significant but individually underwent impairment test provided for bad debts as at end of the period: Nil

(3) Accounts receivable actually written-off during the reporting period

No accounts receivable actually written-off during the reporting period.

(4) No outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period

(5) Explanation of the significant other receivables

During the reporting period, accounts receivable balance of sale subsidiaries amounted to RMB63,311,678.78 were consolidated into the account of the Company. Provisions for bad debts of trade receivables of RMB65,525,580.86 were transferred to the account of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary of the Company.

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

1. Accounts receivable *(Cont'd)*

(6) Top five other receivables are as follows:

Unit: RMB

Entity name	Relationship with the Company	Amount	Term	As a percentage of the total accounts receivable (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	256,685,496.50	Within 1 year	73.94%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	60,086,757.90	Within 1 year	17.31%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	8,744,844.82	Within 1 year	2.52%
Shouguang Cailun Beihai Mud Filling Co., Ltd.	Non-related party	5,236,505.16	Within 1 year	1.51%
Yanbian Chenming Paper Co., Ltd.	Related party within the scope of consolidation	4,207,722.89	Within 1 year	1.21%
Total	–	334,961,327.27	–	96.49%

(7) Information on accounts receivable of the related parties

Unit: RMB

Entity name	Relationship with the Company	Amount	As a percentage of the total accounts receivable (%)
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	60,086,757.90	17.31%
Yanbian Chenming Paper Co., Ltd.	Related party within the scope of consolidation	4,207,722.89	1.21%
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	578,093.05	0.17%
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	256,685,496.54	73.94%
Shandong Chenming Panels Co., Ltd.	Related party within the scope of consolidation	1,365,537.18	0.39%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	4,158,578.01	1.2%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	8,744,844.82	2.52%
Total	–	335,827,030.39	96.74%

(8) Transferred amount of accounts receivable not qualified to be derecognised amounted to RMB0.00.

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

2. Other receivables

(1) Other receivables

Other receivables stated according to classification

Unit: RMB

	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
Category	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables which are individually significant and individually provided for bad debt	8,918,424.06	0.1%	8,918,424.06	100%	9,330,331.45	0.14%	9,330,331.45	100%
Other receivables collectively provided for bad debt								
No-risk portfolio	9,181,123,808.55	99%			6,894,133,462.44	98.88%		
General-risk portfolio	70,216,527.05	0.76%	18,561,336.28	26.43%	53,445,787.71	0.76%	19,499,404.97	36.48%
Portfolio sub-total	9,251,340,335.60	99.76%	18,561,336.28	0.2%	6,947,579,250.15	99.64%	19,499,404.97	0.28%
Other receivables which are not individually significant but individually provided for bad debt	13,771,354.38	0.14%	13,771,354.38	100%	15,554,009.74	0.22%	15,554,009.74	100%
Total	9,274,030,114.04	–	41,251,114.72	–	6,972,463,591.34	–	44,383,746.16	–

Other receivable stated according to ageing

	Closing balance		Opening balance	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	8,748,242,463.91	94.33%	6,589,642,880.16	94.51%
1 to 2 years	476,756,180.58	5.14%	263,422,203.29	3.78%
2 to 3 years	12,693,819.63	0.14%	77,724,175.01	1.11%
Over 3 years	36,337,649.92	0.39%	41,674,332.88	0.60%
Total	9,274,030,114.04	100.00%	6,972,463,591.34	100.00%

Other receivables individually significant and individually provided for bad debt as at end of the period

√ Applicable ☐ Not applicable

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

2. Other receivables *(Cont'd)*

(1) Other receivables *(Cont'd)*

Unit: RMB

Other receivables	Book balance	Amount of bad debt	Percentage of provision (%)	Reason
Amounts with customers	8,918,424.06	8,918,424.06	100%	Mainly are amounts with customers aged over five years and are unlikely to be recovered
Total	8,918,424.06	8,918,424.06	–	–

In respect of portfolio, the measurement of bad debt provision for other receivables is based on the ageing method

√ Applicable ☐ Not applicable

Unit: RMB

	Closing balance			Opening balance		
	Book balance			Book balance		
Ageing	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	Bad debt provision
Within 1 year						
Of which:	–	–	–	–	–	–
Within 1 year	35,120,692.33	50.02%	1,756,034.63	28,392,081.38	53.12%	1,419,604.07
Sub-total of within 1 year	35,120,692.33	50.02%	1,756,034.63	28,392,081.38	53.12%	1,419,604.07
1 to 2 years	11,321,624.73	16.12%	1,132,162.48	3,011,095.47	5.64%	301,109.55
2 to 3 years	10,126,338.52	14.42%	2,025,267.70	5,329,899.38	9.97%	1,065,979.87
Over 3 years	13,647,871.47	19.44%	13,647,871.47	16,712,711.48	31.27%	16,712,711.48
Total	70,216,527.05	–	18,561,336.28	53,445,787.71	–	19,499,404.97

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

☐ Applicable √ Not applicable

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

√ Applicable ☐ Not applicable

Unit: RMB

Name of portfolio	Book balance	Bad debt provision
No-risk portfolio	9,181,123,808.55	0.00
Total	9,181,123,808.55	

Other receivables not individually significant but individually provided for bad debt as at end of the period

√ Applicable ☐ Not applicable

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

2. Other receivables *(Cont'd)*

(1) Other receivables *(Cont'd)*

Unit: RMB

Other receivables	Book balance	Bad debt provision	Percentage of provision (%)	Reason for provision
Amounts with customers	13,771,354.38	13,771,354.38	100%	Mainly are amounts with customers aged over five years and are unlikely to be recovered
Total	13,771,354.38	13,771,354.38	–	–

(2) Reversal or recovery of other receivables during the reporting period

Unit: RMB

Other receivables	Reason for reversal or recovery	Reason for recognising bad debt provision	Amounts provided for bad debts before reversal or recovery	Amounts reversed or recovered
Amounts with customers	Recover of amounts with customers	Over 5 years and unlikely to be recovered	2,194,562.75	2,194,562.75
Total	–	–	2,194,562.75	–

(3) Other receivables actually written-off during the reporting period

No other receivables actually written-off during the reporting period.

(4) Outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period

(5) Explanation of the significant other receivables

During the reporting period, other receivable balance of sale subsidiaries amounted to RMB1,046,953.35 were consolidated into the account of the Company. Provisions for bad debts of other receivables of RMB646,953.35 were transferred to the account of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary of the Company.

(6) Top five other receivables are as follows

Unit: RMB

Entity name	Relationship with the Company	Amount	Term	As a percentage of the total other receivables (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	4,833,605,646.83	Within 1 year	52.12%
Zhanjiang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	1,364,329,209.96	Within 1 year	14.71%
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	616,083,550.68	Within 1 year	6.64%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	540,816,621.08	Within 1 year	5.83%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	351,265,925.55	1 to 2 years	3.79%
Total	–	7,706,100,954.10	–	83.09%

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

2. Other receivables *(Cont'd)*

(7) Overview of other receivables of the related parties

Unit: RMB

Entity name	Relationship with the Company	Amount	As a percentage of the total other receivables (%)
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Related party within the scope of consolidation	1,142,777.77	0.01%
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	616,083,550.68	6.64%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	540,816,621.08	5.83%
Jiangxi Chenming Paper Co., Ltd.	Related party within the scope of consolidation	199,418,920.21	2.15%
Yibian Chenming Paper Co., Ltd.	Related party within the scope of consolidation	2,627,479.46	0.03%
Hailaer Chenming Paper Co., Ltd.	Related party within the scope of consolidation	188,345.63	0%
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	88,353,925.90	0.95%
Zhanjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	135,906,234.70	1.47%
Yangjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	3,000,000.00	0.03%
Zhanjiang Chenming Paper & Pulp Co., Ltd.	Related party within the scope of consolidation	1,364,329,209.96	14.71%
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	4,833,605,646.83	52.12%
Shandong Chenming Selling Co., Ltd.	Related party within the scope of consolidation	71,107,018.08	0.77%
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Related party within the scope of consolidation	2,427,092.83	0.03%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	351,265,925.55	3.79%
Huanggang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	81,395,327.06	0.88%
Huanggang Chenming Paper & Pulp Co., Ltd.	Related party within the scope of consolidation	106,534,807.81	1.15%
Shouguang Chenming Import and Export Trading Co., Ltd.	Related party within the scope of consolidation	5,000,000.00	0.05%
Haicheng Haiming Mining Co., Ltd.	Related party within the scope of consolidation	70,002,500.00	0.75%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	182,360,556.22	1.97%
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Related party within the scope of consolidation	60,982,331.69	0.66%
Shouguang Yusheng Paper Recycle Co., Ltd.	Related party within the scope of consolidation	1,276,579.99	0.01%
Total	–	8,717,824,851.45	94%

(8) Transferred amount of other receivables not qualified to be derecognised amounted to RMB0.00.

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

3. Long-term equity investments

Unit: RMB

Investee	Accounting method	Investment cost	Opening Balance	Change	Closing balance	Equity interest in the investee held by the Company (%)	Voting right in the investee by the Company (%)	Explanation of the inconsistent of equity interest and voting right in the investee	Impairment provision	Impairment provision during the period	Cash dividend for the period
Shouguang Liben Paper Making Co., Ltd.	Cost method	19,550,000.00	15,850,354.16	-15,850,354.16							
Shandong Chenming Power Supply Holdings Co., Ltd.	Cost method	157,810,117.43	157,810,117.43		157,810,117.43	86.71%	86.71%				28,487,270.13
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Cost method	202,824,716.34	202,824,716.34		202,824,716.34	50.93%	50.93%				
Hailaer Chenming Paper Co., Ltd.	Cost method	12,000,000.00	12,000,000.00		12,000,000.00	75%	75%				
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Cost method	376,200,000.00	376,200,000.00	-376,200,000.00							412,453,350.99
Yanbian Chenming Paper Co., Ltd.	Cost method	96,725,533.01	96,725,533.01		96,725,533.01	100%	100%				99,762,582.77
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Cost method	7,199,000.00	7,199,000.00		7,199,000.00	68%	68%				
Jiangxi Chenming Paper Co., Ltd.	Cost method	697,548,406.40	697,548,406.40		697,548,406.40	51%	100%				
Juancheng Chenming Panels Co., Ltd.	Cost method	15,000,000.00	15,000,000.00	-15,000,000.00							
Shandong Grand View Hotel Co., Ltd.	Cost method	80,500,000.00	80,500,000.00		80,500,000.00	70%	70%				
Jilin Chenming Paper Co., Ltd.	Cost method	1,501,350,000.00	1,501,350,000.00		1,501,350,000.00	100%	100%				
Zhanjiang Chenming Paper Pulp Co., Ltd.	Cost method	3,000,000,000.00	2,500,000,000.00	500,000,000.00	3,000,000,000.00	100%	100%				
Chenming (HK) Limited	Cost method	783,310.00	783,310.00		783,310.00	100%	100%				
Shouguang Chenming Modern Logistic Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00	100%	100%				
Fuyu Chenming Paper Co., Ltd.	Cost method	208,000,000.00	208,000,000.00		208,000,000.00	100%	100%				
Shouguang Chenming Art Paper Co., Ltd.	Cost method	113,616,063.80	113,616,063.80		113,616,063.80	75%	75%				
Huangguan Chenming Arboriculture Co., Ltd.	Cost method	70,000,000.00	10,000,000.00	60,000,000.00	70,000,000.00	100%	100%				
Huangguang Chenming Paper Pulp Co., Ltd.	Cost method	20,000,000.00	20,000,000.00		20,000,000.00	100%	100%				
Shouguang Meilun Paper Co. Ltd.	Cost method	2,200,000,000.00	2,200,000,000.00		2,200,000,000.00	100%	100%				
Chenming International Co., Ltd.	Cost method	19,861,955.00	19,861,955.00		19,861,955.00	100%	100%				
Shouguang Shun Da Customs Declaration Co, Ltd.	Cost method	1,500,000.00	1,500,000.00		1,500,000.00	100%	100%				
Shandong Chenming Paper Sales Company Limited	Cost method	100,000,000.00	100,000,000.00		100,000,000.00	100%	100%				
Shouguang Hengfeng Storage Co., Ltd.	Cost method	500,000.00	500,000.00		500,000.00	100%	100%				
Shouguang Chenming Import and Export Trade Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00	100%	100%				
Shouguang Chenming Jietai Property Management Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	100%	100%				
Shouguang Chenming Papermaking Machine Co., Ltd.	Cost method	2,000,000.00	2,000,000.00		2,000,000.00	100%	100%				
Shouguang Chenming Industrial Logistics Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00	100%	100%				
Shouguang Chenming Hongxin Packaging Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	100%	100%				
Shanghai Runchen Equity Investment Fund Co., Ltd.	Cost method	300,000,000.00	300,000,000.00		300,000,000.00	98.36%	98.36%				
Japan Chenming Paper Co., Ltd.	Cost method	9,306,351.20	0.00	9,306,351.20	9,306,351.20	100%	100%				
Haicheng Haiming Mining Co., Ltd.	Cost method	70,000,000.00	0.00	70,000,000.00	70,000,000.00	70%	70%				
Qingzhou Chenming Denaturation Amylum Co., Ltd.	Equity method	900,000.00	900,000.00		900,000.00	30%	30%		900,000.00		
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	19,385,301.17	-19,385,301.17		30%	30%				
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Equity method	6,000,000.00	4,788,278.79	4,396.33	4,792,675.12	21.16%	21.16%				
Shandong Paper Making & Printing Enterprises Corporation	Cost method	200,000.00	200,000.00		200,000.00	2%	2%		200,000.00		
Jinan Shangyou Commercial Company Limited	Cost method	350,000.00	350,000.00		350,000.00	5%	5%		350,000.00		
Zhejiang Province Guangyu Media Printing Company Limited	Cost method	2,000,000.00	2,000,000.00		2,000,000.00	9.96%	9.96%				
Shouguang Mihe Water Company Limited	Cost method	20,000,000.00	20,000,000.00		20,000,000.00	19.46%	19.46%				
Shanghai Forest & Paper E-Commerce Co., Ltd.	Cost method	1,400,000.00	1,400,000.00		1,400,000.00	14%	14%		1,139,574.47		
Anhui Time Source Corporation	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	10%	10%				
Weifang Xiye Capital Investment Co., Ltd.	Cost method	10,000,000.00		10,000,000.00	10,000,000.00	3.76%	3.76%				
Shandong Hongqiao Venture Capital Co., Ltd.	Cost method	50,000,000.00	30,000,000.00	20,000,000.00	50,000,000.00	16.67%	16.67%				
Total	–	9,486,225,453.18	8,751,293,036.10	242,875,092.20	8,994,168,128.30	–	–	–	2,589,574.47		540,703,203.89

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

3. Long-term equity investments *(Cont'd)*

Description of long-term equity investments

Details of impairment provision on long-term equity investments

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Qingzhou Chenming Denaturation Amylum Co., Ltd.	900,000.00			900,000.00
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd.	1,139,574.47			1,139,574.47
Total	2,589,574.47			2,589,574.47

4. Revenue and operating costs

(1) Revenue

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Revenue from principal activities	7,725,612,244.79	7,803,739,278.88
Revenue from other activities	915,596,697.75	1,193,782,420.72
Total	8,641,208,942.54	8,997,521,699.60
Operating costs	7,177,585,076.21	7,477,073,368.37

(2) Principal activities (by industry)

Unit: RMB

	Amounts during the period		Amounts during the prior period	
Industry name	Revenue	Operating costs	Revenue	Operating costs
Paper-making industry	6,517,417,558.81	5,371,654,396.22	6,903,702,662.57	5,552,255,528.50
Thermo and electricity industry	1,208,194,685.98	936,846,647.26	900,036,616.31	824,573,519.57
Total	7,725,612,244.79	6,308,501,043.48	7,803,739,278.88	6,376,829,048.07

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

4. Revenue and operating costs *(Cont'd)*

(3) Principal activities (by product)

Unit: RMB

Product name	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Machine-made paper	6,517,417,558.81	5,371,654,396.22	6,903,702,662.57	5,552,255,528.50
Electricity and steam	1,208,194,685.98	936,846,647.26	900,036,616.31	824,573,519.57
Total	7,725,612,244.79	6,308,501,043.48	7,803,739,278.88	6,376,829,048.07

(4) Principal activities (by geographical areas)

Unit: RMB

Geographical area	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Mainland China	7,276,157,262.26	5,934,723,083.20	7,168,402,453.99	5,872,300,364.61
Hong Kong, China	449,454,982.53	373,777,960.28	635,336,824.89	504,528,683.46
Total	7,725,612,244.79	6,308,501,043.48	7,803,739,278.88	6,376,829,048.07

(5) Revenue from top 5 customers of the Company

Unit: RMB

Name of customer	Total revenue	Percentage of the total revenue of the Company (%)
2012	6,492,496,014.66	75%
2011	6,828,355,135.30	76%

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

5. Investment income

(1) Breakdown of investment income

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Income from long-term equity investments accounted for using the cost method	540,703,203.89	120,530,024.40
Income from long-term equity investments accounted for using the equity method	-19,380,904.84	-3,246,150.00
Investment gain on disposal of long-term equity investments	-4,350,000.00	36,409,219.10
Others	84,199,287.36	109,626,047.04
Total	601,171,586.41	263,319,140.54

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

Unit: RMB

Investee	Amounts during the period	Amounts during the prior period	Reason for change
Shandong Chenming Power Supply Holdings Co., Ltd.	28,487,270.13	34,530,024.40	
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	412,453,350.99	86,000,000.00	
Yibian Chenming Paper Co., Ltd.	99,762,582.77		
Total	540,703,203.89	120,530,024.40	—

(3) Income from long-term equity investments accounted for using the equity method

Unit: RMB

Investee	Amounts during the period	Amounts during the prior period	Reason for change
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	-19,385,301.17	-2,266,198.68	
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	4,396.33	-149,675.19	
Shouguang Liben Paper Making Co., Ltd.		-830,276.13	
Total	-19,380,904.84	-3,246,150.00	—

XIV. Notes to major financial statement items of the parent company *(Cont'd)*

5. Investment income *(Cont'd)*

(4) Merger and acquisition of wholly-owned subsidiaries

Item	Amounts during the period	Amounts during the prior period
Net assets as at merge date	66,123,366.16	
Less: investment costs	15,850,354.16	
Investment gains	50,273,012.00	

Note: The Company merged and acquired Shouguang Liben Paper Making Co., Ltd., a wholly-owned subsidiary on 1 November 2012.

6. Supplementary information on cash flow statement

Unit: RMB

Supplementary information	Amounts during the period	Amounts during the prior period
1. Reconciliation of net profit as cash flows from operating activities:	—	—
Net profit	816,640,510.85	856,054,254.12
Plus: Provision for impairment of assets	-8,963,763.50	-67,463,391.85
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	547,076,293.15	594,607,496.51
Amortisation of intangible assets	9,268,344.48	8,971,589.70
Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" denotes gain)	-22,464,472.24	1,804,139.43
Finance expenses ("-" denotes gain)	856,109,701.51	530,061,654.52
Investment loss ("-" denotes gain)	-601,171,586.41	-263,319,140.54
Decrease in deferred income tax assets ("-" denotes increase)	19,870,870.48	18,916,904.81
Decrease in inventory ("-" denotes increase)	236,731,919.18	-375,391,873.34
Decrease in operating receivables ("-" denotes increase)	-1,793,247,193.24	-1,821,739,352.28
Increase in operating payables ("-" denotes decrease)	76,765,601.15	626,769,940.95
Net cash flows from operating activities	136,616,225.41	109,272,222.03
2. Major investing and financing activities not involving cash settlements:	—	—
3. Net change in cash and cash equivalents:	—	—
Cash balance at the end of the period	1,786,622,854.08	1,290,039,078.57
Less: cash balance at the beginning of the period	1,290,039,078.57	662,209,607.29
Net increase in cash and cash equivalents	496,583,775.51	627,829,471.28

XV. Supplementary information

1. Supplementary information

Unit: RMB

Profit during the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to holders of ordinary shares of the Company	1.63%	0.11	0.11
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	-1.18%	-0.08	-0.08

2. Breakdown of extraordinary gains and losses

Item	Amounts during the year	Amounts during the prior year
Profit or loss from disposal of non-current assets	26,092,788.22	26,249,093.41
Approval was ultra vires, or the tax rebate or tax concessions lacked official approval documents		
Government grants included in profit and loss for the year (except for government grants closely related to the ordinary course of business of the Company that were given under at a fixed standard amount or quantity as stipulated by the State)	235,157,521.57	236,198,625.29
Fees charged to profit or loss for the current period received from non-financial institutions for utilisation of funds		
Profit or loss arising from investment costs for acquisition of subsidiary, associated corporation and joint-venture by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition		44,188,866.15
Gain or loss on non-monetary assets swap		
Gain or loss on assets invested or managed under entrustment		
Impairment provisions for various assets due to force majeure such as natural disasters		
Net gains and losses from debt restructuring	941,444.43	-18,179,889.32
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 ordinary course of business of the Company		

XV. Supplementary information *(Cont'd)*

2. Breakdown of extraordinary gains and losses *(Cont'd)*

Item	Amounts during the year	Amounts during the prior year
Except for effective hedging business conducted during the ordinary course of business 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 consumable biological assets	47,882,076.87	48,173,926.26
Effect on profit or loss for the current year 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		
Non-operating gains and losses other than the above items	114,342,091.81	31,840,643.86
Other profit or loss items within the definition of non-recurrent profit or loss		
Sub-total	424,415,922.90	368,471,265.65
Effect of income tax	40,604,179.01	32,413,333.65
Effect of minority interests (after tax)	2,999,020.98	12,908,587.34
Total	380,812,722.91	323,149,344.66

XV. Supplementary information *(Cont'd)*

3. Explanation of irregular movements in major accounting statement items of the Company

1. Items in balance sheet:

(1) The closing balance of prepayments as at 31 December 2012 was RMB1,636,233,924.64, up by 113.92% as compared with the opening balance mainly due to the prepayment of BT Project amounting to RMB780 million made by Guangdong Huirui Investment Co., Ltd, a subsidiary of the Company.

(2) The closing balance of other receivables as at 31 December 2012 was RMB1,284,655,342.63, up by 294.61% as compared with the opening balance mainly due to a receivable relating to the transfer consideration of RMB274 million for disposal of the equity in a subsidiary, Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., and a receivable relating to debts of RMB590 million in the ordinary course of business were outstanding.

(3) The closing balance of long-term equity investments as at 31 December 2012 was RMB356,796,777.78, up by 360.78% as compared with the opening balance mainly due to the external investments made by Shanghai Runchen Equity Investment Fund Co., Ltd, a subsidiary of the Company.

(4) The closing balance of construction in progress as at 31 December 2012 was RMB5,017,604,821.59, up by 91.66% as compared with the opening balance mainly due to the project investments made in the new plant relocation and construction project of Jilin Chenming, the white coated linerboard project and the power plant phase III further expansion.

(5) The closing balance of deferred income tax assets as at 31 December 2012 was RMB376,938,086.60, up by 116.6% as compared with the opening balance mainly due to utilisation of deferred income tax by some companies which incurred losses resulting from the market.

(6) The closing balance of other non-current assets decreased as compared with the opening balance mainly due to the reclassification of the investment in Weifeng Xinye Capital Investment Co., Ltd., an investee of the Company, into equity interest

(7) The closing balance of bills payable as at 31 December 2012 was RMB1,285,627,762.07, up by 108.93% as compared with the opening balance mainly due to an increase in bank acceptance bills issued by the Company for payment for goods during the reporting period.

(8) The closing balance of accounts receivable as at 31 December 2012 was RMB3,239,781,724.81, down by 30.86% as compared with the opening balance mainly due to an increase in payment for goods made by the Company during the reporting period.

(9) The closing balance of advance receipts as at 31 December 2012 was RMB347,835,800.87, up by 50.3% as compared with the opening balance mainly due to the greater efforts made by the Company on customer exploration and an increase in advance receipts.

(10) The closing balance of taxes payable as at 31 December 2012 was RMB106,816,413.87, up by 56.53% as compared with the opening balance mainly due to an increase in tax obligations as at the end of the year.

(11) The closing balance of other payables as at 31 December 2012 was RMB435,772,288.98, down by 42.93% as compared with the opening balance mainly due to the financial funds of RMB200 million received by Zhanjiang Chenming Paper Pulp Co., Ltd., a subsidiary of the Company, from Zhanjiang City in 2011 were transferred to other non-current liabilities during the reporting period and a change in the scope of consolidation arising from disposal of subsidiaries.

XV. Supplementary information *(Cont'd)*

3. Explanation of irregular movements in major accounting statement items of the Company *(Cont'd)*

1. Items in balance sheet: *(Cont'd)*

(12) The closing balance of other current liabilities as at 31 December 2012 was RMB17,659,498.56, up by 72.68% as compared with the opening balance mainly due to an increase of deferred income to be amortised in the future year.

(13) The closing balance of bonds payable as at 31 December 2012 was RMB6,256,263,237.00, up by 152.58% as compared with the opening balance mainly due to the issue of corporate bonds of RMB3.8 billion of the Company during the reporting period.

2. Items in income statement and cash flow statement:

(1) Revenue for 2012 was RMB19,761,679,230.05, up by 11.35% from the prior year mainly due to an increase in sales resulting from an expansion in the scale of the Company.

(2) Operating costs for 2012 was RMB16,693,768,322.36, up by 11.8% from the prior year mainly due to an increase in sales resulting from an expansion in the scale of the Company.

(3) Finance expenses for 2012 was RMB1,092,760,015.04, up by 152.94% from the prior year mainly due to an increase in borrowings arising from project investment, and capitalised interest expensed upon completion and asset reclassification of the projects.

(4) Loss on impairment of assets for 2012 was RMB70,250,158.94, up by 70.44% from the prior year mainly due to an increase of bad debt provisions and Hailaer Chenming Paper Co., Ltd., a subsidiary of the Company, in the process of liquidation with impairment of assets.

(5) Investment income for 2012 was RMB-35,524,960.75, down by -551.32% from the prior year mainly due to the loss of RMB34.89 million arising from disposal of subsidiaries.

(6) Non-operating expenses for 2012 were RMB21,440,038.10, down by 48.81% from the prior year mainly due to a decrease of debt restructuring loss.

(7) Income tax expenses for 2012 was RMB-62,826,238.51, down by 156.98% from the prior year mainly due to utilisation of deferred income tax by some companies which incurred losses.

(8) Net cash flows from operating activities in 2012 were RMB1,956,866,477.99, up by 547.32% from the prior year mainly due to more efforts made by the Company to recover payments for goods, more cash received upon sale of goods and a higher proportion of bill payments for goods by the Company.

(9) Net cash flows from investment activities in 2012 were RMB-2,646,124,915.29, up by 38.10% from the prior year mainly due to fewer new project investments made by the Company as compared to the prior year.

(10) Net cash flows from financial activities in 2012 were RMB723,196,444.34, down by 86.05% from the prior year mainly due to fewer new project investments made by the Company as compared to the prior year and a significant decrease in the Company's demand for investment funds as compared to the prior year.

XII Documents Available for Inspection

I. The financial statements signed and sealed by the legal representative, financial controller and head of the accounting firm

II. The original copy of the auditors' report which is sealed by the accounting firm and signed by the certified public accountant

III. The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the reporting period

Shandong Chenming Paper Holdings Limited
27 March 2013

山東晨鳴紙業集團股份有限公司
SHANDONG CHENMING PAPER HOLDINGS LIMITED®