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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 2013**

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 2013. This announcement, containing the full text of the 2013 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 announcement of annual results. The printed version of the Company’s Annual Report will be delivered to the shareholders of the Company on or about 27 March 2014 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 20 March 2014.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Group’s financial statements are prepared on a going concern basis.

The financial statements prepared by the Group are in accordance with the requirement of the Accounting Standards for Business Enterprises (“ASBE”). The Company has early adopted the five concrete standards since 1 January 2013, namely ASBE 9 - Employee Benefits, ASBE 30 — Presentation of Financial Statements, ASBE 33 — Consolidated Financial Statements; ASBE 39 — Fair Value Measurements and ASBE 40 — Joint Arrangements as approved by the Fourth Meeting of the Seventh Session of the Board of the Company dated 20 March 2014.

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 2013 prepared in accordance with New and Revised China Accounting Standards for Business Enterprises.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB3.00 per 10 share (tax inclusive) for the year ended 31 December 2013 to its shareholders. Subject to the approval of shareholders at the annual general meeting to be held on 9 May 2014 (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 20 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 April 2014 to 9 May 2014 (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 4 April 2014.

Besides, the register of members of the Company will also be closed from 14 May 2014 to 20 May 2014 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2013 (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 13 May 2014.

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

Shandong, the PRC, 20 March 2014

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

* *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
2013



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 the truthfulness, accuracy and completeness of the contents of the annual report (the “Report”), guarantee that there are no false representations, misleading statements or material omissions contained in this Report, and are jointly and severally responsible for the liabilities of the Company.

All Directors were present in person at the Board meeting to consider and approve this Report except the following Director.

Name of the Director unable to attend the meeting in person	Capacity of the Director unable to attend the meeting in person	Reason for failure to attend the meeting in person	Name of the proxy
Cui Youping	Director	Failure to attend the meeting in person due to business engagement	Wang Aiguo
Zhang Zhiyuan	Independent Director	Failure to attend the meeting in person due to business engagement	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 RMB3.00 (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.

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

I Important Notice, Table of Contents and Definitions

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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
Jiangxi Chenming	means	Jiangxi Chenming Paper Co., Ltd.
Wuhan Chenming	means	Wuhan Chenming Hanyang Paper Holdings Co., Ltd.
Chenming (HK)	means	Chenming (HK) Limited
Guangdong Huirui	means	Guangdong Huirui Investment Co., Ltd.
Haiming Mining	means	Haicheng Haiming Mining Company Limited
Zhanjiang Chenming	means	Zhanjiang Chenming Pulp & Paper Co., Ltd.
Jilin Chenming	means	Jilin Chenming Paper Co., Ltd.
Yanbian Chenming	means	Yanbian Chenming Paper Co., Ltd.
RSM China	means	RSM China Certified Public Accountants (Special General Partnership)
Ruihua	means	Ruihua Certified Public Accountants (Special General Partnership)
Chenming GmbH	means	Chenming GmbH

I Important Notice, Table of Contents and Definitions

Definitions (Cont'd)

Shouguang Meilun	means	Shouguang Meilun Paper Co., Ltd.
Chenming Sales Company	means	Shandong Chenming Paper Sales Company Limited
Chenming Power	means	Shandong Chenming Power Supply Holdings Co., Ltd.
Zhanjiang Wall Materials	means	Zhanjiang Chenming New-style Wall Materials Co., Ltd.
Zhanjiang Meilun	means	Zhanjiang Meilun Pulp & Paper Co., Ltd.
Hongxiang Printing	means	Shouguang Hongxiang Printing & Packaging Co., Ltd.
Shanghai Runchen	means	Shanghai Runchen Equity Investment Fund Co., Ltd.
Chenjian Company	means	Wuhan Chenjian New-style Wall Materials Co., Ltd.
Hubei Zheshang	means	Hubei Zheshang Wan Xing Investment Co., Ltd.

Important Risk Notice

The Company is exposed to various risk factors such as macro-economic fluctuation, adjustment of national policy, intensified competition in the industry, as well as change in interest rate and exchange rate. Investor should be aware of investment risks. For further details, please refer to the risk factors likely to be faced and the measures to be taken to address them as set out in the outlook on the future development of the Company in Directors' Report.

II Company Profile

I. Company profile

Stock abbreviation	晨鳴紙業	Stock Code	000488
Stock abbreviation	晨鳴 B	Stock Code	200488
Stock abbreviation	Chenming Paper	Stock Code	01812
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	Xiao Peng	Poon Shiu Cheong
Correspondence Address	No. 2199 East Nongsheng Road, Shouguang City, Shandong Province	No. 2199 East Nongsheng 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 Securities Journal, Shanghai Securities News, Securities Times, Securities Daily 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	5 May 1993	No. 595 Shengcheng Road, Shouguang City, Shandong Province	16568230-2	370783613588986	61358898-6
Registration at the end of the reporting period	2 January 2014	No. 595 Shengcheng Road, Shouguang City, Shandong Province	370000400001170	370783613588986	61358898-6
Change of principal activities since its listing		No			
Change of the controlling shareholder		Please refer to III. Company Overview of section XI of this report.			

V. Other relevant information

CPAs engaged by the Company

Name of CPAs	Ruihua 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 Signing Certified Public Accountants	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

	2013	2012	Increase/decrease for the year as compared to the prior year (%)	2011
Revenue (RMB)	20,388,890,067.41	19,761,679,230.05	3.17%	17,747,489,900.87
Net profit attributable to shareholders of the Company (RMB)	710,655,331.72	221,034,822.54	221.51%	608,271,256.29
Net profit after extraordinary gains or losses attributable to shareholders of the Company (RMB)	406,170,148.25	-159,777,900.37	354.21%	285,121,911.63
Net cash flows from operating activities (RMB)	1,122,616,800.91	1,956,866,477.99	-42.63%	-437,463,010.89
Basic earnings per share (RMB per share)	0.35	0.11	218.18%	0.29
Diluted earnings per share (RMB per share)	0.35	0.11	218.18%	0.29
Rate of return on net assets on weighted average basis (%)	5.11%	1.63%	3.48%	4.50%

	As at the end of 2013	As at the end of 2012	Increase/decrease as at the end of the year compared to the end of the prior year (%)	As at the end of 2011
Total assets (RMB)	47,521,883,569.18	47,725,421,927.39	-0.43%	45,630,828,967.03
Total liabilities (RMB)	32,883,530,036.29	33,380,003,994.34	-1.49%	30,643,054,107.64
Gearing ratio (%)	69.20%	69.94%	-0.74%	67.15%
Net assets attributable to shareholders of the Company (RMB)	14,039,888,226.11	13,759,496,179.85	2.04%	13,528,622,319.91
Share capital (shares)	1,975,471,967.00	2,062,045,941.00	-4.20%	2,062,045,941.00

Note: The Company repurchased and cancelled 86,573,974 B shares during the reporting period and, therefore, the total number of the shares of the Company was reduced by 86,573,974 shares.

III Summary of Accounting Data and Financial Indicators

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, overseas 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 reporting period	Amounts for the prior period	Closing balance	Opening balance
Under China accounting standards	710,655,331.72	221,034,822.54	14,039,888,226.11	13,759,496,179.85
Items and amounts adjusted under international accounting standards and overseas accounting standards				
Under international accounting standards	710,655,331.72	221,034,822.54	14,039,888,226.11	13,759,496,179.85
Under overseas accounting standards	710,655,331.72	221,034,822.54	14,039,888,226.11	13,759,496,179.85

III Summary of Accounting Data and Financial Indicators

III. Items and amounts of extraordinary gains or losses

Unit: RMB

Item	Amounts for 2013	Amounts for 2012	Amounts for 2011	Explanation
Profit or loss from disposal of non-current assets (including write-off of provision for assets impairment)	-6,367,477.99	26,092,788.22	26,249,093.41	
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	174,947,619.19	235,157,521.57	236,198,625.29	
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	2,408,368.37		44,188,866.15	
Profit or loss from debt restructuring	268,577.19	941,444.43	-18,179,889.32	
Changes in fair value of consumable biological assets	11,221,828.76	47,882,076.87	48,173,926.26	
Non-operating gains and losses other than the above items	299,225,913.46	114,342,091.81	31,840,643.86	
Less: Effect of income tax	98,299,197.38	40,604,179.01	32,413,333.65	
Effect of minority interests (after tax)	78,920,448.13	2,999,020.98	12,908,587.34	
Total	304,485,183.47	380,812,722.91	323,149,344.66	—

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 report for the financial year ended 31 December 2013 to all shareholders and express my gratitude, for all shareholders' concern and support to Chenming Paper on behalf of the board of directors.

During the reporting period, a higher concentration ratio was secured due to slowdown in the growth of the supply in the pulp and paper making industry and elimination of outdated production capacity, which was conducive to a proactive increase in price proposed by enterprises. The continued appreciation of RMB and the increased downward pressure of raw material prices relieved the pressure on the operating costs of enterprises. Meanwhile, the Company proactively explore new markets by strengthening internal management, resulting in an increase in sales of pulp. As compared to the corresponding period of the prior year, the production costs decreased year on year. The gross profit margin of the Company's principal operations grew steadily with significant improvement in profitability. Hence, the profit for the year increased significantly.

During the reporting period, the Company focused on bases consolidation and efficiency enhancement, as well as overall continuous improvement. Facing complex and volatile market environment, the Company timely adjusted its business strategies and proactively responded to the market to ensure a balance between sales and production. Meanwhile, the Company placed great emphasis on production management, accelerating restructuring, stable machine operation, strengthening inventory reduction and promoting process optimisation.

2013 saw a strong momentum in the Company's corporate restructuring and development. Wuhan Chenming's household paper project, Jilin Chenming's environment protection relocation project and Shouguang City's 100,000 tonnes paper additives project commenced operation respectively, which played an important role in the Company's restructuring, cost reduction and efficiency enhancement. Jiangxi Chenming's 350,000 tonnes high-grade packaging paper project, the 180,000 tonnes paper cup sheets and 190,000 tonnes culture paper projects in Zhanjiang, Guangdong Huirui's Haidong New District Waterfront comprehensive regulation works project, Wan Xing Real Estate's real estate project in Wuhan, Haicheng's magnesite mining project and other projects commenced, which accelerated the restructuring of the Company and promoted corporate transformation and upgrading, thus further enhancing the strength of the Company. In addition, Huanggang Chenming's integrated forestry, pulp and paper project is under planning and pending approval, which will play a significant role in enhancing the Company's overall competitiveness.

During the reporting period, the establishment of a finance company within Chenming Group was approved by the China Banking Regulatory Commission, being the first enterprise in the paper making industry to own a finance company. This marked the Company's formal participation in the financial sector and paved the way for the Group's diversification.

I. Operating Results

During the reporting period, the Company completed machine-made paper production of 4,160,000 tonnes, representing an increase of 210,000 tonnes or 5.32% as compared with 3,950,000 tonnes in the corresponding period of the prior year. The Company's revenue amounted to RMB20,389 million, up by RMB627 million or up by 3.17% from 2012. The operating costs were RMB16,652 million, down by RMB42 million or 0.25% from 2012. The operating profit and net profit attributable to equity holders of the Company were RMB404 million and RMB711 million respectively, up by 196.95% and 221.51% respectively.

II. Corporate Governance

During the reporting period, the Company regulated its operation 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. It kept on improving and optimising its legal person governance structure and regulating its operation in practice. The Board considered the state of the Company's corporate governance was substantially in compliance with the requirements and requests of the regulatory documents such as Code of Corporate Governance for Listed Companies.

IV Chairman's Statement

II. Corporate Governance (Cont'd)

During the reporting period, the Board strived to regulate the operation of the Company by improving its corporate governance. It improved corporate governance practice in a timely manner and formulated and optimised management systems including the revision of Procedural Rules of the Board of Directors Meeting, Rules of Supervisors Meeting, Management System of Connected Transactions, Procedural Rules of the General Meeting and Implementation Rules for the Nomination Committee of the Board of Directors, as well as formulation of the amended Decision Making System to Substantial Transaction, Decision Making System to External Investment, Decision Making System for External Guarantee, Investor Relationship Management System, Board Diversity Policy and Articles of Association in accordance with the regulatory requirements.

III. Dividend Distribution

Consistent with our long-term goal of pursuing the maximisation of corporate values, the Company has always placed much emphasis on shareholders' benefits and returns. In view of the operating results realised in 2013 and after considering the financial position and cash flow condition of the Company as a whole, the Board recommended a proposed profit distribution plan for 2013 as follows: based on the number of the shares as at the dividend distribution registration date, a cash dividend of RMB3.00 (tax inclusive) was to be paid to all shareholders for every 10 shares held. Based on the total share capital of 1,975,471,967 shares of the Company as at 31 December 2013, cash dividend for 2013 amounted to RMB592,641,590.10 (tax inclusive), which represented 83.39% of the net profit attributable to shareholders of the Company as set out in the 2013 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 Company will continue to stay focused on its long-term development and maximise returns for shareholders by delivering 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 overall profitability of the paper making industry hovered around at a low level during the past two years. However, a higher concentration ratio was obtained due to slowdown in the growth of the supply of the paper making industry and elimination of outdated production capacity. 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. During the reporting period, the Company carried out a series of capacity expansion on paper types with better prospects. The Company's direction of development was in line with the requirements of the development plan of the entire paper making industry. Meanwhile, the Company expanded its industry chain by entering into the financial and energy industries with a more rationalised industry positioning, which further strengthened 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.

IV Chairman's Statement

IV. Future Development (*Cont'd*)

In 2014, the Company will focus on an overall strengthening of management and improving operational quality to ensure a sustainable development. In view of this, the Company has adopted the guidelines of “team building, strict management, outstanding business performance, achieving good results” as the working principles of the year. The Company will focus on the following areas in 2014 in line with its strategic objectives:

- (I) **Corporate Management.** The Company will firmly establish and strictly implement the working principles of “team building, strict management, outstanding business performance, achieving good results”. It will revise the existing management system by making it simple, effective, and easy to implement in order to create the basic conditions for strict management. It will enhance team building by preparing good training materials, adopting strict examinations, employment of qualified employees and dismissal of unqualified employees; improve incentive schemes by innovative incentives and adoption of appointment through competition to further mobilise the enthusiasm of the cadres and staff. The Company will also focus on corporate culture building and regulation of staff behaviour to achieve the objective of “a high degree of integration of corporate management and corporate culture”, thus building an innovative corporate culture of the Company.
- (II) **Operation and management.** The Company will increase efficiency by optimising product structure and increase investment in high-efficiency areas. It will make reference to advanced corporate marketing incentives and improve performance appraisal systems to fully arouse the enthusiasm of sales staff. It aims to reduce inventory and costs to proactively respond to the market through measures including market research and timely developed marketing strategies. The Company will also enhance new product promotion and establish professional sales teams for high value-added products including thermal paper and glassine paper to increase the revenue of the Company.
- (III) **Production management.** The Company places great emphasis on the operation of production upgrade projects and new production projects. It focuses on the management of its 800,000 tonnes coated paper project, 600,000 tonnes bleached kraft liner board project, Jilin Chenming's environment protection relocation project, Meilun's paper additives projects and Wuhan's specialty paper upgrade and household paper projects to accelerate growth in efficiency. It will speed up product restructuring and new product development, enrich product structure, improve the ability to respond to the market, and increase sales of new products and high value-added products. Special emphasis will be placed on technology development and application to improve the Company's core competitiveness. The Company will continue to implement post setting and staffing and reduce labour costs through post consolidation and improvement in automation.
- (IV) **Project management.** The Company will revise and improve its original project management system to make the system fully reflect the principle for project construction of “careful planning, casting quality products, striving for progress and effectiveness verification”. For projects under construction including Jiangxi Chenming's 350,000 tonnes high-grade packaging paper, Zhanjiang Chenming's 180,000 tonnes paper cup sheets and 190,000 tonnes culture paper projects, the Company will ensure comprehensive control and assessment, as well as strict quality and cost control to ensure timely commencement of production. Projects under planning and pending approval including Huanggang Chenming's integrated forestry, pulp and paper project will undergo repeated verification and optimisation to ensure that these projects will become world-class quality products.
- (V) **Other areas.** The Company will accelerate the establishment of finance company, application for the establishment of finance leasing company to make full use of foreign funds and reduce finance costs. It will reduce finance costs by increasing use of foreign funds, expanding financing channels and improving capital use efficiency. It aims to achieve economic efficiency by increasing trade volume through import and export companies, developing new customer sources, establishing strategic partnerships and controlling quality supplies. It will also reduce inventory, promote the business with manufacturers, merchants and banks and improve contract compliance rate to reduce capital use and financing costs.

Chen Hongguo
Chairman
20 March 2014

V Directors' Report

I. Overview

During the reporting period, the previous round of intensive expansion in the paper making industry was basically completed. Papermaking enterprises were unlikely to expand in the near future due to the sentiment in the industry. In addition, some the small and medium-sized enterprises left the market as a result of elimination of outdated production capacity and stricter environmental protection policy. This lowered the pressure of the new production capacity on the supply in the industry to a certain extent. A higher concentration ratio was secured due to the slowdown in the growth of the supply of the paper making industry and the elimination of outdated production capacity, which was conducive to a proactive increase in price proposed by enterprises. The continued appreciation of RMB and the increased downward pressure of raw material prices relieved the pressure on the operating costs of enterprises. Meanwhile, the Company proactively explored new markets by strengthening internal management, resulting in an increase in sales of pulp. As compared to the corresponding period of the prior year, the production costs decreased year on year. The gross profit margin of the Company's principal operations steadily grew with significant improvement in profitability. Hence, the profit for the year increased significantly.

During the reporting period, the Company focused on bases consolidation and efficiency enhancement, as well as overall continuous improvement. Firstly, new working principles and management concept have been specified according to different business segments. Secondly, overall management was regulated and system construction was improved. On the basis of improvement of the system, alarming cases have been formed based on the existing problems in the management process. Thirdly, special emphasis was placed on performance management. Full implementation of cost reduction incentives and efficiency improvement incentives enabled cadres and staff with outstanding performance to realise actual benefits. Fourthly, personnel management was strengthened. Increased efforts were made in attracting employees with high qualifications and sharp talents, and their abilities were fully demonstrated in their respective posts and achieved good results.

During the reporting period, facing complex and volatile market environment, the Company timely adjusted its business strategies and proactively responded to the market to ensure a balance between sales and production. Firstly, significant progress was achieved in team building. All sales staff had maintained ideological stability with increased work initiative, thus enhancing sales performance. Secondly, proactive changes were made to marketing strategies. Investment in markets of close proximity was increased and the system of contracted dealers was improved. Thirdly, the Company's brand influence continued to increase. Customer relations continued to improve as Zhanjiang Chenming's high-grade offset paper products were widely recognised by customers for their high quality, and their high-grade coated paper with stable quality gained the 3-star EU certification. Fourthly, capital use continued to be reduced through reduction in inventories, promotion of the business with manufacturers, merchants and banks and improvement of contract compliance rate.

During the reporting period, the Company placed great emphasis on production management. Firstly, restructuring was accelerated. Development of 16 new products was completed and restructuring of over 30 products were launched, thus increasing its product profitability. Secondly, stable machine operation was achieved by enhancing the operational efficiency of large machines. Thirdly, inventory reduction was strengthened to operate proactively. Fourthly, process optimisation was promoted by optimising the slurry structure and chemical processes and the use of new materials, thus increasing economic efficiency. Fifthly, labour costs were reduced by continuing implementation of fix posting and staffing.

V Directors' Report

I. Overview (Cont'd)

2013 saw a strong momentum in the Company's corporate restructuring and development. First, Wuhan Chenming's household paper project, Jilin Chenming's environment protection relocation project and Shouguang City's 100,000 tonnes paper additives project commenced operation respectively, which played an important role in the Company's restructuring, cost reduction and efficiency enhancement. Second, Jiangxi Chenming's 350,000 tonnes high-grade packaging paper project, the 180,000 tonnes paper cup sheets and 190,000 tonnes culture paper projects in Zhanjiang, Guangdong Huirui's Haidong New District Waterfront comprehensive regulation works project, Wan Xing Real Estate's real estate project in Wuhan, Haicheng's magnesite mining project and other projects commenced, which accelerated the restructuring of the Company and promoted corporate transformation and upgrading, thus further enhancing the strength of the Company. Third, Huanggang Chenming's integrated forestry, pulp and paper project is under planning and pending approval, which will play a significant role in enhancing the Company's overall competitiveness.

During the reporting period, the establishment of a finance company within Chenming Group was approved by the China Banking Regulatory Commission, being the first enterprise in the paper making industry to own a finance company. This marked the Company's formal participation in the financial sector paved the way for the Group's diversification.

During the reporting period, the Company continued to eliminate outdated production capacity by disposal of Yanbian Chenming. This was in line with the Company's development strategy of focusing on high-end products, which helped raising the proportion of high-end products and increase economic efficiency. Meanwhile, the Company reduced finance expenses and enhanced its profitability through overseas financing and low-interest loans.

II. Analysis of principal operations

1. Overview

During the reporting period, the Company's revenue amounted to RMB20,388.8901 million, up by RMB627.2108 million or 3.17% from 2012. The operating costs were RMB16,651.8860 million, down by RMB41.8823 million or 0.25% from 2012. Operating profit and net profit attributable to equity holders of the parent company were RMB403.5409 million and RMB710.6553 million respectively, up by 196.95% and 221.51% respectively. During the reporting period, the expenses for the period hit RMB3,258.4538 million, down by RMB89.0424 million or 2.66% from 2012. Investment in research and development amounted to RMB379.2612 million, up by RMB85.5629 million or 29.13% from 2012. Net cash flows from operating activities were RMB1,122.6168 million, down by RMB834.2497 million from 2012.

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

Please refer to I. Overview of this section.

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

2. Revenue

During the reporting period, the Company completed machine-made paper production of 4.10 million tonnes, representing an increase of 170,000 tonnes or 4.33% as compared with 3.93 million tonnes in 2012. Revenue from principal operations amounted to RMB20,152.7955 million, up by RMB734.4101 million or 3.78% from 2012.

V Directors' Report

II. Analysis of principal operations (Cont'd)

2. Revenue (Cont'd)

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

☒ Yes ☐ No

By industry	Item	2013	2012	Increase/ decrease (%)
Machine-made paper ('0,000 tonnes)	Sales	416	395	5.32%
	Production output	410	393	4.33%
	Inventories	39	45	-13.33%

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) 1,159,451,679.05

Total sales to top 5 customers as a percentage of the total sales for the year (%) 5.69%

Information on top 5 customers of the Company

☒ 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.	389,138,742.02	1.91%
2	INTERNATIONAL FOREST PRODUCTS	256,306,498.57	1.26%
3	BEIJING MUCUN PAPER CO., LTD.	187,940,089.15	0.92%
4	VITAL SOLUTIONS PTE LTD	179,517,631.36	0.88%
5	SHANDONG PROVINCE PUBLISHING FOREIGN TRADE CO., LTD.	146,548,717.95	0.72%
Total	—	1,159,451,679.05	5.69%

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost

By industry

Unit: RMB

By industry	Item	2013		2012		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Machine-made paper	Raw materials	8,583,818,150.47	56.89%	8,937,680,153.84	57.86%	-0.97%
	Depreciation	750,553,780.31	4.97%	835,613,946.74	5.41%	-0.44%
	Labour costs	196,062,500.42	1.30%	157,709,922.20	1.02%	0.28%
	Energy and power	1,968,304,028.05	13.04%	1,893,067,781.92	12.25%	0.79%
	Chemicals	2,285,170,540.42	15.14%	2,346,525,338.83	15.19%	-0.05%
	Other production costs	1,304,715,360.94	8.65%	1,277,613,441.39	8.27%	0.38%
	Subtotal	15,088,624,360.62	100%	15,448,210,584.92	100%	
Power and steam	Raw materials	950,923,905.70	84.23%	508,500,185.20	84.33%	-0.10%
	Depreciation	90,305,114.81	8.00%	47,921,265.73	7.95%	0.05%
	Labour costs	33,117,524.88	2.93%	20,637,762.46	3.42%	-0.49%
	Energy and power	725,994.07	0.06%	1,876,044.44	0.31%	-0.25%
	Chemicals	808,268.78	0.07%	976,450.67	0.16%	-0.09%
	Other production costs	53,068,781.97	4.70%	23,106,207.91	3.83%	0.87%
	Subtotal	1,128,949,590.22	100%	603,017,916.41	100%	
Construction materials	Raw materials	168,137,137.30	82.39%	220,811,751.70	73.27%	9.12%
	Depreciation	2,411,328.71	1.18%	19,089,842.87	6.33%	-5.15%
	Labour costs	7,425,294.19	3.64%	10,526,181.03	3.49%	0.15%
	Energy and power	15,233,571.16	7.46%	26,814,129.05	8.90%	-1.44%
	Chemicals	2,069,485.59	1.01%	5,808,752.64	1.93%	-0.92%
	Other production costs	8,792,137.98	4.31%	18,334,270.30	6.08%	-1.77%
	Subtotal	204,068,954.93	100%	301,384,927.59	100%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

By product

Unit: RMB

By product	Item	2013		2012		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Light weight coated paper	Raw materials	403,151,069.97	50.57%	507,950,556.55	48.86%	1.71%
	Accumulated depreciation	43,101,737.46	5.41%	51,339,028.14	4.94%	0.47%
	Labour costs	9,700,447.50	1.22%	10,691,865.84	1.03%	0.19%
	Energy and power	106,700,158.31	13.39%	152,571,848.79	14.68%	-1.29%
	Chemicals	162,546,030.80	20.39%	233,311,822.57	22.43%	-2.04%
	Other production costs	71,944,219.52	9.03%	83,744,330.02	8.06%	0.97%
	Subtotal	797,143,663.55	100%	1,039,609,451.91	100%	
Duplex press paper	Raw materials	1,214,355,314.27	57.79%	1,508,544,683.40	60.68%	-2.89%
	Accumulated depreciation	100,689,154.79	4.79%	122,719,701.81	4.94%	-0.15%
	Labour costs	31,483,824.40	1.50%	29,052,082.36	1.17%	0.33%
	Energy and power	291,066,793.05	13.85%	326,870,055.15	13.15%	0.70%
	Chemicals	245,562,795.30	11.69%	302,470,956.31	12.16%	-0.47%
	Other production costs	218,190,658.91	10.38%	196,472,313.58	7.90%	2.48%
	Subtotal	2,101,348,540.72	100%	2,486,129,792.61	100%	
Writing paper	Raw materials	149,910,988.47	60.16%	180,898,992.93	68.10%	-7.94%
	Accumulated depreciation	10,907,314.44	4.38%	3,997,172.13	1.50%	2.88%
	Labour costs	3,413,557.43	1.37%	6,123,857.73	2.31%	-0.94%
	Energy and power	30,077,128.15	12.07%	37,581,044.15	14.15%	-2.08%
	Chemicals	33,090,532.19	13.28%	22,894,310.91	8.62%	4.66%
	Other production costs	21,803,390.81	8.75%	14,122,914.39	5.32%	3.43%
	Subtotal	249,202,911.49	100%	265,618,292.24	100%	
News press paper	Raw materials	771,076,094.95	69.90%	852,071,358.78	67.99%	1.91%
	Accumulated depreciation	70,407,567.04	6.38%	68,739,327.76	5.49%	0.89%
	Labour costs	3,102,670.61	0.28%	3,761,372.30	0.30%	-0.02%
	Energy and power	135,995,525.13	12.33%	177,942,102.33	14.20%	-1.87%
	Chemicals	23,578,983.71	2.14%	51,081,098.80	4.07%	-1.93%
	Other production costs	98,992,990.19	8.97%	99,588,746.51	7.95%	1.02%
	Subtotal	1,103,153,831.64	100%	1,253,184,006.48	100%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

By product (Cont'd)

Unit: RMB

By product	Item	2013		2012		Increase/ decrease (%)
		Amounts	As a percentage of operating costs (%)	Amounts	As a percentage of operating costs (%)	
Paperboard	Raw materials	504,717,758.73	61.90%	385,462,371.32	75.07%	-13.17%
	Accumulated depreciation	50,755,273.73	6.23%	12,785,582.16	2.49%	3.74%
	Labour costs	6,288,010.63	0.77%	2,887,586.26	0.56%	0.21%
	Energy and power	149,627,956.09	18.35%	64,353,647.64	12.53%	5.82%
	Chemicals	56,329,994.64	6.91%	26,924,910.64	5.24%	1.67%
	Other production costs	47,623,145.79	5.84%	21,054,380.92	4.10%	1.74%
	Subtotal	815,342,139.62	100%	513,468,478.94	100%	
White paper board	Raw materials	1,100,225,284.60	63.30%	998,152,198.57	60.63%	2.67%
	Accumulated depreciation	75,261,256.47	4.33%	105,596,006.42	6.41%	-2.08%
	Labour costs	42,515,456.75	2.45%	4,207,558.55	0.26%	2.19%
	Energy and power	260,320,599.03	14.98%	140,013,026.36	8.51%	6.47%
	Chemicals	130,815,953.92	7.53%	261,022,549.61	15.85%	-8.32%
	Other production costs	128,908,644.65	7.42%	137,218,957.59	8.34%	-0.92%
	Subtotal	1,738,047,195.43	100%	1,646,210,297.10	100%	
Electrostatic paper	Raw materials	957,819,100.57	64.00%	860,183,425.70	70.18%	-6.18%
	Accumulated depreciation	80,479,976.88	5.38%	60,695,729.78	4.95%	0.43%
	Labour costs	17,797,747.75	1.19%	11,416,394.06	0.93%	0.26%
	Energy and power	122,190,311.18	8.16%	63,678,054.97	5.20%	2.96%
	Chemicals	156,499,910.35	10.46%	133,355,981.35	10.88%	-0.42%
	Other production costs	161,740,629.39	10.81%	96,368,721.89	7.86%	2.95%
	Subtotal	1,496,527,676.12	100%	1,225,698,307.75	100%	
Coated paper	Raw materials	1,698,992,285.99	43.98%	1,682,510,037.15	44.70%	-0.72%
	Accumulated depreciation	173,117,736.81	4.48%	271,583,736.25	7.22%	-2.74%
	Labour costs	38,811,650.49	1.00%	23,953,033.14	0.64%	0.36%
	Energy and power	497,682,186.82	12.88%	449,106,353.39	11.93%	0.95%
	Chemicals	1,123,166,129.58	29.07%	1,048,680,994.79	27.86%	1.21%
	Other production costs	331,667,388.72	8.58%	287,957,484.19	7.65%	0.93%
	Subtotal	3,863,437,378.40	100%	3,763,791,638.91	100%	
Other machine-made paper	Raw materials	1,750,554,092.69	59.86%	2,257,093,872.24	69.35%	-9.49%
	Accumulated depreciation	140,766,220.96	4.81%	122,365,618.94	3.76%	1.05%
	Labour costs	45,331,938.71	1.55%	39,395,106.84	1.21%	0.34%
	Energy and power	352,474,902.16	12.05%	333,801,245.48	10.26%	1.79%
	Chemicals	395,378,019.07	13.52%	272,498,936.32	8.37%	5.15%
	Other production costs	239,915,850.05	8.20%	229,345,539.16	7.05%	1.15%
	Subtotal	2,924,421,023.65	100%	3,254,500,318.98	100%	

V Directors' Report

II. Analysis of principal operations (Cont'd)

3. Cost (Cont'd)

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	1,648,415,119.16
Total purchases from top 5 suppliers as a percentage of the total purchases for the year (%)	9.90%

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	SHANDONG HEXIN CHEMICAL GROUP CO., LTD.	377,138,678.17	2.26%
2	ITOCHU HONG KONG LTD	337,641,104.64	2.03%
3	JIANGXI COAL SALES CO., LTD.	330,758,605.03	1.99%
4	SILENUS INTERNATIONAL CO., LTD	320,963,829.42	1.93%
5	ZHANJIANG XINCHEN TRADING CO., LTD.	281,912,901.91	1.69%
Total	—	1,648,415,119.16	9.90%

4. Expenses

Item	Accrued during the year	Accrued during the prior year	Increase/ decrease (%)
Selling and distribution expenses	1,129,145,035.51	1,144,489,246.04	-1.34%
Administrative expenses	1,198,704,556.00	1,110,246,902.75	7.97%
Finance expenses	930,604,174.96	1,092,760,015.04	-14.84%
Loss on impairment of assets	24,104,912.81	70,250,158.94	-65.69%
Loss on impairment of assets	175,938,431.91	-62,826,238.51	380.04%

- (1) Loss on impairment of assets decreased by 65.69% as compared to the corresponding period of the prior year, mainly due to: stepping up efforts to collect proceeds and reduction of bad debt provision.
- (2) Income tax expense increased by 380.04% as compared to the corresponding period of the prior year, mainly due to: improved profitability of the Company as compared to the prior year.

V Directors' Report

II. Analysis of principal operations (Cont'd)

5. Research and development expenditure

The research and development expenditure for 2013 totalled RMB379.2612 million, representing an increase of RMB85.5629 million or 29.13% as compared with RMB293.6983 million of the corresponding period of the prior year. The research and development expenditure accounted for 2.59% of the net assets, representing an increase of 0.54 percentage point as compared with 2.05% of the corresponding period of the prior year. The research and development expenditure accounted for 1.86% of revenue, representing an increase of 0.37 percentage point as compared with 1.49% of the corresponding period of the prior year.

With the rapid development from a traditional industry into a modern industry, the paper making industry is characterised by large-scale equipment, high-speed operation, economy of scale, machinery with large production capacity, large amount of time and labour input and high output levels. Production processes, technologies and products must be adapted to market demand and the level of equipment. Research, development and application of new technology are carried out constantly, and product portfolio adjustment is crucial in shifting its focus from the traditional middle to low-end products to high-end, specialty products. The research and development activities of the paper making industry are no longer confined to laboratory research and small-scale production applications, which instead focus on the promotion of large-scale industrialisation. Most of the Company's research and development activities and investment are in the trial production and trial application stages. Raw materials consumption is high during this process due to factors including high speed of machines, width and large production capacity.

In 2013, the development of the Twelve Five Year Plan entered a crucial stage. The Company actively carried out research and development of new products and technologies, as well as promoted product portfolio adjustment. It launched the research and development of new products and new technologies, including bio-pulping technology (National Programs for Science and Technology Development, "863 Project"), the provincial innovation project of coated kraft liner board, fluorescence-free cigarette board, development of digital printing specialty paper technology and Takamatsu coated paper, high-end glassine paper, ASA sizing technology and filler modification technology, which optimised the product portfolio, improved the paper product quality and enhanced market competitiveness, thus injecting new impetus into the Company's new development. During the reporting period, the pulp/paper testing centre of the Company's technology research institute passed the laboratory accreditation process of China National Accreditation Service for Conformity Assessment (CNAS). Details of the major research and development projects of the Company are as follows:

V Directors' Report

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

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

(1) 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: This project has been classified as technological innovative project of Shandong Province. 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. Two national patents have been applied for this specialised technology, with one national practical new type patent has been granted. The project has entered the finalisation and product acceptance phase.

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 patents 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 promote the sustainable development process of the Company and the industry.

V Directors' Report

II. Analysis of principal operations (Cont'd)

5. Research and development expenditure (Cont'd)

- (2) 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 testing 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. Currently, the project has achieved certain phasal result during the process with 1 piece of high standard essay being published in a domestic major magazine.

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.

V Directors' Report

II. Analysis of principal operations (Cont'd)

5. Research and development expenditure (Cont'd)

(3) Technology development of high-end glassine paper

Objective: As the pollution of environmental resources has become increasingly serious, the traditional non-dry adhesive paper, due to its leaching PE adhesive film, on one hand causes environmental pollution as PE film recycling is difficult and will not decompose easily in the natural environment even after a long time; on the other hand, raw materials of PE film come from petroleum by-products, with the scarcity of petroleum resources, the consumption of such raw material will also be shrinking. The grade and quality of products is a key factor for the further development of enterprises. Glassine paper is a high-end specialty paper used in high-grade non-dry paper products and widely used in the advertising and industrial sectors. Its market demand increases year by year and has huge market potential. In the long run, glassine paper will gradually take the place of ordinary non-dry paper. This project fully made use of the technological transformation of the existing culture paper production line for the development of high-grade glassine paper, which will help optimising the Company's product portfolio, adding new profit growth point and has good market prospect.

Progress: Currently, the project has completed project technology validation and the procurement of specialty equipment. The technology transformation is underway, and the next step will be to carry out the experimental design and experimental research program simultaneously.

Intended goals: The project intends to select quality chemical bleaching pulp with recycled fibre and chemical mechanical pulp, and combine with special mineral pigments and unique surface sizing process to create a highly smooth ($\geq 500s$), good anti-oil high-grade non-dry paper product. The product will have higher strength, improved bulk density and dimensional stability, soft colour, pure and natural appearance, lower manufacturing costs, and is also environmental friendly.

Expected impact on future development: The implementation of this project and the resulted excellent product quality can further optimise the product portfolio of the Company, increase the proportion of its high-end products, add value to its products and enhance the Company's market competitiveness. Meanwhile, the use of recycled fibre pulp broadens the application such raw material, thus saving a large amount of native wood fibre resources and further promoting the implementation of the process of environmental green paper making chain.

V Directors' Report

II. Analysis of principal operations (Cont'd)

6. Cash flows

Unit: RMB

Item	2013	2012	Increase/ decrease (%)
Subtotal of cash inflows from operating activities	20,363,176,118.78	19,399,885,121.58	4.97%
Subtotal of cash outflows from operating activities	19,240,559,317.87	17,443,018,643.59	10.31%
Net cash flows from operating activities	1,122,616,800.91	1,956,866,477.99	-42.63%
Subtotal of cash inflows from investing activities	1,926,791,350.79	1,020,659,994.81	88.78%
Subtotal of cash outflows from investing activities	3,837,739,389.14	3,666,784,910.10	4.66%
Net cash flows from investing activities	-1,910,948,038.35	-2,646,124,915.29	27.78%
Subtotal of cash inflows from financing activities	23,126,276,064.56	25,318,157,575.12	-8.66%
Subtotal of cash outflows from financing activities	23,958,313,170.73	24,594,961,130.78	-2.59%
Net cash flows from financing activities	-832,037,106.17	723,196,444.34	-215.05%
Net increase in cash and cash equivalents	-1,617,017,256.49	26,501,565.92	-6,201.59%

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

☒ Applicable ☐ Not Applicable

- (1) Net cash flows from operating activities decreased by 42.63% as compared to the corresponding period of the prior year mainly due to the increase of the proportion of cash payment for goods as the Company sought support from upstream suppliers and reduced its costs.
- (2) Net cash flows from investing activities increased by 27.78% as compared to the corresponding period of the prior year mainly due to recovery of investment with lower rate of return in order to improve capital utilisation and strengthen our existing leading operations.
- (3) Net cash flows from financing activities decreased by 215.05% as compared to the corresponding period of the prior year mainly due to better profitability of the Company and enhancement in capital utilisation efficiency so as to lower capital utilisation costs.

Explanation on main reasons leading to 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 decreased by 42.63% as compared to the corresponding period of the prior year but net profit attributable to the Company increased by 221.51% as compared to the corresponding period of the prior year mainly due to the decreased in accounts payable and increase in accounts receivable during the year.

V Directors' Report

III. Components of principal operations

Unit: RMB

	Revenue	Operating costs	Gross profit margin (%)	Increase/decrease of revenue as compared to the corresponding period of the prior year (%)	Increase/decrease of operating costs as compared to the corresponding period of the prior year (%)	Increase/decrease of gross profit margin as compared to the corresponding period of the prior year (%)
By industry						
Machine-made paper	18,244,191,565.62	15,088,624,360.62	17.30%	0.53%	-2.33%	2.42%
Electricity and heat	1,519,119,225.58	1,128,949,590.22	25.68%	89.81%	87.22%	1.03%
Construction materials	241,343,187.87	204,068,954.93	15.44%	-30.00%	-32.29%	2.85%
Hotel	36,324,584.14	8,589,278.93	76.35%	-24.85%	-31.25%	2.20%
Others	111,816,968.86	62,297,587.77	44.29%	719.32%	493.74%	21.17%
By products						
Light weight coated paper	959,374,495.99	797,143,663.55	16.91%	-18.03%	-23.32%	5.74%
Duplex press paper	2,573,322,197.99	2,101,348,540.72	18.34%	-11.05%	-15.48%	4.27%
Writing paper	307,750,040.04	249,202,911.49	19.02%	10.45%	-6.18%	14.35%
Coated paper	4,504,344,844.03	3,863,437,378.40	14.23%	11.51%	2.65%	7.40%
News press paper	1,501,678,237.85	1,103,153,831.64	26.54%	-15.37%	-11.97%	-2.84%
Paperboard	812,352,574.23	815,342,139.62	-0.37%	54.13%	58.79%	-2.95%
White paper board	2,161,704,531.76	1,738,047,195.43	19.60%	7.55%	5.58%	1.50%
Electrostatic paper	1,906,857,070.30	1,496,527,676.12	21.52%	19.87%	22.10%	-1.43%
Other machine-made paper	3,516,807,573.43	2,924,421,023.65	16.84%	-9.00%	-10.14%	1.06%
Electricity and steam	1,519,119,225.58	1,128,949,590.22	25.68%	89.81%	87.22%	1.03%
Construction materials	241,343,187.87	204,068,954.93	15.44%	-30.00%	-32.29%	2.85%
Hotel	36,324,584.14	8,589,278.93	76.35%	-24.85%	-31.25%	2.20%
Others	111,816,968.86	62,297,587.77	44.29%	719.32%	493.74%	21.17%
By geographical segment						
Mainland China	17,419,575,119.36	14,112,022,512.66	18.99%	4.61%	2.02%	2.06%
Other countries and regions	2,733,220,412.71	2,380,507,259.81	12.90%	-1.18%	-8.10%	6.55%

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

V Directors' Report

IV. Five-year financial summary

The following is the published summary of results and assets, liabilities and minority shareholders interests of the Group for the past five years as extracted from the published audited financial statements. This summary does not constitute a part of the audited financial statements. Financial summary is prepared in accordance with Hong Kong Accounting Standard (the data for 2009 to 2010 is prepared in accordance with International Accounting Standard, while the data from 2011 onwards is prepared in accordance with China Accounting Standards for Business Enterprises):

1. Consolidated results

Unit: RMB'0,000

	For the year ended 31 December					2009
	2013	2012	2011	2010 China Accounting Standards for Business Enterprises	2010 International Accounting Standard	
Revenue	2,038,889	1,976,168	1,774,749	1,720,312	1,709,970	1,481,525
Profit/(loss) before tax	86,629	-1,614	69,899	156,235	159,781	120,838
Tax	17,594	-6,283	11,026	26,070	26,070	21,901
Profit/(loss) for the current period	71,066	22,103	60,827	116,334	119,034	86,295
Minority shareholders interests	-2,030	-17,435	-1,954	13,832	14,678	12,643

2. Consolidated assets, liabilities and minority shareholders interests

Unit: RMB'0,000

	For the year ended 31 December					2009
	2013	2012	2011	2010 China Accounting Standards for Business Enterprises	2010 International Accounting Standard	
Total assets	4,752,188	4,772,542	4,563,083	3,507,713	3,500,113	2,812,613
Total liabilities	3,288,353	3,338,000	3,064,305	1,981,693	2,003,482	1,371,842
Minority shareholders interests	59,847	58,592	145,915	172,441	172,342	173,570
Total equity attributable to equity holders of the parent company	1,403,989	1,375,950	1,352,862	1,353,579	1,324,289	1,267,202
Gearing ratio	69.20%	69.94%	67.15%	56.50%	57.24%	48.77%

V Directors' Report

V. Analysis of assets and liabilities

1. Material changes of asset items

Unit: RMB

	As at the end of 2013		As at the end of 2012		Change in percentage (%)	Description of major changes
	Amounts	As a percentage of total assets (%)	Amounts	As a percentage of total assets (%)		
Monetary funds	2,547,729,794.24	5.36%	4,456,217,362.86	9.34%	-3.98%	Monetary funds decreased mainly due to the issue of RMB3.8 billion corporate bonds on 28 December 2012 and some of the funds as at the end of the year not utilised for repayment of borrowings.
Accounts receivable	3,102,643,083.54	6.53%	3,602,955,051.18	7.55%	-1.02%	Accounts receivable decreased mainly due to the strengthened control over proceeds collection and the decrease in turnover days for accounts receivable.
Inventories	3,725,809,877.25	7.84%	4,412,548,700.68	9.25%	-1.41%	Inventories decreased mainly due to the decrease in goods in stock as a result of stepping up sales efforts by the Company.
Long-term equity investments	115,477,214.86	0.24%	356,796,777.78	0.75%	-0.51%	Long-term equity investments decreased mainly due to the decrease in long-term equity investments arising from disposal of investments.
Fixed assets	21,181,647,488.39	44.57%	19,751,339,991.06	41.39%	3.18%	Fixed assets increased mainly due to the reclassification of the white coated linerboard project of the Company as fixed assets, as well as depreciation for the year, disposal of subsidiary, Yanbian Chenming, and the decrease of fixed assets as disposed of due to the relocation of Wuhan Chenming Plant I for environmental protection reason.

V Directors' Report

V. Analysis of assets and liabilities (Cont'd)

1. Material changes of asset items (Cont'd)

	As at the end of 2013		As at the end of 2012		Change in percentage (%)	Description of major changes
	Amounts	As a percentage of total assets (%)	Amounts	As a percentage of total assets (%)		
Bills receivable	2,870,443,681.49	6.04%	1,852,478,364.46	3.88%	2.16%	Bills receivable increased mainly due to the increase in bills for settlement as at the end of the year and the decrease in discount on bills receivable.
Disposal of fixed assets	588,181,647.53	1.24%	287,309,818.03	0.60%	0.64%	Disposal of fixed assets increased mainly due to the reclassification of assets into disposal due to the relocation of Wuhan Chenming Plant I for environmental protection reason.
Deferred income tax assets	507,653,388.38	1.07%	376,938,086.60	0.79%	0.28%	Deferred income tax assets increased mainly due to provision made for deferred income tax assets as a result of temporary losses of some companies under the current market conditions.

2. Material changes of liability items

Unit: RMB

	2013		2012		Change in percentage (%)	Description of major changes
	Amounts	As a percentage of total assets (%)	Amounts	As a percentage of total assets (%)		
Short-term borrowings	9,818,885,237.85	20.66%	12,876,398,495.16	26.98%	-6.32%	Short-term borrowings decreased mainly due to reduction of financing through short-term loans by the Company in order to lower finance expenses and broadening financing sources.
Bills payable	290,403,790.59	0.61%	1,285,627,762.07	2.69%	-2.08%	Bills payable decreased mainly due to the decrease in bank acceptance bills issued by the Company for payment of goods.
Other current liabilities	3,878,735,536.52	8.16%	17,659,498.56	0.04%	8.12%	Other current liabilities increased mainly due to the issuance of short-term commercial paper of RMB3.8 billion by the Company.

V Directors' Report

V. Analysis of assets and liabilities (Cont'd)

3. Assets and liabilities measured at fair value

Unit: RMB

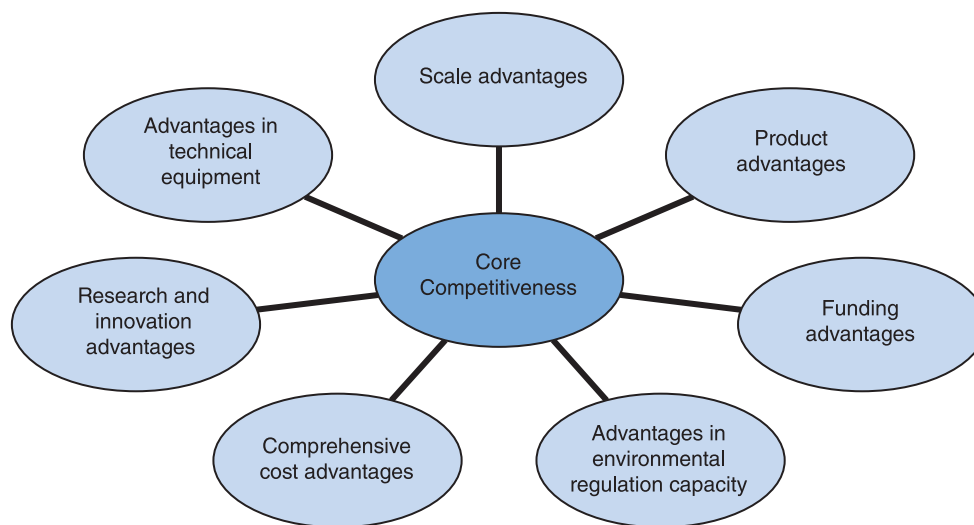
Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Impairment provided during the period	Purchases during the period	Disposal during the period	Closing balance
Financial assets							
Consumable biological assets	1,169,269,054.15	11,221,828.76	189,043,642.16		12,924,958.49	22,385,201.20	1,317,141,123.77
Total	1,169,269,054.15	11,221,828.76	189,043,642.16		12,924,958.49	22,385,201.20	1,317,141,123.77
Financial liabilities	0.00	0.00					0.00

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

☐ Yes ☒ No

VI. Analysis of Core Competitiveness

The Company is a large enterprise which primary engages in forestry, pulping and paper-making operations. It is also the first listed company with three types of listed shares (i.e. A shares, B shares and H shares) in China. Compared with other enterprises in the industry, the Company has the following advantages:



V Directors' Report

VI. Analysis of Core Competitiveness (Cont'd)

- (1) Scale advantages: As China's largest state-owned paper making enterprise, after years of development, the Company has achieved annual pulp and paper production capacity of 8.00 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 electrostatic 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. The above have helped the Company establish a research and development network leveraging both the domestic and international advanced papermaking research bases, and guaranteed Company's leading position in industry research in China.

V Directors' Report

VI. 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 several advanced pulp production lines, and has also increased the raw materials supply by launching the construction of the 700,000 tonnes of wood pulp project in Zhanjiang and the forestry paper integration project of Huanggang Chenming; 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.

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VII. Analysis of investments

1. External equity investments

(1) External investments

Investments during the reporting period (RMB)	External investments Investments during the corresponding period of prior year (RMB)	Change (%)
519,337,235.00	669,306,351.20	-22.41%

Investees		The Company's share of interest in investees (%)
Names of the companies	Principal activities	
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Plant fostering, forest conservation, soil improvement, forestry research, construction of raw material bases; implementation, management and operation of pulp mill construction; manufacture, production, processing and sales of pulp and related products.	100%
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	Production and sales of new-style wall materials, and comprehensive utilisation of coal ash.	100%
Chenming GmbH	Trading of machine-made paper.	100%
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Sales of machine-made paper, paper board, paper-making materials and accessories and paper machinery.	100%
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Pre-approval operation: Printing: forms and account books; General operation: Processing and sales of: paper and paper products, plastic products (excluding agricultural film), apparel, packaging materials; export and import operation for goods and technology within the scoped as approved by the government.	100%
Chenming (HK) Limited	Export and import trade of paper products and market research.	100%
Jiangxi Chenming Paper Co., Ltd.	Production and processing of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials.	100%
Haicheng Haiming Mining Company Limited	Processing and sales of magnetite and talc.	60%
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Development of real estate and sales of commodity house.	40%

V Directors' Report

VII. 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
Jiangxi Chenming Paper Co., Ltd.	Yes	20,000	6%	Not applicable	Financing liquidity
Total	—	20,000	—	—	—
Disclosure date of approval of entrusted loans in board meeting			29 March 2012		
Disclosure date of approval of entrusted loans in general meeting			30 May 2012		

3. Use of proceeds

(1) The general use of proceeds

Unit: RMB'0,000

Total proceeds	380,000
Total investment of proceeds during the reporting period	177,040
Total cumulative investment of proceeds	377,340
Total proceeds of changed use during the reporting period	0
Total cumulative proceeds of changed use during the reporting period	0
Ratio of total cumulative proceeds of changed use (%)	0%

Description of the general use of proceeds

On 26 December 2012, the Company issued a total of 3,800 million corporate bonds totalling RMB3,800 million with a face value of RMB100 each at an issue price of RMB100 per bond. The coupon rate was 5.65% and the proceeds amounted to RMB3,800 million. After deducting expenses of RMB27 million, the net proceeds available for use amounted to RMB3,773 million. During the reporting period, RMB1,770 million of the proceeds were used, of which approximately RMB273 million was used to replenishing the liquidity and approximately RMB1,497 million was used to repay bank borrowings and refinance short-term bank borrowings. As at 31 December 2013, RMB3,773 million of the proceeds were cumulatively used, of which approximately RMB273 million was used to replenishing the liquidity and approximately RMB3,500 million was used to repay bank borrowings, most of which were used to refinance short-term bank borrowings.

V Directors' Report

VII. Analysis of investments (Cont'd)

3. Use of proceeds (Cont'd)

(2) The commitment of proceeds

Unit: RMB'0,000

Committed investment project and excess proceeds	Change in project (including partial change)	Total committed investment of proceeds	Total investment after adjustment(1)	Invested amount during the reporting period	Accumulated invested amount as at the end of the period(2)	Investment progress as at the end of the period (%) (3)=(2)/(1)	Expect date of operation of the project	Return realised during the reporting period	Expected return being achieved or not	Significant change in project
Committed investment project										
Repayment of bank borrowings	No	350,000	350,000	149,700	350,000	100%	Not applicable	Not applicable	Yes	No
Financing liquidity	No	27,340	27,340	27,340	27,340	100%	Not applicable	Not applicable	Yes	No
Subtotal of committed investment project	—	377,340	377,340	177,040	377,340	—	—	—	—	—
Excess proceeds										
Total	—	377,340	377,340	177,040	377,340	—	—	—	—	—
Condition and reason for not achieving planned progress or expected return (by special item)			No							
Description on significant change in feasibility of project			No							
Amount, use and utilisation of excess proceeds			Not applicable							
Change in place of implementation of investment project of proceeds			Not applicable							
Adjustment on implementation method of investment project of proceeds			Not applicable							
Pre-investment and swap of investment project of proceeds			Not applicable							
Temporary financing liquidity by idle proceeds			Not applicable							
Balance and reason for proceeds arising from project implementation			Not applicable							
Use and direction of unused proceeds			No							
Issue or other condition existed in use and disclosure of proceeds			No							

V Directors' Report

VII. Analysis of investments (Cont'd)

4. Analysis of major subsidiaries and investees

Information on major subsidiaries and investees

Unit: RMB'0,000

Name of companies	Type of companies	Industry	Principal products or services	Registered capital	Total assets	Net assets	Revenue from operations	Operating profit	Net profit
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Subsidiary	Pulp	Pulp and coated paper	RMB3,000 million	1,262,459.60	386,286.14	427,719.00	59,083.87	46,250.70
Jilin Chenming Paper Co., Ltd.	Subsidiary	Papermaking	Coated paper and writing paper	RMB1,500.00 million	300,062.92	118,219.85	13,707.01	-10,198.14	457.85
Chenming (HK) Limited	Subsidiary	Trading of paper products	Sales of paper products, import of raw materials and processing	US\$10.10 million	393,009.33	14,246.70	516,895.20	6,473.21	5,583.38
Shandong Chenming Paper Sales Company Limited	Subsidiary	Trading of paper products	Sales of paper products	RMB100.00 million	851,729.68	22,389.18	1,520,049.71	25,098.48	18,218.38
Jiangxi Chenming Paper Co., Ltd.	Subsidiary	Papermaking	Duplex press paper and coated paper	US\$272.00 million	358,934.29	198,823.50	177,484.13	5,086.12	5,381.08
Shandong Chenming Power Supply Holdings Co., Ltd.	Subsidiary	Electricity and steam	Generation and sales of electricity and steam	RMB99.5531 million	42,264.57	33,657.39	52,752.43	7,319.95	7,538.86
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiary	Papermaking	Writing paper and news press paper	RMB211.3670 million	290,425.38	45,383.08	90,456.77	-26,703.90	-5,239.58
Shouguang Meilun Paper Co., Ltd.	Subsidiary	Papermaking	Coated paper and household paper	RMB2,200.00 million	974,447.03	141,342.59	415,819.09	-66,039.63	-49,638.75

Particulars of major subsidiaries and investees:

1. In 2013, Jilin Chenming suspended all of its operations for relocation due to environmental protection reason. Loss on suspension and cost for disposal of assets were offset by the relocation subsidies. Wuhan Chenming Plant I conducted relocation. Loss on suspension and cost for disposal of assets were offset by the relocation subsidies. The sentiment for products of Plant II was low, resulting in low gross profit margin. Meilun white coated linerboard project fully commenced operation, and in the phase of market development.
2. The sentiment for major products of Zhanjiang Chenming, including pulp and high-end duplex press paper, was high, resulting in high gross profit margin and better return. Jiangxi Chenming put greater efforts on technology research and development and approved as high-tech enterprise, resulting in an increase in gross profit of products. The profitability of Chenming Power Supply improved due to the continued low price of coal, the raw material.
3. As the market gradually recovered in 2013, the gross profit margin of Sales Company and Chenming (HK) increased with profit realised.

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VII. Analysis of investments (Cont'd)

4. 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
Chenming GmbH	Strengthen the sale works for paper product of the Company, further expand the market share of the Company's products in Europe, and establish a wider and comprehensive distribution network.	Capital contribution for establishment	Net profit for 2013 was -RMB16.40 million.
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Fully utilise the existing public utilities and ancillary facilities so as to diversify the product portfolio, further reduce costs and increase Company's risk-resistance ability.	Capital contribution for establishment	Net profit for 2013 was -RMB0.40 million.
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	Strengthen comprehensive utilisation of resources, proactively response to national policy on comprehensive utilisation of resources and meet with the local demand.	Capital contribution for establishment	Net profit for 2013 was -RMB0.28 million.
Yanbian Chenming Paper Co., Ltd.	Further increase the proportion of high-end products and enhance economic benefits based on the Company's development strategy on high-end products.	Transfer of equity interest	Gain on disposal of equity interest was RMB13.04 million.
Wuhan Chenjian New-style Wall Materials Co., Ltd.	Operational needs for production.	Transfer of equity interest	Loss on disposal of equity interest was RMB7.86 million.

V Directors' Report

VII. Analysis of investments (Cont'd)

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

Acquisition and disposal of subsidiaries during the reporting period (Cont'd)

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
Wuhan Xingzhilian Paper Company Limited	Operational needs for production.	Cancellation	No effect on results for 2013.
Shanghai Runchen Equity Investment Fund Co., Ltd.	Lower investment and enhance capital utilisation in order to protect the interest of the Company and shareholders.	Transfer of equity interest	Disposal of assets does not affect the net profits.
Jilin Chenming Waste Collection Co., Ltd.	Operational needs for production.	Cancellation	No effect on results for 2013.
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Facilitate operation, maximise the edges of integrated sale and strengthen market expansion.	Capital contribution for establishment	No effect on results for 2013.
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Expand the industry chain of the Company and increase revenue.	Acquisition of equity interest	Net profits realised for 2013 was RMB10.89 million.
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Fully utilise the influence of Hubei Zheshang in real estate development, facilitate the reconstruction of old plants of Wuhan Chenming, explore and use land in an efficient way, optimise overall environment in Wuhan Economic and Technology Development Zone, expand the industry chain of the Company and enhance the sustainable profitability of the Company.	Loss of control	Gain on loss of control was RMB18.32 million.

V Directors' Report

VII. Analysis of investments (Cont'd)

5. Highlights of major investments not financed by the proceeds

Unit: RMB'0,000

Name of project	Total planned investment	Investment made during the reporting period	Accumulated actual investments made as of the end of the reporting period	Progression of projects	Revenue from projects
600,000 tonnes white coated linerboard project	260,000	8,964.90	257,827.22	100%	Reclassification as assets was conducted during the reporting period. It is at the market development stage.
Relocation of Jilin Chenming	230,000	93,690.83	221,857.03	96%	Trial production commenced in December 2013. Reclassification as assets was not conducted yet as of the end of the reporting period.
350,000 tonnes high-end packaging paper project of Jiangxi Chenming	183,000	12,262.54	12,262.54	7%	Not completed
Magnesite mining	50,000	26,694.06	46,305.95	93%	Not completed
180,000 tonnes paper cup project	132,300	31,376.06	31,376.06	24%	Not completed
190,000 tonnes high-end cultural paper project	309,700	28,495.90	28,495.90	9%	Not completed
Forestry paper integration project of Huanggang Chenming	348,510	992.33	13,079.53	4%	Not completed
Total	1,513,510	202,476.62	611,204.23	—	—

Index of temporary announcement disclose in designated website

<http://www.cninfo.com.cn/>

VIII. Estimate of the operating results from January to March 2014

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

☐ Applicable ☒ Not applicable

V Directors' Report

IX. Special purpose vehicle controlled by the Company

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

X. 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. In respect of the international and domestic economic development, global diversification and economic globalisation further develop and a new round of adjustment to the industry structure has commenced. Every country focuses on real economic development generally. Advance in technology has brought significant breakthrough. China continued to implement its proactive fiscal policy and stable monetary policy. The national economy will maintain stable and rapid growth. The development conditions for the paper making industry are gradually improving. In respect of the industry, the growth rate of the downstream demand of the domestic paper making industry was still at a low level since the beginning of 2013. The weak domestic demand persisted with the overall profitability in the paper making industry hovered around at a low level. However, the development conditions for paper making industry are gradually improving in the long run. 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. Elimination of outdated production capacity and the stricter environment protection policy will forced some small and medium-sized enterprises to leave the industry, thereby lowering the pressure of the new production capacity on the supply in the industry to a certain extent. A higher concentration ratio will be secured due to slowdown in the growth of the supply in the paper making industry and elimination of outdated production capacity, which is conducive to a proactive increase in price proposed by enterprises.

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. During the reporting period, the Company carried out capacity expansion on paper types with better prospects. The Company's direction of development was in line with the requirements of the development plan of the entire paper making industry. Meanwhile, the Company entered into the financial and energy industries by establishing a financial company and a financing company, and engaging in magnesite mining, thereby expanding its industry chain with a more rationalised industry positioning, which further strengthened 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.

V Directors' Report

X. Outlook on the future development of the Company (Cont'd)

2. Development strategy of the Company

- (1) The Company will adjust its product structure and focus on developing the production of high-end paper product. 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 has also invested in the high-end household paper project of production capacity of 136,000 tonnes, the high-end packaging paper project of production capacity of 350,000 tonnes, the high-end cultural paper project of production capacity of 190,000 tonnes and the paper cup project of production capacity of 180,000 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 paper making industry within a period of time.
- (2) 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, as well as the construction of Huanggang Chenming pulp project and ancillary raw material bases. The Company will establish the "forestry-pulp-paper integration" chain industry, thereby eliminating the limitations of upstream resources on the Company and enhancing Company's sustainable development.
- (3) 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 environment friendly projects and strive to achieve its waste emission target.
- (4) The Company will enhance the technology innovation and staff training. When compared with international paper making enterprises, the Company is weak in terms of existing 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.
- (5) Enhance corporate management and improve operational quality. Firstly, to implement the management concept of "to manage people with system and to work up to the standard", and improve all systems and processes to enhance implementation capability. Secondly, to improve equipment automation and information technology management, and implement post setting and staffing according to advanced international standards. Third, to deepen the reform of the remuneration system, improve the performance appraisal system, establish different promotion channels and ranks. Fourth, to strengthen the management awareness of the management staff and improve their ability to identify and solve problems.
- (6) Develop domestic and international markets and expand development potential. First, to implement a proactive and rational marketing strategy, timely adjust product structure according to market changes, further expand the Company's market share domestically and internationally through innovative sales and marketing and services. Second, to strengthen sales and marketing management with the help of management advisory body, take the lead in implementing a new management mode within the sales system, adjust the product management structure, strengthen the management of market segmentation, increase training efforts and build up a quality sales force. Thirdly, to optimise the international marketing network, strengthen overseas sales force and expand export volumes. Fourth, to commence e-commerce business, accelerate the construction of virtual terminal market, carry out customer-facing e-commerce business and expand sales channels through on-line marketing.

V Directors' Report

X. Outlook on the future development of the Company (Cont'd)

3. Operating plan for 2014

- (I) **Corporate Management.** First, the Company will firmly establish and strictly implement the working principles of “team building, strict management, outstanding business performance, achieving good results”. Second, the Company will adopt four measures in corporate management, as follows: ① revise the existing management system by making it simple, effective, and easy to implement in order to create the basic conditions for strict management; ② enhance team building by preparing good training materials, adopting strict examinations, employment of qualified employees and dismissal of unqualified employees; ③ strengthen strict and careful management, with special emphasis on “strict” and “careful”; and ④ improve incentive schemes by innovative incentives and adoption of appointment through competition to further mobilise the enthusiasm of the cadres and staff.
- (II) **Operation and management.** The Company will increase efficiency by optimising product structure and increase investment in high-efficiency areas. It will make reference to advanced corporate marketing incentives, improve performance appraisal systems to fully arouse the enthusiasm of sales staff. It will implement system optimisation, strictly control risk, and will claim on those who are subject to criminal liability for causing risks to and infringing the Company's interests in pursuit of personal gain in the business operation of the Company. The Company aims to reduce inventory and costs to proactively respond to the market through measures including market research and timely developed marketing strategies. The Company will also enhance new product promotion and establish professional sales teams for high value-added products including thermal paper and glassine paper to increase the revenue of the Company.
- (III) **Production management.** Firstly, the Company places great emphasis on the operation of production upgrade projects and new production projects. It focuses on the management of its 800,000 tonnes coated paper project, 600,000 tonnes bleached kraft liner board project, Jilin Chenming's environmental protection relocation project, Meilun's paper additives projects and Wuhan's specialty paper upgrade and household paper projects to accelerate growth in efficiency. Secondly, it will speed up product restructuring and new product development, complete the development of new products including glassine paper and thermal paper, enrich product structure, improve the ability to respond to the market, and increase sales of new products and high value-added products. Thirdly, special emphasis will be placed on technology development and application to improve the Company's core competitiveness. Research on the use of fibre reinforced and filler modification technology as well as new alternative adhesives technology will be conducted to reduce costs and increase efficiency. Fourthly, it will implement strict equipment management to eliminate serious accidents involving equipment. Fifthly, the Company will continue to implement post setting and staffing and reduce labour costs through post consolidation and improvement in automation.
- (IV) **Project management.** Firstly, the Company will revise and improve its original project management system to make the system fully reflect the principle for project construction of “careful planning, casting quality products, striving for progress and effectiveness verification”. Secondly, the Company will enhance the professional skills of project personnel by encouraging them to learn outside the Company and engage them to learn in the Company. Thirdly, it will adopt strict requirements from the pre-feasibility studies to process control, and from construction company tenders to selection of equipment suppliers to ensure the overall quality of the project. Fourthly, it will specific clear project details and quality objectives, highlight project staff's accountability and implement a strict reward and punishment system. The Company will focus on implementing the following tasks: ① for projects under construction including Jiangxi Chenming's 350,000 tonnes high-grade packaging paper, Zhanjiang Chenming's 180,000 tonnes paper cup sheets and 190,000 tonnes culture paper projects, the Company will ensure comprehensive control and assessment, as well as strict quality and cost control to ensure timely commencement of production; ② projects under planning and pending approval including Huanggang Chenming's integrated forestry, pulp and paper project will undergo repeated verification and optimisation to ensure that these projects will become world-class quality products.

V Directors' Report

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

3. Operating plan for 2014 (*Cont'd*)

- (V) **Other important tasks.** Firstly, the Company will accelerate the establishment of finance company to ensure timely commencement of operation. Secondly, the Company will apply for the establishment of finance leasing company to make full use of foreign funds and reduce finance costs. Thirdly, it will reduce finance costs by increasing use of foreign funds, expanding financing channels and improving capital use efficiency. Fourthly, it aims to achieve economic efficiency by increasing trade volume through import and export companies, developing new customer sources, establishing strategic partnerships and controlling quality supplies. Fifthly, it will reduce inventory, promote the business with manufacturers, merchants and banks and improve contract compliance rate to reduce capital use and financing costs.

4. Capital requirements, source of funds and plan for usage

The Company's new projects were unable to make profit on a timely basis due to market reasons. At present, the Company has higher leverage. 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 the following measures:

Firstly, the Company will further improve its international marketing network, improve its organisation structure of its overseas companies, adjust its sales channels and achieve economy of scale by increasing trade volume through import and export companies, developing new customer sources, establishing strategic partnerships and controlling quality supplies. It will reduce inventory, promote the business with manufacturers, merchants and banks and improve contract compliance rate to reduce capital use and financing costs.

Secondly, the Company will accelerate the progress of cross-border financing, make full use of the financing platform of the Hong Kong market, increase Hong Kong Chenming's credit line and reduce finance costs by increasing use of foreign funds, expanding financing channels and improving capital use efficiency.

Thirdly, the Company will speed up the establishment of the Group's finance company to enhance the centralised management of the Group's fund and improve the efficiency of capital use so as to further increase the Group's fund settlement, management, investment and financing ability, thus reducing its financing cost.

Fourthly, the Company will establish a finance leasing company to promote the Group's diversification, further expand the Company's business scope and cultivate new profits to increase the Company's risk aversion capability.

Fifthly, the Company will actively expand its financing channels, establish strategic partnerships with financial institutions and leverage on the geographical advantages of its subsidiaries to maintain low cost financial institutions credit limits.

V Directors' Report

X. Outlook on the future development of the Company (Cont'd)

5. Risk factors likely to be faced and the measures to be taken

As a basic raw materials industry of the national economy, the paper making 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.

Hence, the Company will focus on the construction of Zhanjiang pulp project and ancillary raw material bases, as well as the construction of Huanggang Chenming pulp project and ancillary raw material bases. The Company will establish the "forestry-pulp-paper integration" chain industry, thereby eliminating the limitations of upper-stream resources on the Company and enhancing Company's sustainable development.

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.

Hence, the Company will work on technology R&D and application and focus on the development of high-end paper products, thereby enhancing our core competitiveness.

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.

Elimination of outdated production capacity and stricter environment protection policy has forced some of the SMEs exited the industry. Hence, the Company is expected to record long-term revenue.

V Directors' Report

X. Outlook on the future development of the Company (Cont'd)

5. Risk factors likely to be faced and the measures to be taken (Cont'd)

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 may result in the slowing down of scale expansion, thus affecting its production and operation.

The Company always strive to achieve harmonious development with energy consumption and emission reduction. 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 environmentally friendly projects and strive to achieve its waste emission target.

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 finance expenses, thus affecting its operating results.

The financial department of the Company will continue to monitor the rate level of the Group.

Exchange rate risk. 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.

The financial department of the Company is responsible for monitoring the Group's foreign currency transactions and scale of assets and liabilities denominated in foreign currency, aiming to minimise the exchange rate risk.

XI. Opinions of the Board of Directors and the Supervisory Committee regarding the “modified auditor's report” for the reporting period issued by the accountants

Ruihua Certified Public Accountants had audited the 2013 financial report of the Company and issued a standard unqualified auditors' report.

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

In accordance with the requirements of “Notice on the issuance of ‘Accounting Standard for Business Enterprises No. 39 – Fair Value Measurement’” (Cai Kuai [2014] No. 6), “Notice on the issuance of amendment to ‘Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements’” (Cai Kuai [2014] No. 7), “Notice on the issuance of amendment to ‘Accounting Standard for Business Enterprises No. 9 – Employee Benefits’” (Cai Kuai [2014] No. 8), and “Notice on the issuance of amendment to ‘Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements’” (Cai Kuai [2014] No. 10) and “Notice on the issuance of ‘Accounting Standard for Business Enterprises No. 40 – Joint Arrangement’” (Cai Kuai [2014] No. 11)”, entities listed overseas are encouraged to adopt the five accounting standards published or amended in 2014 early. As a result, the Group will adopt the five accounting standards above early with effect from 1 January 2013 as approved by the Fourth Meeting of the Seventh Session of the Board of the Company.

The changes in accounting policies arising from the adoption of the above accounting standards by the Group do not have any effect on the financial statements for the reporting period.

V Directors' Report

XIII. Reason for retrospective restatement to correct major accounting errors during the reporting period

No retrospective restatement was made to correct major accounting errors during the reporting period.

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

1. During the year, five more companies were consolidated as compared to the prior year and the details are as follows:

During the reporting period, the Company established four companies through investments, namely Chenming GmbH, Zhanjiang Meilun Pulp & Paper Co., Ltd., Zhanjiang Chenming New-style Wall Materials Co., Ltd. and Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd., respectively; and acquired Shouguang Hongxiang Printing and Packaging Co., Ltd. through business combination not under common control.

- (1) In order to push forward with the Company's sales of paper products, further expand the Company's products' share in the European market, and establish a broader and more comprehensive marketing network, the Company decided to set up a sales company in Germany. On 7 January 2013, the Company obtained "Overseas Investment certificate" approved by the Ministry of Commerce, which ratified our establishment of Chenming GmbH with its registered capital of EUR25,000. The Company may make more investments timely based on the operations of the new company. It was included in the scope of consolidation since March 2013.
- (2) In order to make full use of ancillary facilities of public works, realise diversification of the product mix of the Company, and further lower the costs and increase the Company's capability to resist risks, the fifth extraordinary meeting of the six session of the Board passed the "Resolution in relation to establishment of Zhanjiang Meilun Pulp & Paper Co., Ltd." with its registered capital amounting to RMB100.00 million and the company was included in the scope of consolidation since January 2013.
- (3) In order to strengthen comprehensive utilisation of resources and actively respond to national policy for resource utilisation, we decided to, based on local needs, set up Zhanjiang Chenming New-style Wall Materials Co., Ltd., which was invested by Zhanjiang Chenming, a wholly-owned subsidiary of the Company, with its registered capital amounting to RMB10.00 million. The company was included in the scope of consolidation since March 2013.
- (4) In order to extend the Company's business chain, reduce its product packaging costs and increase its revenue, the second extraordinary meeting of the seventh session of the Board approved the "Resolution on acquisition of equity interest in Hongxiang Printing" and entered into an equity transfer agreement with Song Peijun, Tian Changzhi and Zhang Bo respectively on the acquisition of 100% equity interest in Shouguang Hongxiang Printing and Packaging Co., Ltd. at a consideration of RMB2.73 million. The consideration for the acquisition of equity interest was arrived based on the assessed value of Hongxiang Printing as at the base date, i.e. 30 April 2013.
- (5) In order to improve its business operation, fully leverage the advantage of centralised sales and step up efforts to develop the market, the second extraordinary meeting of the seventh session of the Board passed the "Resolution on establishment of Fuyu Sales Company" with registered capital amounting to RMB1.00 million. The company was included in the scope of consolidation since November 2013.

V Directors' Report

XIV. 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 year, six companies were deconsolidated as compared to the prior year and the details are as follows:

During the reporting period, The Company lost its control over Yanbian Chenming Paper Co., Ltd., Wuhan Chenjian New-style Wall Materials Co., Ltd., Shanghai Runchen Equity Investment Fund Co., Ltd. and Wuhan Chenming Wan Xing Real Estate Co., Ltd. due to disposal of equity interest during the period. Therefore, the above three companies ceased to be included in the scope of consolidation. The registration of Wuhan Xingzhilian Paper Company Limited and Jilin Chenming Waste Collection Co., Ltd. was cancelled according to actual needs of operations during the period. Therefore, the above two companies ceased to be included in the scope of consolidation.

- (1) On 26 April 2013, the seventeenth meeting of the six session of the Board of Directors of the Company passed "Resolution in relation to disposal of equity interests in Shanghai Runchen. On the same day, the Company entered into an equity transfer agreement with Shanghai Ruibao Environmental Technology Co., Ltd. to transfer 98.36% equity interest in Shanghai Runchen Equity Investment Fund Co., Ltd. at a consideration of RMB300.9160 million. The Company lost its control over Shanghai Runchen and Shanghai Runchen ceased to be included in the scope of consolidation effective from 26 April 2013.
- (2) On 15 May 2013, the Company entered into an equity transfer agreement with Yanbian Shixian Bailu Paper Co., Ltd and Yanbian State-owned Assets Management Co., Ltd. to transfer its 49% and 51% equity interest in Yanbian Chenming Paper Co., Ltd., respectively, at a consideration of RMB54.00 million and RMB56.00 million. The Company lost its control over Yanbian Chenming and Yanbian Chenming ceased to be included in the scope of consolidation effective from 15 May 2013.
- (3) On 31 January 2013, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a subsidiary of the Company, entered into an equity transfer agreement with Hubei Zhongjian Haohua Environment Protection Co., Ltd. to transfer its 51% equity interest in Wuhan Chenjian New-style Wall Materials Co., Ltd. at a consideration of RMB5.10 million. The Company lost its control over Chenjian Company and Chenjian Company ceased to be included in the scope of consolidation.
- (4) On 27 September 2013, the second extraordinary meeting of the seventh session of the Board approved the Resolution on the joint development of real estate project by Wuhan Chenming and Hubei Zheshang. On 27 September 2013, the Framework Contract on the Contracted Real Estate Development and the Supplementary Agreement of the Framework Contract on the Contracted Real Estate Development were entered into among Wuhan Chenming Hanyang Paper Holdings Co., Ltd., Wuhan Chenming Wan Xing Real Estate Co., Ltd. (hereinafter referred to as the "Project Company") (both are subsidiaries of the Company) and Hubei Zheshang Wan Xing Investment Co., Ltd., whereby the Project Company changed from a wholly-owned subsidiary of the Company's subsidiary, Wuhan Chenming, to a 40%-owned associate of the Company. The Company lost its control over the Project Company and the Project Company ceased to be included in the scope of consolidation.
- (5) Jilin Chenming Waste Collection Co., Ltd. had been inactive for many years. With a view to saving relevant expenses, the Board of Jilin Chenming agreed to cancel the registration of Jilin Waste. Assets and liabilities of Jilin Waste were consolidated into Jilin Chenming for audit on 30 May 2013. Since the date of the registration cancellation of Jilin Waste, being 25 June 2013, this company ceased to be included in the scope of consolidation.
- (6) According to the Company's strategic plans and needs of production and operation, the household paper project was assigned to Wuhan Chenming for investment and development, so as to reduce relevant expenses. It was resolved at the fourteenth meeting of the fifth session of the Board of Wuhan Chenming that the registration of Wuhan Xingzhilian Paper Company Limited was approved to be cancelled. The relevant registration cancellation procedures were completed on 18 March 2013. Since the date of the registration cancellation of Wuhan Xingzhilian, this company ceased to be included in the scope of consolidation.

V Directors' Report

XV. Distribution of profit and dividend payment by the Company

During the reporting period, formulation, implementation and adjustment of profit distribution policy, especially cash dividend policy

☒ Applicable ☐ Not applicable

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 opinions accordingly.

The 2012 Profit Distribution Plan as considered and approved by the 2012 annual general meeting was implemented and completed on 12 July 2013.

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 fully 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.

Particulars of Cash Dividend Policy

Was it in compliance with the requirements of the Articles of Association and the resolution of the general meeting?	Yes
Was the dividend distribution criteria and proportion well-defined and clear?	Yes
Was the related decision making process and mechanism in place?	Yes
Did independent Directors fulfil their duties and play their role?	Yes
Were the small shareholders given opportunities to sufficiently voice their opinion and make requests and were the legal interests of the small shareholders fully protected?	Yes
Were conditions and procedures legal and transparent in respect of cash dividend policy with adjustments and changes?	Yes

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 2013 proposed profit distribution plan

Based on the number of the shares as at the dividend distribution registration date, a cash dividend of RMB3.00 was to be paid to all shareholders for every 10 shares held (tax inclusive). Based on the total share capital of 1,975,471,967 shares of the Company as at 31 December 2013, cash dividend for 2013 amounted to RMB592,641,590.10 (tax inclusive), which represented 83.39% of the net profit attributable to shareholders of the Company as set out in the 2013 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises.

V Directors' Report

XV. Distribution of profit and dividend payment by the Company (Cont'd)

(2) The 2012 profit distribution plan

On 15 May 2013, the Company convened 2012 annual general meeting and considered and approved the 2012 profit distribution plan. There were 2,062,045,941 shares in the total share capital of the Company as at 31 December 2012. After deduction of treasury shares of 86,573,974 shares to be cancelled under the repurchase of B shares of the Company, the total share capital entitled to this distribution amounted to 1,975,471,967 shares which were entitled to this distribution. Based on the 1,975,471,967 shares and a cash dividend of RMB0.60 (tax inclusive) to be paid to shareholders for every 10 shares held, a total cash dividend of RMB118, 528,318.02 (tax inclusive) was distributed.

(3) 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).

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 (%)
2013	592,641,590.10	710,655,331.72	83.39%
2012	118,528,318.02	221,034,822.54	53.62%
2011	309,306,891.20	608,271,256.29	50.85%

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

☐ Applicable ☒ Not applicable

V Directors' Report

XVI. Proposals on profit distribution and conversion of capital reserves into share capital during this reporting period

Numbers of bonus share per 10 shares (share(s))	0
Dividend distribution per 10 shares (RMB) (tax inclusive)	3.00
Share base of the distribution proposal (shares)	1,975,471,967
Total cash dividend (RMB) (tax inclusive)	592,641,590.10
Distributable profits (RMB)	4,741,638,941.58
Percentage of cash dividend to total profits distribution (%)	100%

Cash dividend policy:

The Company proactively implemented cash dividend. The Company shall distribute dividend by way of cash providing that there are sufficient cash flow to meet the Company's normal operations and long-term development. Accumulated profit distribution in cash over the recent three years shall not be less than 30% of profit distributable annually realised over the past three years.

Particulars of profit distribution and conversion of capital reserves into share capital

Please refer to XV. herein for particulars of profit distribution proposal for 2013.

XVII. Fulfilment 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 and 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 fulfilment 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.

In seeking to maximise the interests of shareholders, the Company places great emphasis on the protection of the legitimate interests of creditors, strictly fulfils the obligations under the contracts signed with creditors, timely disclose material information associated with the Company, and actively protect creditors' right to know. In its major operating decision-making process, the Company fully considers the legitimate interests of creditors, particularly by adopting policies to maintain the financial stability of the Company to ensure its financial security.

The Company adheres to the "people-oriented" concept. In the process of business expansion, the Company also vigorously implements talent cultivation strategies, improves employment mechanism, establishes comprehensive training programs and goals, enhances engagement and training of talents, sincerely cares for, understands and respects employees, and strives to create a good working environment and living environment for all kinds of talents that encourage them to achieve outstanding performance. Regarding employment mechanism, the Company insists on placing the right people to the right positions. It actively establishes a talents development platform to provide opportunities for the talents, and establishes an "open, fair and just" competition mechanism for the selection, employment and training of talents. Efforts have been made to enhance employees' sense of belonging, maximise staff enthusiasm and motivation, so that each employee achieves a high degree of harmony between personal career advancement and company development, thus achieving the goal of "to hire good talents, to make good use of talents". This has given full play to all kinds of talents and continues to bring vigour and vitality to the scientific, healthy and sustainable development of the Company.

V Directors' Report

XVII. Fulfilment of Social Responsibility (Cont'd)

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 persists 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 environment 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.

The Company adheres to the core values of "good faith, win-win and sharing". Chenming regards good faith as the cornerstone of development and the Company's brand. The Company puts its brand reputation foremost and adheres to the principle of customer first, quality first, and continuously improves product quality and provides quality services to seek to establish a mutual trust and harmonious social relations and build a good corporate image. Chenming participates in the national paper making industry with a high degree of social responsibility. It participates in market competition and seeks opportunities for development, which leads to mutually beneficial resources sharing with customers, employees and society, thus achieving mutual progress and mutual development as well as the win-win strategy of environmental benefits, social benefits and economic benefits.

V Directors' Report

XVII. Fulfilment 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 generators with daily capacity of treating 450 tonnes of black liquor, a daily capacity of treating 135,000 cubic metres middle water and 130,000 cubic metres 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 passes 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. The Company will further strengthen environmental construction, increase investments in scientific research, ensure the proper operation of environmental protection facilities and fully improve the supervision and management, with the aim of achieving a stable development on the basis of a simultaneous development of production and ecology.

The support and practice of charity has become a tradition of the Company. Over the years, in the face of major sudden onset natural disasters, the Company responded promptly by making charitable donations. In addition to charitable donations, the Company's care for and responsibility towards the society are also demonstrated by its active participation in public welfare activities. In recent years, the amount of charitable donations made by the Company totalled more than RMB20.00 million and the Company was named the “Most Caring Donating Enterprise”.

Are the Company and its subsidiaries within the heavily-polluted industry as specified by the national environmental protection authority?

☒ Yes ☐ No

1. During the reporting period, there were no significant environmental problems and rectification.
2. During the reporting period, major pollutants such as wastewater, waste gas and factory noise were emitted in compliance with the required standards.
3. During the reporting period, the environmental protection facilities operated properly.
4. During the reporting period, in accordance with relevant provisions set out in “Clean Production Promotion Law” and “Disclosure of Environmental Information (Trial)”, the Company, combined with its actual situation, had prepared environmental pollution emergency plans, hazardous waste emergency plans and radioactive emergency plans. Data related to major pollutants' emission in compliance with the required standards were published in the environmental protection column of the Company's website in a timely manner. The Company's environmental work has been at the forefront of the industry over the past years.
5. During the reporting period, the Company's environmental protection facilities and production facilities performed properly. Currently, environmental protection facilities being operated mainly include anaerobic reactor, primary sedimentation tank, aeration tank, secondary settling tank, sludge thickener, depth treatment works (wastewater treatment); desulfurisation and denitrification equipment, and electrostatic precipitators (gas treatment). We set up a specific post for facilities, which are managed and maintained by a designated person. Operational and examination records are complete and the operation is normal.

V Directors' Report

XVII. Fulfilment of Social Responsibility (Cont'd)

Do the Company and its subsidiaries have other significant social security issues?

☐ Yes ☒ No

Any administrative penalties during the reporting period?

☐ Yes ☒ No

XVIII. 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 July 2013	The Company's conference room	On-site research investigation	Institution	Minsheng Tonghui Asset Management Co., Ltd.	Recent production and operation of the Company and development of the industry
13 September 2013	The Company's conference room	On-site research investigation	Institution	Everbright Prumerica Fund Management Company Limited	Recent production and operation of the Company and development of the industry
31 October 2013	The Company's conference room	On-site research investigation	Institution	Pacific Asset Management Co., Ltd., Ping An Asset Management Co., Ltd.	Recent production and operation of the Company and development of the industry
14 November 2013	The Company's conference room	Conference call	Institution	Standard Chartered Bank (Hong Kong) Ltd.	Recent production and operation of the Company and development of the industry
15 November 2013	The Company's conference room	On-site research investigation	Institution	Harvest Fund Management Co., Ltd.	Recent production and operation of the Company and development of the industry
20 November 2013	The Company's conference room	On-site research investigation	Institution	Greenwoods Asset Management Co., Ltd.	Recent production and operation of the Company and development of the industry
05 December 2013	The Company's conference room	On-site research investigation	Institution	Macquarie Funds Management Hong Kong Limited	Recent production and operation of the Company and development of the industry
19 December 2013	The Company's conference room	Conference call	Institution	Reliance Securities Investments Trust Co. Ltd., Haitong International Securities Company Limited	Recent production and operation of the Company and development of the industry
27 December 2013	The Company's conference room	On-site research investigation	Other	Bao Jian Shi Bao	The company's development history and current situation

V Directors' Report

XIX. Securities interests held by Directors, Supervisors and Chief Executives under the SFO of Hong Kong

As at 31 December 2013, 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 Chief Executives 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
Hou Huancai	Executive Director	628,915
Zhou Shaohua	Executive Director	123,007
Cui Youping	Non-Executive Director	—
Wang Xiaoqun	Non-Executive Director	—
Wang Aiguo	Independent Non-Executive Director	—
Zhang Zhiyuan	Independent Non-Executive Director	—
Zhang Hong	Independent Non-Executive Director	—
Pan Ailing	Independent Non-Executive Director	—
Supervisors		
Gao Junjie	Supervisor	39,606
Wang Ju	Supervisor	—
Yang Hongqin	Supervisor	—
Yin Qixiang	Supervisor	—
Guo Guangyao	Supervisor	—

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 at the end of the reporting period (shares)
Chen Hongguo	Chairman	Shouguang Chenming Holdings Company Limited	231,000,000	—	231,000,000

Note 1: Save for the 6,334,527 A shares held personally, Chen Hongguo 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.

V Directors' Report

XIX. Securities interests held by Directors, Supervisors and Chief Executives under the SFO of Hong Kong (Cont'd)

Save as disclosed above, as at 31 December 2013, 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 2013, 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.

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

As at 31 December 2013, 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 SFO:

Name	Number of shares held (shares)	Approximate shareholding as a percentage of (%)	
		Total share capital	Class of shares
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	206,403,657 A shares (L)	10.45	18.54
Agreed repurchase earmarked account at GF SECURITIES CO., LTD.	86,600,000 A shares (L)	4.38	7.78
THE NATIONAL SOCIAL SECURITY FUND COUNCIL	35,570,000 H shares (L)	1.80	9.09

(L)– Long position

(S) – Short position

(P) – Lending pool

Save as disclosed above, as at 31 December 2013, 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.

XXI. 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.

XXII. 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.

V Directors' Report

XXIII. Directors and Senior Management's Remuneration and the Five Highest Paid Individuals

Details of directors and senior management's remuneration and those of the five highest paid individuals in the Company and its subsidiaries are set out in part III of section VIII and part IX of section XI.

In 2013, the Company has 30 senior management in total, which include directors, supervisors and senior management. The remuneration of senior management falls within the following ranges:

Range of remuneration	Number
RMB4.8 million to RMB5.2 million	1
RMB3.6 million to RMB4.0 million	
RMB3.2 million to RMB3.6 million	1
RMB2.8 million to RMB3.2 million	1
RMB2.4 million to RMB2.8 million	1
RMB1.6 million to RMB2.0 million	1
RMB1.2 million to RMB1.6 million	2
RMB0.8 million to RMB1.2 million	5
Below RMB0.8 million	18

XXIV. 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.

XXV. Transfer into reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act. As of 31 December 2013, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately RMB5,379,887,056.23 (2012: RMB4,766,116,549.03) are set out in part II Financial Statements of section XI Financial Report.

XXVI. Purchase, sale and redemption of shares

During the year ended 31 December 2013, the Company repurchased in Shenzhen Stock Exchange 86,573,974 B shares in total, at a consideration of HK\$330,911,185.31 (representing the average price paid for purchasing shares being HK\$3.8223). All these shares have been cancelled upon the repurchase.

During the year ended 31 December 2013, the Company repurchased in Hong Kong Stock Exchange 11,484,500 H shares in total, at a consideration of HK\$39,230,260.00 (representing the average price paid for purchasing shares being HK\$3.4159). All these shares have yet to be cancelled upon the repurchase.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the reporting period.

XXVII. 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.

V Directors' Report

XXVIII. 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.

XXIX. Review of the Audit Committee

The audited consolidated financial statements of the Company for the year ended 31 December 2013 has been reviewed by the Audit Committee of the Company.

XXX. Going Concern Basis

The Company is a major conglomerate focusing on forestry, pulp and paper, with comparative advantages in scale, product, technology and equipment, research and innovation, overall costs, capital and environmental management capabilities. In recent years, the Company has been committed to the development of integrated forestry, pulp and paper development, with a longer industry chain and a more comprehensive range of paper products. The development path of the Company is in line with development planning requirements of the entire paper making industry. The Company has also established a finance company and a finance leasing company as well as conducted magnesite mining. The participation in the financial and energy sectors broadened the Company's industry chain and rationalised the industrial layout, thus enhancing its going concern ability.

The company has a good sustained profitability. In 2013, the Company achieved operating income of RMB20.389 billion, net profit attributable to shareholders of listed company was RMB711 million and net cash flow from operating activities was RMB1,123 million. Meanwhile, the Company always places emphasis on the interests of and return to shareholders, and has paid generous cash dividends for several years. With the improvement of the economic situation, the future performance of the Company is worth looking forward to.

In addition, as of the end of December 2013, the Company obtained a comprehensive credit line of RMB44.9 billion from major financial institutions, of which unused credit line amounted to RMB31.0 billion, which provided important support to the Company's business development. As an A-share, B-share and H-share listed company, the Company has convenient financing channels. The establishment of the Group's finance company will 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 its financing cost and improve its debt structure.

The auditors of the Company have prepared the 2013 annual financial report on a going concern basis, and have issued a standard unqualified audit opinion (see Financial Report section).

Therefore, the Board believes the Company has the ability to continue as a going concern.

XXXI. Closure of register of members

The register of members of the Company will be closed from 7 April 2014 (Monday) to 9 May 2014 (Friday), (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 9 May 2014 (Friday), 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 4 April 2014 (Friday).

VI Material Matters

I. Material litigation and arbitration

☐ Applicable ☒ Not applicable

The Company had no material litigation and arbitration during the reporting period.

II. Media criticism

☒ Applicable ☐ Not applicable

Descriptions on media criticism	Disclosure Date	Disclosure index
Clarification on media criticism regarding the Company relating to matters such as “alleged discharge of waste water, delay in reclassifying construction in progress as fixed assets and reliance on government grants”	26 February 2013	http://www.cninfo.com.cn , announcement no.: 2013-016
Explanation on results of “284,200 tonne production capacity of the Company and its subsidiaries was listed in a list prescribing the first batch of industrial enterprises which are to shed their backward production capacity for 2013 published by the Ministry of Industry and Information Technology of the PRC”	26 July 2013	http://www.cninfo.com.cn , announcement no.: 2013-062

III. Matters related to bankruptcy and reorganisation

During the reporting period, there were no matters related to bankruptcy and reorganisation.

IV. Asset transactions

1. Acquisition of assets

Counterparty(ies) or ultimate controller(s)	Asset(s) acquired	Transaction consideration (RMB'0,000)	Progress (Note 2)	Effect on operation of the Company (Note 3)	Effect on profit and loss of the Company (Note 4)	Ratio of the net profit contribution to the Company of the asset(s) over total net profit (%)	Connected transaction or not	Relationship with the party(ies) involved (Applicable to connected transaction)	Disclosure Date (Note 5)	Disclosure index
Yanbian Shixian Bailu Papermaking Co., Ltd.	6,350mm paper machine	20,400	Asset title and liability were transferred.	Able to further leverage the advantage of the existing equipment of the Company and at the same time able to save the costs of acquisition.	The asset being in the installation and commissioning phase and no effect on the financial position and operating results during the reporting period.	The asset being in the installation and commissioning phase	No	Not applicable	16 May 2013	http://www.cninfo.com.cn
Song Peijun, Tian Changzhi and Zhang Bo	100% equity interest in Shouguang Hongxiang Printing and Packaging Co., Ltd.	273	Asset title and liability were transferred.	Expand the industrial chains and increase revenue	The acquisition of equity interest in Hong Xiang Printing has an impact on net profits of the Company, up by RMB 2.41million	1.52%	No	Not applicable	30 September 2013	http://www.cninfo.com.cn

VI Material Matters

IV. Asset transactions (Cont'd)

2. Disposal of assets

Counterparty(ies)	Asset disposed of	Disposal Date	Transaction consideration (RMB'0,000)	Net profit contribution to the Company from the beginning of the period up to the disposal date (RMB'0,000)	Effect on the disposal to the company (note 3)	Ratio of the net profit contribution to the Company of disposal of assets over total net profit (%)	Pricing basis of asset disposal	Connected transaction or no	Relationship with counterparty (ies) (applicable to connected transaction)	Relevant asset title transferred or not	Relevant liability transferred or not	Disclosure date	Disclosure index
Yanbian Shixian Bailu Papermaking Co., Ltd	49% equity interest in Yanbian Chenming Paper Co., Ltd.	15 May 2013	5,400	-192.53	Net profit increased by RMB5.43 million due to asset disposal, in line with the development strategy of high-end products, capable of improving economic efficiency.	0.76%	Based on the appraised price of an appraisal agency	No		Yes	Yes	16 May 2013	http://www.cninfo.com.cn
Yanbian State-owned Assets Investment Management Co., Ltd.	51% equity interest in Yanbian Chenming Paper Co., Ltd.	15 May 2013	5,600	-200.39	Net profit increased by RMB5.65 million due to asset disposal, in line with the development strategy of high-end products, capable of improving economic efficiency.	0.80%	Based on the appraised price of an appraisal agency	No		Yes	Yes	16 May 2013	http://www.cninfo.com.cn
Hubei Zhongjian Haohua Environment Protection Co., Ltd.	51% equity interest in Wuhan Chenjian New - style Wall Materials Co., Ltd.	2 March 2013	510	-28.21	Net profit decreased by RMB4.00 million due to asset disposal.	-0.56%	Based on the appraised price of an appraisal agency	No		Yes	Yes		Not applicable
Shanghai Ruibao Environmental Technology Co., Ltd.)	98.36% equity interest in Shanghai Runchen Equity Investment Fund Co., Ltd.	26 April 2013	30,091.6	56.46	Net profit remained unchanged due to asset disposal, conducive to protect the interests of the Company and shareholders, reducing investment risk, improving capital utilisation efficiency.	0%	Based on the audited net assets as at 31 March 2013	No		Yes	Yes	27 April 2013	http://www.cninfo.com.cn
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	60% equity interest in Wuhan Chenming Wan Xing Real Estate Co., Ltd.	5 December 2013	6,000	-721.20	Net profit increased by RMB9.33 million due to asset disposal, in line with the development strategy of diversified products.	1.31%	Based on the audited net assets as at 30 November 2013	No		Yes	Yes	27 September 2013	http://www.cninfo.com.cn

VI Material Matters

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

There was no implementation of the equity incentive plan of the Company during the reporting period.

VI. 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	Available market price of similar transactions	Disclosure Date	Disclosure index
Anhui Time Source Corporation	Associate	Sale	Machine-made paper	Market price and authorisation from the Board	Market price	2,152.24	0.14%	Bank acceptance and telegraphic transfer	Not applicable	Not applicable	Not applicable
Total				—	—	2,152.24	—	—	—	—	—
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							

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)
Anhui Time Source Corporation	Associate	Creditors' rights due from a related party	In the ordinary course of business	No	1,573.91	84.09	1,658.00
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Associate	Creditors' rights due from a related party	In the ordinary course of business	No	2.16	-2.16	0
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Associate	Creditors' rights due from a related party	In the ordinary course of business	No		55,196.46	55,196.46
Arjo Wiggins Chenming Special Paper Co., Ltd.	Associate	Creditors' rights due from a related party	In the ordinary course of business	No	129.09		129.09
Shouguang Hengtai Enterprise Investment Company Limited	A company invested by senior management	Creditors' rights due to a related party	In the ordinary course of business	No		1,866.87	1,866.87
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 occurred in the ordinary course of business, with risks being kept under control by the Company and thus, had no effect on the operating results and financial position of the Company.						

VI Material Matters

VI. Significant related party transactions (Cont'd)

3. Other significant connected party transactions

On 6 February 2013, the Company convened the eighth extraordinary meeting of the sixth session of the Board, in which "Resolution on capital increase in Haiming Mining and introduction of the shareholder" was passed. The current registered capital of Haiming Chenming was relatively limited and did not commence any revenue generating operation. Having considered operational risks and capital requirements for future projects of Haiming Chenming, the Company decided to increase the capital of Haiming Chenming to RMB240 million upon discussion with shareholders, which benefited the Company and shareholders as a whole and shareholders could share all risks and work together. The Company, Liaoning BeiHai Industries Group Co., Ltd. and Shouguang Hengtai Enterprise Investment Company Limited made capital contributions in the amounts of RMB74.00 million, RMB42.00 million and RMB24.00 million respectively to the registered capital of Haiming Chenming. Upon completion of the increase in capital, the registered capital of Haiming Mining increased to RMB240 million, which was owned as to 60%, 30% and 10% by the Company, BeiHai Industries and Hengtai Enterprise respectively. As the Chairman and some of the directors, supervisors and senior management of the Company had equity interest in Hengtai Enterprise, the capital contribution by Hengtai Enterprise to Haiming Mining constituted a connected transaction. The capital increase and introduction of new shareholders of Haiming Mining were completed on 13 March 2013. The registered capital of Haiming Mining changed to RMB240 million.

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

Name of tentative announcement	Disclosure date of the tentative announcement	Name of the tentative announcement disclosure website
Announcement in respect of capital increase in Haiming Mining and connected transaction	7 February 2013	http://www.cninfo.com.cn

VII. Material contracts and implementation

1. Custody, contracting and leasing

(1) Custody

During the reporting period, no assets of other companies were 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

VI Material Matters

VII. Material contracts and implementation (Cont'd)

2. Guarantees

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

During the reporting period, the Company provided guarantee to its subsidiaries with respect to application of bank loans. The guarantee amount incurred was RMB3,121.0385 million. As of 31 December 2013, the actual balance of the guarantee provided by the Company to its subsidiaries amounted to RMB2,959.3928 million, representing 21.08% of the equity attributable to shareholders of the listed company for 2013.

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 Pulp & Paper Co., Ltd.	28 March 2012	300,000	24 May 2012	127,981.25	General guarantee	3 years	No	Yes
Zhanjiang Chenming Pulp & Paper Co., Ltd.	21 August 2013	200,000	—	—	General guarantee	3 years	No	Yes
Jiangxi Chenming Paper Co., Ltd.	21 December 2012	20,000	21 December 2012	7,500	General guarantee	3 years	No	Yes
Jiangxi Chenming Paper Co., Ltd.	27 March 2013	200,000	—	—	General guarantee	3 years	No	Yes
Huanggang Chenming Pulp & Paper Co., Ltd.	15 November 2013	304,000	—	—	General guarantee	3 years	No	Yes
Huanggang Chenming Arboriculture Co., Ltd.	25 February 2010	16,000	08 July 2010	—	General guarantee	3 years	Yes	Yes
Huanggang Chenming Arboriculture Co., Ltd.	30 March 2011	20,000	19 September 2011	2,960	General guarantee	3 years	No	Yes
Huanggang Chenming Arboriculture Co., Ltd.	28 March 2012	20,000	27 June 2012	2,600	General guarantee	3 years	No	Yes
Shouguang Meilun Paper Co., Ltd.	24 August 2010	79,473	10 September 2010	14,632.56	General guarantee	5 years	No	Yes
Shouguang Meilun Paper Co., Ltd.	29 October 2010	600,000	24 September 2013	4,877.52	General guarantee	3 years	No	Yes
Shouguang Chenming Art Paper Co., Ltd.	28 March 2012	10,000	—	—	General guarantee	3 years	No	Yes
Jilin Chenming Paper Co., Ltd.	28 March 2012	100,000	—	—	General guarantee	3 years	No	Yes
Jilin Chenming Paper Co., Ltd.	27 March 2013	50,000	—	—	General guarantee	3 years	No	Yes
Chenming (HK) Limited	29 October 2010	50,000	13 April 2011	50,000	General guarantee	3 years	No	Yes
Chenming (HK) Limited	28 March 2012	500,000	—	—	General guarantee	3 years	No	Yes
Shandong Chenming Paper Sales Company Limited	27 October 2011	400,000	07 June 2013	81,387.95	General guarantee	3 years	No	Yes
Shouguang Chenming Import and Export Trade Co., Ltd.	28 March 2012	200,000	—	—	General guarantee	3 years	No	Yes
Zhanjiang Meilun Paper Co., Ltd.	27 March 2013	50,000	—	—	General guarantee	3 years	No	Yes
Guangdong Huirui Investment Co., Ltd.	16 November 2013	4,000	28 November 2013	4000	General guarantee	2 years	No	Yes
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)		808,000		Total amount of guarantee provided for subsidiaries during the reporting period (B2)				312,103.85
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)		3,107,473		Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)				295,939.28
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)		808,000		Total amount of guarantee provided during the reporting period (A2+B2)				312,103.85
Total amount of guarantee approved as at the end of the reporting period (A3+B3)		3,107,473		Total balance of guarantee provided as at the end of the reporting period (A4+B4)				295,939.28
The percentage of total amount of guarantee provided (A4+B4) to the net assets of the Company								21.08%
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)								160,458
Total amount of guarantee provided in excess of 50% of net assets (E)								0
Sum of the above three amount of guarantee (C+D+E)								160,458

VI Material Matters

VII. Material contracts and implementation (Cont'd)

3. Other material contracts

Name of the company entering into contract	Name of party involved in the contract	Date of the contract entered into	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	06 February 2013	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	No	Not applicable	The project involved in this contract commenced construction on 30 December 2013.

VIII. 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 prior periods but 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 period when Chenming Holdings was the major shareholder of the Company	Strictly implemented

VI Material Matters

VIII. 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 prior periods but 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 period when Chenming Holdings was the major shareholder of the Company	Strictly implemented
Other undertakings made to minority shareholders of the Company					
Does the undertaking performed timely?	Yes				

VI Material Matters

IX. Engagement or dismissal of accounting firms

Current accounting firm engaged

Name of the domestic accounting firm

Ruihua 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

1 year

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

Whether to appoint another accounting firm during the audit period

☐ Yes ☒ No

Whether to fulfil procedures for approval regarding the change of another accounting firm

☒ Yes ☐ No

Explanation on the appointment and change of another accounting firm

The proposal for the engagement of the auditors for the year 2013 has been considered and approved on the 2012 Annual General Meeting held on 15 May, 2013. It was resolved to re-appoint RSM China CPA (Special General Partnership) as the auditors for the financial audit of the Company for 2013. The Company received a letter on the Change of RSM China CPA (Special General Partnership) into Ruihua CPA (Special General Partnership) from RSM in July 2013, which set out that RSM had merged with Crowe Horwath CPA and it was named as Ruihua CPA (Special General Partnership) after the merger. After the establishment of Ruihua, the staff and the business of RSM are transferred to Ruihua and RSM provides its service to its clients under the name of Ruihua. All the contracts previously entered into by RSM with the Company remain valid and Ruihua will succeed to and perform the corresponding duties, rights and obligations. The proposal for the change of the auditors was considered and approved at the 2013 First Extraordinary General Meeting on 21 August 2013, pursuant to which the Company appointed Ruihua CPA (Special General Partnership) as the auditors of the Company for 2013. For more details, please refer to the related announcements disclosed by the Company on <http://www.cninfo.com.cn/> on 2 Aug 2013 and 22 Aug 2013.

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. The Company engaged King & Wood Mallesons (Qingdo) Law Firm as its annual legal advisor and paid RMB100,000 for legal advisory fees during the period.

VI Material Matters

X. 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

Ruihua Certified Public Accountants has conducted audit of the Company’s 2013 annual financial report, and issued a standard unqualified auditor’s report.

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

There was no suspension in trading or delisting following the disclosure of the Company’s annual report.

XII. Explanation of other material matters

1. Official Reply of China Banking Regulatory Commission on the Establishment of Finance Company

On 25 November 2013, the Company received the “Official Reply of the China Banking Regulatory Commission on the Establishment of Finance Company within Group Enterprise by Shandong Chenming Paper Holdings Limited” (Yin Jian Fu No. [2013] 596) issued by the China Banking Regulatory Commission (the “CBRC”). Please refer to the relevant announcement (Announcement No.: 2013-108) of the Company dated 26 November 2013.

2. Results on Issuance of 2013 Short-term Commercial Paper

The first tranche of the 2013 short-term commercial paper of the Company was issued by means of public offering on the National Inter-Bank Bond Market on 11 September 2013. The bond issue is amounted to RMB1,800 million, each with a nominal amount of RMB100, for a term of 365 days. All the proceeds from the issuance of short-term commercial paper were credited to the account on 12 September 2013 for refinancing of bank loans.

The public issue of the 2013 second tranche of short-term commercial paper in the national inter-bank bond market was launched by the Company on 24 October 2013. The amount of the issue was RMB2,000 million for a term of 365 days. The nominal amount of each commercial paper is RMB100. The proceeds from this tranche of short-term commercial paper issue were fully received on 25 October 2013 to be used for refinancing of bank borrowings.

3. The First Tranche of the 2013 Private Placement Notes

The issue of the first tranche of the 2013 private placement notes was launched by the Company on 22 April 2013. The amount of the issue was RMB1,500 million for a term of 3 years. The nominal amount of each note is RMB100. The proceeds were used for refinancing of bank borrowings, so as to reduce financing costs and further adjust debt structure.

VI Material Matters

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

4. Information disclosure index for 2013

Announcement No.	Subject matter	Date of publication	Websites of publication and their path
2013-001	Third Announcement on Repurchase of B Shares and Reduction of Registered Capital	11 January 2013	http://www.cninfo.com.cn
2013-002	Announcement on Notice of 2013 First Bondholder Meeting of "11 Chenming Bond"	11 January 2013	http://www.cninfo.com.cn
2013-003	Indicative Announcement on Agreed Repurchase Type Securities Trading by a Shareholder	23 January 2013	http://www.cninfo.com.cn
2013-004	Announcement on Failure to Convene 2013 First Bondholder Meeting of "11 Chenming Bond"	29 January 2013	http://www.cninfo.com.cn
2013-005	Announcement on Estimated Annual Results for 2012	31 January 2013	http://www.cninfo.com.cn
2013-006	Indicative Announcement on receipt of subsidies	31 January 2013	http://www.cninfo.com.cn
2013-007	2012 Corporate Bonds Listing Announcement	1 February 2013	http://www.cninfo.com.cn
2013-008	Announcement on Resolutions of the Seventh Interim Meeting of the Sixth Session of the Board of Directors	2 February 2013	http://www.cninfo.com.cn
2013-009	Announcement on External Investment	2 February 2013	http://www.cninfo.com.cn
2013-010	Indicative Announcement on contract entered into by Guangdong Huirui	7 February 2013	http://www.cninfo.com.cn
2013-011	Indicative Announcement on Change of Name of Controlling Subsidiary	7 February 2013	http://www.cninfo.com.cn
2013-012	Announcement on Resolutions of the Eighth Interim Meeting of the Sixth Session of the Board of Directors	7 February 2013	http://www.cninfo.com.cn
2013-013	Connected Transaction in relation to Capital Increase in Haiming Mining	7 February 2013	http://www.cninfo.com.cn
2013-014	Announcement on External Investment	7 February 2013	http://www.cninfo.com.cn
2013-015	Announcement on External Investment	7 February 2013	http://www.cninfo.com.cn
2013-016	Indicative Announcement on Media Coverage	26 February 2013	http://www.cninfo.com.cn
2013-017	Indicative Announcement on Progress of Repurchase of Part of B shares	28 February 2013	http://www.cninfo.com.cn
2013-018	Announcement on Implementation of Repurchase of Part of B shares	28 February 2013	http://www.cninfo.com.cn
2013-019	Announcement on Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors	28 February 2013	http://www.cninfo.com.cn
2013-020	Announcement on Resolutions of the Thirteenth Meeting of the Sixth Session of the Board of Directors	28 February 2013	http://www.cninfo.com.cn
2013-021	Notice of 2012 Annual General Meeting	28 February 2013	http://www.cninfo.com.cn
2013-022	Announcement in respect of Provision of Guarantee for the General Banking Facilities of Controlling Subsidiaries	28 February 2013	http://www.cninfo.com.cn
2013-023	Announcement in respect of Provision of Financial Support to Several Controlling Subsidiaries	28 February 2013	http://www.cninfo.com.cn
2013-024	2012 Annual Report summary	28 February 2013	http://www.cninfo.com.cn
2013-025	Announcement on Entitlement of High-tech Enterprises	3 April 2013	http://www.cninfo.com.cn

VI Material Matters

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

4. Information disclosure index for 2013 (Cont'd)

Announcement No.	Subject matter	Date of publication	Websites of publication and their path
2013-026	Indicative Announcement on Refunds upon Receipt of Tax Revenue	3 April 2013	http://www.cninfo.com.cn
2013-027	Indicative Announcement on Progress of Repurchase of Part of B shares	3 April 2013	http://www.cninfo.com.cn
2013-028	Announcement on Estimated Results for the First Quarter of 2013	3 April 2013	http://www.cninfo.com.cn
2013-029	Indicative Announcement on Progress of Repurchase of Part of B shares	12 April 2013	http://www.cninfo.com.cn
2013-030	Announcement on Additional Resolution of 2012 shareholders' meeting	26 April 2013	http://www.cninfo.com.cn
2013-031	Indicative Announcement on Notice of 2012 Annual General Meeting	26 April 2013	http://www.cninfo.com.cn
2013-032	Announcement on Issue of Dedicated Private Debt Financing Instruments	26 April 2013	http://www.cninfo.com.cn
2013-033	Announcement on Resolutions of Seventeenth meeting of the Sixth session of the Board	27 April 2013	http://www.cninfo.com.cn
2013-034	Announcement on Disposal of Equity Interest in Shanghai Runchun	27 April 2013	http://www.cninfo.com.cn
2013-035	2013 First Quarter Report	27 April 2013	http://www.cninfo.com.cn
2013-036	Indicative Announcement	3 May 2013	http://www.cninfo.com.cn
2013-037	Indicative Announcement on Progress of Repurchase of Part of B shares	4 May 2013	http://www.cninfo.com.cn
2013-038	Indicative Announcement	7 May 2013	http://www.cninfo.com.cn
2013-039	Indicative Announcement on Progress of Repurchase of Part of B shares	15 May 2013	http://www.cninfo.com.cn
2013-040	Announcement on Resolutions of the Ninth Interim Meeting of the Sixth Session of the Board of Directors	16 May 2013	http://www.cninfo.com.cn
2013-041	Announcement on Disposal of Equity Interest in Yanbian Chenming and Acquisition of Assets	16 May 2013	http://www.cninfo.com.cn
2013-042	Announcement on Resolutions of 2012 Annual General Meeting	16 May 2013	http://www.cninfo.com.cn
2013-043	Announcement on Resolutions of the First Meeting of the Seventh Session of the Board of Directors	17 May 2013	http://www.cninfo.com.cn
2013-044	Announcement on Resolutions of the First Meeting of the Seventh Session of the Supervisory Committee	17 May 2013	http://www.cninfo.com.cn
2013-045	Indicative Announcement on Progress of Repurchase of Part of B shares	24 May 2013	http://www.cninfo.com.cn
2013-046	Indicative Announcement on Receipt of Incentive Fund	25 May 2013	http://www.cninfo.com.cn
2013-047	Indicative Announcement	28 May 2013	http://www.cninfo.com.cn
2013-048	Indicative Announcement on Progress of Repurchase of Part of B shares (I)	6 June 2013	http://www.cninfo.com.cn
2013-049	Indicative Announcement on Progress of Repurchase of Part of B shares (II)	6 June 2013	http://www.cninfo.com.cn
2013-050	Announcement on Resolutions of the First Interim Meeting of the Seventh Session of the Board of Directors	28 June 2013	http://www.cninfo.com.cn

VI Material Matters

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

4. Information disclosure index for 2013 (Cont'd)

Announcement No.	Subject matter	Date of publication	Websites of publication and their path
2013-051	Announcement on External Investment	28 June 2013	http://www.cninfo.com.cn
2013-052	Announcement on External Investment	28 June 2013	http://www.cninfo.com.cn
2013-053	Notice on 2013 first extraordinary general meeting	28 June 2013	http://www.cninfo.com.cn
2013-054	Notice of 2013 First Domestic Listed Share Class Meeting and 2013 First Overseas Listed Share Class Meeting	28 June 2013	http://www.cninfo.com.cn
2013-055	Indicative Announcement on Receipt of Incentive Fund	28 June 2013	http://www.cninfo.com.cn
2013-056	Announcement on 2013 Dividend Payment in respect of "11 Chenming Bond"	28 June 2013	http://www.cninfo.com.cn
2013-057	Announcement on the Implementation of Equity Distribution for 2012	3 July 2013	http://www.cninfo.com.cn
2013-058	Indicative Announcement on Progress of Repurchase of Part of B shares	3 July 2013	http://www.cninfo.com.cn
2013-059	Announcement on Notice of 2013 First Bondholder Meeting of "11 Chenming Bond"	5 July 2013	http://www.cninfo.com.cn
2013-060	Announcement on Notice of 2013 First Bondholder Meeting of "12 Chenming Bond"	5 July 2013	http://www.cninfo.com.cn
2013-061	Announcement on Interim Results for 2013	11 July 2013	http://www.cninfo.com.cn
2013-062	Indicative Announcement	26 July 2013	http://www.cninfo.com.cn
2013-063	Indicative Announcement on Change of Auditors	2 August 2013	http://www.cninfo.com.cn
2013-064	Announcement on Additional Resolution of 2013 first extraordinary general meeting	2 August 2013	http://www.cninfo.com.cn
2013-065	Notice on 2013 first extraordinary general meeting	2 August 2013	http://www.cninfo.com.cn
2013-066	Announcement on External Investment	2 August 2013	http://www.cninfo.com.cn
2013-067	Announcement of Provision of Guarantee to Zhanjiang Chenming for Increase in General Banking Facilities	2 August 2013	http://www.cninfo.com.cn
2013-068	Notice on 2013 First Class Meeting for Shareholders of Domestic Listed Shares and 2013 First Class Meeting for Shareholders of Overseas Listed Shares	2 August 2013	http://www.cninfo.com.cn
2013-069	Indicative Announcement on Progress of Repurchase of Part of B shares	2 August 2013	http://www.cninfo.com.cn
2013-070	Indicative Announcement on bid for land of Controlling Subsidiary	17 August 2013	http://www.cninfo.com.cn
2013-071	2013 Interim Report Summary of Shandong Chenming Paper Holdings Limited	22 August 2013	http://www.cninfo.com.cn
2013-072	Announcement on Repurchase of H shares and Reduction of Registered Capital	22 August 2013	http://www.cninfo.com.cn
2013-073	Announcement on Resolutions of the Second Meeting of the Seventh Session of the Board of Directors	22 August 2013	http://www.cninfo.com.cn
2013-074	Announcement on Resolutions of the 2013 First Extraordinary General Meeting	22 August 2013	http://www.cninfo.com.cn

VI Material Matters

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

4. Information disclosure index for 2013 (Cont'd)

Announcement No.	Subject matter	Date of publication	Websites of publication and their path
2013-075	Announcement on Resolutions of the 2013 First Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and Resolutions of the 2013 First Class Meeting for Holders of Overseas Listed Shares (H shares)	22 August 2013	http://www.cninfo.com.cn
2013-076	Notice of Meeting for Holders of First Tranche of 2012 Medium-term Notes	22 August 2013	http://www.cninfo.com.cn
2013-077	Announcement on Failure to Convene 2013 First Bondholder Meeting of "11 Chenming Bond"	29 August 2013	http://www.cninfo.com.cn
2013-078	Announcement on Failure to Convene 2013 First Bondholder Meeting of "12 Chenming Bond"	29 August 2013	http://www.cninfo.com.cn
2013-079	Announcement on Approval of Registration on Short-term Commercial Paper	30 August 2013	http://www.cninfo.com.cn
2013-080	Indicative Announcement on Progress of Repurchase of Part of B shares	5 September 2013	http://www.cninfo.com.cn
2013-081	Announcement on Resolution of Meeting for Holders of the First Tranche of the 2012 Medium-term Notes	5 September 2013	http://www.cninfo.com.cn
2013-082	Announcement on Resolution of Meeting for Holders of the First Tranche of the 2013 Private Placement Notes	5 September 2013	http://www.cninfo.com.cn
2013-083	Second Announcement on Repurchase of H Shares and Reduction of Registered Capital	7 September 2013	http://www.cninfo.com.cn
2013-084	Announcement on Results on Issuance of First Tranche of 2013 Short-term Commercial Paper	13 September 2013	http://www.cninfo.com.cn
2013-085	Third Announcement on Repurchase of H Shares and Reduction of Registered Capital	23 September 2013	http://www.cninfo.com.cn
2013-086	Announcement on Resolutions of the Second Interim Meeting of the Seventh Session of the Board of Directors	30 September 2013	http://www.cninfo.com.cn
2013-087	Announcement on External Investment	30 September 2013	http://www.cninfo.com.cn
2013-088	Announcement on External Investment	30 September 2013	http://www.cninfo.com.cn
2013-089	Announcement on External Investment	30 September 2013	http://www.cninfo.com.cn
2013-090	Announcement of Provision of Guarantee to Huanggang Chenming	30 September 2013	http://www.cninfo.com.cn
2013-091	Announcement on Acquisition of Equity Interest in Hongxiang Printing	30 September 2013	http://www.cninfo.com.cn
2013-092	Announcement on External Investment	30 September 2013	http://www.cninfo.com.cn
2013-093	Notice on 2013 second extraordinary general meeting	30 September 2013	http://www.cninfo.com.cn
2013-094	Announcement on Resolutions of the Third Meeting of the Seventh Session of the Board of Directors	30 September 2013	http://www.cninfo.com.cn
2013-095	Indicative Announcement on Progress of Repurchase of Part of B shares	9 October 2013	http://www.cninfo.com.cn
2013-096	Indicative Announcement on Receipt of Subsidy	11 October 2013	http://www.cninfo.com.cn

VI Material Matters

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

4. Information disclosure index for 2013 (Cont'd)

Announcement No.	Subject matter	Date of publication	Websites of publication and their path
2013-097	Announcement on Estimated Results for the Nine Months Ended 30 September 2013	15 October 2013	http://www.cninfo.com.cn
2013-098	2013 Third Quarter Report	28 October 2013	http://www.cninfo.com.cn
2013-099	Announcement on Additional Resolution of 2013 second extraordinary general meeting	29 October 2013	http://www.cninfo.com.cn
2013-100	Notice on 2013 second extraordinary general meeting	29 October 2013	http://www.cninfo.com.cn
2013-101	Announcement on Provision of Guarantee to Guangdong Huirui by Zhanjiang Chenming	29 October 2013	http://www.cninfo.com.cn
2013-102	Announcement on Results on Issuance of Second Tranche of 2013 Short-term Commercial Paper	29 October 2013	http://www.cninfo.com.cn
2013-103	Indicative Announcement on Progress of Repurchase of Part of B shares	2 November 2013	http://www.cninfo.com.cn
2013-104	Indicative Announcement on Progress of Repurchase of Part of H shares	6 November 2013	http://www.cninfo.com.cn
2013-105	Announcement on Resolutions of the Third Interim Meeting of the Seventh Session of the Board of Directors	16 November 2013	http://www.cninfo.com.cn
2013-106	Announcement on Disposal of Equity Interest in Xinli Power	16 November 2013	http://www.cninfo.com.cn
2013-107	Announcement on 2013 Second extraordinary general meeting	16 November 2013	http://www.cninfo.com.cn
2013-108	Announcement on Official Reply of China Banking Regulatory Commission on the Establishment of Finance Company	26 November 2013	http://www.cninfo.com.cn
2013-109	Indicative Announcement on Progress of Repurchase of Part of B shares	5 December 2013	http://www.cninfo.com.cn
2013-110	Announcement on change of job duty of senior management	14 December 2013	http://www.cninfo.com.cn
2013-111	Announcement on completion of repurchase of part of B shares	14 December 2013	http://www.cninfo.com.cn
2013-112	Announcement on 2013 Dividend Distribution regarding 12 Chenming Bond	19 December 2013	http://www.cninfo.com.cn
2013-113	Indicative Announcement on Receipt of Relocation Compensation for a Controlling Subsidiary	25 December 2013	http://www.cninfo.com.cn
2013-114	Report on completion of repurchase of part of domestic listed foreign shares (B shares) and change in share capital	25 December 2013	http://www.cninfo.com.cn

VI Material Matters

XIII. Significant matters of the subsidiaries of the Company

1. Receipt of Relocation Compensation for a Controlling Subsidiary

Based on the meeting on “Elimination of outdated capacities and green relocation of Wuhan Chenming Company”, the Wuhan government provides subsidy to subsidises the expenditure of Wuhan Chenming on demolition, infrastructure construction, the loss of suspended production and operation as well as staff placement during the green relocation as a form of government support to relieve the funding pressure on Wuhan Chenming arising from green relocation and technology upgrade. As of 23 December 2013, Wuhan Chenming had received a sum of money amounting to RMB314.84 million as green relocation and staff placement compensation from Finance Bureau of Wuhan Economic and Technological Development Zone. The above amount was mainly used for the payment of the expenses incurred on demolition, infrastructure construction, the loss of suspended production and operation as well as staff placement during the green relocation of Wuhan Chenming. For more details, please refer to the related announcement (Announcement No.: 2013-113) disclosed by the Company on <http://www.cninfo.com.cn/> on 25 December 2013.

2. Disposal of 51% equity interest in Xinli Power by Chenming Power

On 15 November 2013, the Company convened the third extraordinary meeting of the seventh session of the board of directors and approved “the resolution on disposal of equity interest in Xinli Power”, which agreed to dispose 51% equity interest in Shandong Chenming Xinli Power Co., Ltd. by Shandong Chenming Power Supply Holdings Co., Ltd., 86.71% equity interest in which was owned by the Company. On 4 March 2014, Chenming Power Supply entered into an equity interest contract with Guangdong Dejun Investment Co., Ltd., at a consideration of RMB76.1940 million, to transfer its 51% equity interest in Xinli Power to Guangdong Dejun Investment Co., Ltd.. Upon the completion of the above equity transfer, the Company will no longer hold any equity interest in Xinli Power.

Due to longer use of Xinli Power devices as well as higher operational costs arising from greater investments in environmental protection devices relating to desulfurisation and denitration, the disposal of the Company’s equity interest would increase its cash flow, which allowed the Company centralise resources for developing high-end niche products to further improve its results.

For more details, please refer to the related announcements disclosed by the Company on <http://www.cninfo.com.cn/> on 16 November 2013 and 5 March 2014, respectively.

3. Provision of RMB40 million Guarantee to Guangdong Huirui by Zhanjiang Chenming

In order to secure the capital requirements for the production operation and project construction of Guangdong Huirui Investment Co., Ltd. (“Guangdong Huirui”), and reduce its financial costs, the Board of the Company has agreed that Guangdong Huirui will provide bank guarantee of RMB40 million to the Administration of Agent Construction Project of Zhanjiang City to replace the implementation of RMB40 million deposit paid by Guangdong Huirui in performing its obligation under the Zhanjiang City Haidong New District Waterfront & Mudflat Comprehensive Regulation Works BT Project Contract, which can improve the efficiency of our capital utilisation. Meanwhile, as requested by the bank issuing the bank guarantee, Zhanjiang Chenming Pulp & Paper Co., Ltd. (“Zhanjiang Chenming”) will provide guarantee for the bank guarantee of RMB40 million provided by Guangdong Huirui for a term of 2 years. Details set out in the contract shall prevail. For more details, please refer to the related announcement (Announcement No.: 2013-101) disclosed by the Company on <http://www.cninfo.com.cn/> on 16 November 2013.

VI Material Matters

XIII. Significant matters of the subsidiaries of the Company (Cont'd)

4. Cooperation in Port Construction by Jiangxi Chenming

To lower the transportation cost of the Company and fully utilise the coastal line and port construction site owned by Jiangxi Chenming, Jiangxi Chenming and Nanchang Baolong jointly contributed to establish Jiangxi Chenming Port Co., Ltd. Such external investment fulfilled the transportation requirement of Jiangxi Chenming, improved the efficiency of the Company, enhanced the profitability of Jiangxi Chenming and maintained the sustainable development of the Company. For more details, please refer to the related announcement (Announcement No.: 2013-088) disclosed by the Company on <http://www.cninfo.com.cn/> on 30 September 2013.

XIV. Issuance 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.
- (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 notes had a tenor of 3 years and the proceeds will be used as operation capital of Chenming (HK) Limited.

VI Material Matters

XV. Repurchase of shares by the Company

(I) Repurchase of B shares

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 received 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.

As at 11 December 2013, the accumulated number of B shares repurchased by the Company was 86,573,974 shares, representing 4.1985% of the total share capital of the Company. The highest and lowest purchase prices were HK\$4.00 per share and HK\$3.38 per share, respectively. The total amount paid was HK\$ 330,911,185.31 (stamp duty and commission included).

On 24 December 2013, the Company completed the cancellation of shares repurchased with China Securities Depository and Clearing Co., Ltd. Shenzhen Branch. For more details, please refer to the relevant announcement disclosed by the Company on <http://www.cninfo.com.cn/> on 25 December 2013.

On 30 December 2013, the Company received the “Reply on Capital Reduction of Shandong Chenming Paper Holdings Limited” (Lu Shang Wu Wai Zi Zi [2013]933) from the Department of Commerce of Shandong Province and the Certificate of Approval for Foreign Investment Enterprise upon the reduction of share capital, which agreed that the Company reduced its registered capital from RMB2,062,045,941 to RMB1,975,471,967.

On 2 January 2014, the Company conducted filing procedures in capital reduction with Shandong Province Industry and Commerce Bureau and obtained its business license after capital reduction, with the registered capital of RMB1,975,471,967.

(II) Repurchase of H shares

1. Background and purpose of repurchase

In light of the global financial crisis and domestic economic downturn, there has been huge adjustment of the domestic capital market since mid 2011. The share price of the Company's H shares has continued to fall. The performance of share price of Company's H 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 intended to repurchase part of its H shares.

VI Material Matters

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

(II) Repurchase of H shares (Cont'd)

2. Procedures taken regarding repurchases

On 27 June 2013, the First Extraordinary Meeting of the Seventh Session of the Board of Directors approved the proposal concerning the granting of a general mandate to the Board for repurchase of part of H shares of the Company.

On 21 August 2013, the Company convened the 2013 First extraordinary shareholders' meeting, Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and Class Meeting for Holders of Overseas Listed Shares (H shares), on which proposals concerning the repurchase of H shares of the Company were approved. On the next day, the Company disclosed an announcement in respect of H shares repurchase and capital reduction.

On 10 October 2013, Shandong Province Commerce Department issued a Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2013] No. 705), which intended to agree that the Company repurchased no more than 39.127 million issued overseas listed foreign shares (H share). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

3. Progress of Repurchase

During the year ended 31 December 2013, the Company purchased a total of 11,484,500 H shares with aggregate amount of HK\$39,230,260.00 (i.e. the average price paid is HK\$3.4159 per share) from Hong Kong Stock Exchange; As of the publication date of this report, accumulatively 24,660,500 H shares have been repurchased, representing 1.2483% of the total share capital of the Company, with the highest selling price of HK\$3.50 per share and the lowest selling price of HK\$3.17 per share. The aggregate amount paid was 83,151,325.00. Those repurchased shares have not been cancelled yet.

XVI. Post balance sheet events

(I) Establishing a financial leasing company

On 17 January 2014, the Company convened the Fourth Extraordinary Meeting of the Seventh Session of the Board of Directors, at which Resolution on Establishing a Financial Leasing Company was considered and approved. In order to promote diversified development of the Company, further expand its business scope, enhance its overall strength and comprehensive competitiveness, develop new growth point, the Company proposed to establish a financial leasing company in China through Chenming (HK) Limited, a wholly-owned subsidiary of the Company. Please refer to the announcement of the Company dated 17 January 2014 published on the website of the Stock Exchange and the announcement dated 18 January 2014 publish on the website: www.cninfo.com.cn for details. ANN NO.: 2014-003.

VI Material Matters

XVI. Post balance sheet events (Cont'd)

(II) Capital contribution to Huanggang Chenming Pulp & Paper Co., Ltd.

On 17 January 2014, the Company convened the Fourth Extraordinary Meeting of the Seventh Session of the Board of Directors, at which Resolution on Capital Contribution to Huanggang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company were considered and approved. In order to meet fund requirements for the construction of integrated project of Haggang Chenming and ensure successful project construction, the Company will contribute capital to Huanggang Chenming with internal funds in the amount of RMB180 million pursuant to the requirements for project construction with internal funds as required by the State. Please refer to the announcement of the Company dated 17 January 2014 published on the website of the Stock Exchange and the announcement dated 18 January 2014 polished on the website: www.cninfo.com.cn for details. ANN NO.: 2014-005.

(III) Repurchase of Shares by a Shareholder through Agreed Repurchase Type Securities Trading

On 20 January 2014, the Company received a letter from Shouguang Chenming Holdings Company Limited ("Chenming Holdings"), a shareholder interested in more than 5% of the shares of the Company. According to the letter, Chenming Holdings has repurchased the disposed 86,600,000 shares through agreed repurchase type securities trading on 20 January 2014. The shareholding of the shareholder before and after the trading is as follow:

Name of the shareholder	Before the trading		After the	
	Number of shares of the Company being held (shares)	As a percentage of the total share capital of the Company (%)	Number of shares of the Company being held (shares)	As a percentage of the total share capital of the Company (%)
Chenming Holdings	206,403,657	10.45	293,003,657	14.83

For more details, please refer to the relevant announcements (Announcement No.: 2014-008) disclosed by the Company on <http://www.hkex.com.hk> and on <http://www.cninfo.com.cn/> dated 20 January 2014 and 21 January 2014, respectively.

(IV) Purchase an office building property asset

On 17 January 2014, the Company convened the Fourth Extraordinary Meeting of the Seventh Session of the Board of Directors, at which Resolution on Purchase an Office Building Property Asset was considered and approved. In order to speed up the pace of internationalisation of the Company, solve the problems of business operation sites in Jinan for institutions under Chenming Group Finance Company (晨鳴集團財務公司), ensure and facilitate the Company successfully carry out finance, sales, and leasing and other activities in surrounding areas in Jinan, thus further improve its comprehensive competitiveness and profitability, the Board of the Company agreed to purchase an office building for a consideration of RMB360 million through Chenming (HK) Limited, a wholly-owned subsidiary of the company, part of which will be used for office purpose, and part of which for sale or leasing purpose. Please refer to the announcement of the Company dated 17 January 2014 published on the website of the Stock Exchange and the announcement dated 18 January 2014 published on the website: www.cninfo.com.cn for details. ANN NO.: 2014-002.

VI Material Matters

XVI. Post balance sheet events (Cont'd)

(V) External Entrusted Loan

On 17 January 2014, the Company convened the Fourth Interim Meeting of the Seventh Session of the Board of Directors, at which Resolution on External Entrusted Loan was considered and approved. In order to raise the utilisation rate of the Company's capital, maximise capital utility and improve the results of the Company, the Company proposed to provide the Entrusted Loan in the total amount of not more than RMB1.0 billion (inclusive), subject to withdrawal by instalments, to Shouguang Jin Choi Public Assets Management Co., Ltd. (壽光市金財公有資產經營有限公司), through Bank of Communication Co., Ltd, Weifang branch (交通銀行濰坊分行), according to the current operation and capital condition of the Company. The term of the Entrusted Loan shall be not more than 3 years (inclusive). The interest rate for the Entrusted Loan is 10% (inclusive) per annum. It is initially expected that it will contribute considerable economic benefits to the Company each year. Shouguang Infrastructure Fund Management Centre (壽光市基礎設施建設資金管理中心) shall pledge 20% of the equity interest of the Shouguang Jin Choi Public Assets Management Co., Ltd. (壽光市金財公有資產經營有限公司) held by it. Please refer to the announcement of the Company dated 17 January 2014 published on the website of the Stock Exchange and the announcement dated 18 January 2014 published on the website: www.cninfo.com.cn for details. ANN NO.: 2014-006.

VII Changes in Share Capital and Shareholders

I. Changes in shares

Unit: Share

	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	9,336,404	0.45%	0	0	0	-1,170,185	-1,170,185	8,166,219	0.41%
1. Shares held by other									
domestic investors	9,336,404	0.45%				-1,170,185	-1,170,185	8,166,219	0.41%
Shares held by domestic									
natural person	9,336,404	0.45%				-1,170,185	-1,170,185	8,166,219	0.41%
II. Non-restricted shares	2,052,709,537	99.55%	0	0	0	-85,403,789	-85,403,789	1,967,305,748	99.59%
1. RMB ordinary shares	1,103,942,052	53.54%				1,170,185	1,170,185	1,105,112,237	55.94%
2. Domestic listed foreign shares	557,497,485	27.04%				-86,573,974	-86,573,974	470,923,511	23.84%
3. Overseas listed foreign shares	391,270,000	18.97%				0	0	391,270,000	19.81%
III. Total number of shares	2,062,045,941	100%	0	0	0	-86,573,974	-86,573,974	1,975,471,967	100%

The reasons for such changes

☒ Applicable ☐ Not Applicable

1. Around the change, the restricted shares held by domestic natural person changed by -1,170,185 shares from 9,336,404 shares to 8,166,219 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, the sales restriction on the shares held by former Directors and Senior Management of the Company leaving office more than six months was expired and released. Therefore, the nature of the 1,170,185 shares, held by the Senior Management, was changed from restricted shares held by domestic natural person to non-restricted RMB ordinary shares (A shares).
2. During the reporting period, domestic listed foreign shares changed by 86,573,974 shares from 557,497,485 shares to 470,923,511 shares. The reasons for such changes were as follows: during the reporting period, the Company repurchased some domestic listed foreign shares (B shares). As of 11 December, 2013, the Company has repurchased B shares amounting to 86,573,974 shares. Cancellation of repurchased shares was completed at China Securities Depository and Clearing Corporation (Shenzhen Branch). More details were disclosed in the "Statement related to the completion of repurchasing partial domestic listed foreign shares (B shares) as well as changes of shares" in China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, as well as on the website of CNINFO (Announcement No. 2013-114) on 25 December 2013.

VII Changes in Share Capital and Shareholders

I. Changes in shares (Cont'd)

Approval of changes in shareholding

☒Applicable ☐Not Applicable

On 12 December 2012, the 2012 Third Extraordinary General Meeting, 2012 First Class Meeting for Holders of Domestic Listed Shares (A shares and B shares) and 2012 First Class Meeting of Holders of Overseas Listed Shares (H shares) Class Meeting were held by the Company, to consider and approve the proposed resolution on the repurchase of part of the domestic listed foreign shares (B shares) of the Company. It is agreed that the Company shall use its internal resources to repurchase not more than 150 million domestic listed foreign shares (B shares) at the repurchase price shall not higher than HK\$4 per share with the maximum repurchased amount of HK\$400 million within 12 months from the date of passing of the resolution on the repurchase at a general meeting and the class Meeting. The repurchased shares shall be cancelled by the law.

On 28 December, 2012, the Company has received the preliminary approval related to the capital reduction of Shandong Chenming Paper Holdings Limited from the Department of Commerce of Shandong Province, in which it is agreed that Company shall repurchase not more than 150 million domestic listed foreign shares (B shares). The number of repurchased shares is subject to the actual amount and registered capital shall be reduced accordingly.

On 4 February 2013, the Company has received the reply to the purchase quota of B shares repurchased by Shandong Chenming Paper Holdings Limited from the State Administration of Foreign Exchange (Shouguang City Branch), in which it is agreed that the Company shall repurchase no more than 150 million domestic listed foreign shares (B shares) with HK\$400 million.

On 30 December 2013, the Company has received reply to the capital reduction of Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi No. [2013]933) together with Foreign investment enterprise approval certificate upon capital reduction from the Department of Commerce of Shandong Province, in which it is agreed that the Company shall reduce its registered capital to RMB1,975,471,967 from RMB2,062,045,941.

On 2 January, 2014, the Company conducted the filing procedure of capital reduction at Trade and Industry Bureau in Shandong Province and received the business license upon capital reduction with a registered capital of RMB1,975,471,967.

Transfer of shares arising from changes in shareholding

☐Applicable ☒Not Applicable

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

☒Applicable ☐Not Applicable

Key Financial Indicators	After the share change	Before the share change
Basic earnings per share(RMB/Share)	0.35	0.34
Diluted earnings per share(RMB/Share)	0.35	0.34
Net assets per share attributable to shareholders of listed Company (RMB/Share)	7.15	6.94

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

☐Applicable ☒Not Applicable

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	Termination date for transaction
Shares						
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						

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. RMB1.982 billion of the funds raised were accumulatively used, among which about RMB382 million for providing additional liquidity and about RMB1.6 billion for repaying bank loans, mainly of which were repayment of 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 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% per annum, while the interest of the note shall be paid every six months. The proceeds will be used as operating capital of Chenming (HK) Limited.

VII Changes in Share Capital and Shareholders

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

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, the Company repurchased some domestic listed foreign shares (B shares). As of 11 December, 2013, the Company repurchased B shares amounting to 86,573,974 shares. Cancellation of repurchased shares was completed at China Securities Depository and Clearing Corporation (Shenzhen Branch). More details are disclosed in the “Statement related to the completion of repurchasing partial domestic listed foreign shares (B shares) as well as changes of shares” (Announcement No. 2013-114). The total number of shares of the Company decreased to 1,975,471,967 shares from 2,062,045,941 shares upon the cancellation of the repurchased B shares.
- (2) During the reporting period, the shareholding ratio of Shouguang Chenming Holdings Limited, the controlling shareholder of the Company increased to 14.83% from 14.21% due to the partial repurchase and cancellation of B shares. There are minor impacts on other shareholder structure. For the change in shareholder structure, please refer to the first part “Changes in shares” in this chapter.
- (3) During the reporting period, the share capital of the Company reduced by RMB86,573,974 while the capital reserve decreased by RMB178,789,209.60. the gearing ratio increased to 69.20% from 68.81% due to the partial repurchase and cancellation of B shares.

3. Existing staff shares

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

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers

1. Total number of shareholders and shareholdings

Unite: Share

Total number of shareholders during the reporting period	131,890, of which 102,456 were holders of A shares, 28,873 holders of B shares and 561 holders of H shares	Total number of shareholders as at the end of the fifth trading day before the publication date of this annual report	131,173, of which 101,779 were holders of A shares, 28,837 holders of B shares and 557 holders of H shares.

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

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-restricted shares held	Share pledged or locked-up	Number
							Status of shares	
HKSCC NOMINEES LIMITED	Overseas legal person	19.73%	389,816,500	67,500	0	389,816,500	—	0
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	10.45%	206,403,657	-86,600,000	0	206,403,657	—	0
Agreed repurchase earmarked account at GF SECURITIES CO., LTD.	Domestic non-state-owned legal person	4.38%	86,600,000	86,600,000	0	86,600,000	—	0
ZHONGRONG INTERNATIONAL TRUST CO., LTD. — HAITONG UMBRELLA BAO NO. 1 SECURITIES INVESTMENT ASSEMBLED FUNDS TRUST	Domestic non-state-owned legal person	1.82%	35,873,818	35,873,818	0	35,873,818	—	0
PLATINUM ASIA FUND	Overseas legal person	1.64%	32,341,052	-11,139,325	0	32,341,052	—	0
CAITONG FUND - EVERBRIGHT BANK — CAITONG FUND — YUAN MEINO. 2 ASSETS MANAGEMENT PROGRAMME	Domestic non-state-owned legal person	1.47%	29,056,556	29,056,556	0	29,056,556	—	0
CAITONG FUND — EVERBRIGHT BANK — YUAN MEI NO. 1 ASSETS MANAGEMENT PROGRAMME	Domestic non-state-owned legal person	1.47%	28,948,049	28,948,049	0	28,948,049	—	0
BILL & MELINDA GATES FOUNDATION TRUST	Overseas legal person	1.15%	22,757,391	-3,874,244	0	22,757,391	—	0
YUNNAN INTERNATIONAL TRUST CO., LTD. — YUNNAN TRUST GROWTH 2013 — NO. 2 ASSEMBLED FUNDS TRUST PROGRAMME	Domestic non-state-owned legal person	0.71%	13,969,597	13,969,597	0	13,969,597	—	0
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Overseas legal person	0.61%	12,036,985	10,180,285	0	12,036,985	—	0

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 in the above. It is not a person acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Both Caitong Fund - Everbright Bank - Caitong Fund - Yuan Mei No. 2 Assets Management Programme and Caitong Fund - Everbright Bank - Yuan Mei No. 1 Assets Management Programme are funds managed by Caitong Fund Management Co., Ltd. Save for the above, it is not aware of any other shareholders of tradable shares are persons acting in concert and is also not aware of any other shareholders of tradable shares are connected with each others.

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

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

Name of shareholders	Shareholdings of the top ten shareholders of non-restricted shares Number of non-restricted shares held as at the end of the year	Class of shares	
		Class of shares	Number
HKSCC NOMINEES LIMITED	389,816,500	Overseas listed foreign shares	389,816,500
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	206,403,657	RMB ordinary shares	206,403,657
Agreed repurchase earmarked account at GF SECURITIES CO., LTD.	86,600,000	RMB ordinary shares	86,600,000
ZHONGRONG INTERNATIONAL TRUST CO., LTD. — HAITONG UMBRELLA BAO NO. 1 SECURITIES INVESTMENT ASSEMBLED FUNDS TRUST	35,873,818	RMB ordinary shares	35,873,818
PLATINUM ASIA FUND	32,341,052	Domestic listed foreign shares	32,341,052
CAITONG FUND — EVERBRIGHT BANK — CAITONG FUND — YUAN MEI NO. 2 ASSETS MANAGEMENT PROGRAMME	29,056,556	RMB ordinary shares	29,056,556
CAITONG FUND — EVERBRIGHT BANK — YUAN MEI NO. 1 ASSETS MANAGEMENT PROGRAMME	28,948,049	RMB ordinary shares	28,948,049
BILL & MELINDA GATES FOUNDATION TRUST	22,757,391	RMB ordinary shares	22,757,391
YUNNAN INTERNATIONAL TRUST CO., LTD. — YUNNAN TRUST GROWTH 2013 — NO. 2 ASSEMBLED FUNDS TRUST PROGRAMME	13,969,597	RMB ordinary shares	13,969,597
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	12,036,985	Domestic listed foreign shares	12,036,985
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 in the above. It is not a person acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Both Caitong Fund - Everbright Bank - Caitong Fund - Yuan Mei No. 2 Assets Management Programme and Caitong Fund - Everbright Bank - Yuan Mei No. 1 Assets Management Programme are funds managed by Caitong Fund Management Co., Ltd. Save for the above, it is not aware of any other shareholders of tradable shares are persons acting in concert and is also not aware of any other shareholders of tradable shares are connected with each others.		

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

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

Whether an agreed repurchase transaction was entered during the reporting period by the shareholders of the Company

☒ Yes ☐ No

- (1) On 21 January 2013, Shouguang Chenming Holdings Limited, the shareholder interested in more than 5% equity interest in the Company, disposed of 86,600,000 shares through agreed repurchase type securities trading. The securities company entering the transaction was GF Securities Co., Ltd. The term of repurchase is one year. During the reporting period, there was no repurchase trade entered by Chenming Holdings. GF SECURITIES is holding 86,600,000 shares of the Company through agreed repurchase earmarked account.
- (2) On 20 January 2014, Shouguang Chenming Holdings Limited, disposed of 86,600,000 shares through agreed repurchase type securities trading, the number of shares held by the Company before and after the transaction are set out below:

Unite: Share

Name of shareholders	Before transaction		After transaction	
	Number of shares held by the Company	Percentage of the total share capital of the Company (%)	Number of shares held by the Company	Percentage of the total share capital of the Company (%)
Shouguang Chenming Holdings Company Limited	206,403,657	10.45%	293,003,657	14.83%

VII Changes in Share Capital and Shareholders

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	Principal business
Shouguang Chenming Holdings Company Limited	Chen Hongguo	30 December 2005	78348518-9	RMB 1.685 billion	Investment in papermaking, electricity, heat and arboriculture
Operating results, financial condition, cash flows and future development strategy	In 2013, Chenming Holdings recorded revenue of RMB20.443 billion and operating cost of RMB16.653 billion. As of 31 December 2013, the total assets of Chenming Holdings amounted to RMB49.391 billion, total liabilities amounted to RMB34.534 billion, and net cash flow generated from operating activities amounted to RMB1.163 billion (unaudited). Shouguang Chenming Holdings Company Limited will continue to be engaged in investment in paper making, electricity, heat and arboriculture projects in the future.				
Shareholdings of controlling shareholders who have control or hold shares in other overseas listed companies during the reporting period	Shouguang Chenming Holdings Company Limited is interested in 14.83% (note) 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.				

Note: On 20 January 2014, Shouguang Chenming Holdings Limited, disposed of 86,600,000 shares through agreed repurchase type securities trading. The number of shares held by the Company upon the transaction was 293,003,657, representing 14.83% of the total share capital of the Company.

The Change of controlling shareholders during the reporting period

☐Applicable ☒Not Applicable

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

3、Beneficial owner of the Company

Legal person

Name of beneficial owner	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Registered capital	Principal business
State-owned Assets Supervision and Administration Office of Shouguang City	Fu Xingang	1 August 1991	137078300401	RMB20,000	Responsible for the management and capital operation of the state-owned assets of enterprises and institutions in Shouguang city
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 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 control 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 owner during the reporting period

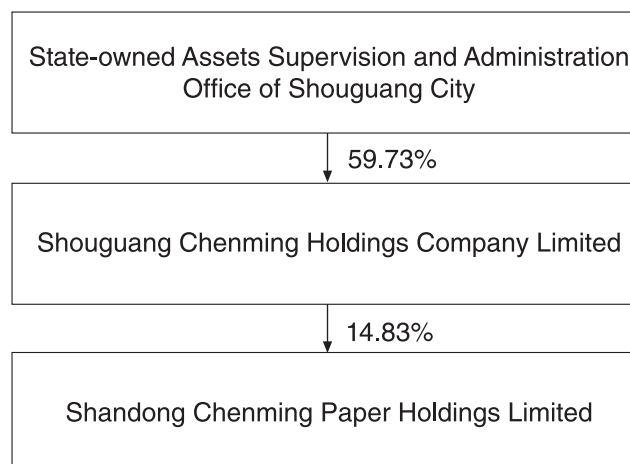
☐Applicable ☒Not Applicable

VII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

3、Beneficial owner of the Company (Cont'd)

Chart illustrating the relationship between the Company and the beneficial owner



Note: On 20 January 2014, Shouguang Chenming Holdings Limited, disposed of 86,600,000 shares through agreed repurchase type securities trading. The number of shares held by the Company upon the transaction was 293,003,657, representing 14.83% of the total share capital of the Company.

Beneficial owner 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	49	16 May 2013	16 May 2016	6,334,527	0	0	6,334,527
Yin Tongyuan	Vice Chairman	In office	M	56	16 May 2013	16 May 2016	2,423,640	0	0	2,423,640
Li Feng	Director, deputy general manager	In office	M	41	16 May 2013	16 May 2016	471,818	0	0	471,818
Geng Guanglin	Director, deputy general manager	In office	M	40	16 May 2013	16 May 2016	437,433	0	0	437,433
Tan Daocheng	Director	Retired	M	47	12 April 2010	15 May 2013	185,700	0	115,600	70,100
Hou Huancai	Director	In office	M	52	16 May 2013	16 May 2016	628,915	0	0	628,915
Zhou Shaohua	Director, deputy general manager	In office	M	52	16 May 2013	16 May 2016	123,007	0	0	123,007
Cui Youping	Director	In office	M	50	16 May 2013	16 May 2016	0	0	0	0
Wang Xiaoqun	Director	In office	M	58	16 May 2013	16 May 2016	0	0	0	0
Wang Fengrong	Director	Retired	F	45	12 April 2010	15 May 2013	0	0	0	0
Zhang Zhiyuan	Independent Director	In office	M	51	16 May 2013	16 May 2016	0	0	0	0
Wang Aiguo	Independent Director	In office	M	50	16 May 2013	16 May 2016	0	0	0	0
Zhang Hong	Independent Director	In office	F	49	16 May 2013	16 May 2016	0	0	0	0
Wang Yumei	Independent Director	Retired	F	51	12 April 2010	15 May 2013	0	0	0	0
Wang Xiangfei	Independent Director	Retired	M	63	12 April 2010	15 May 2013	0	0	0	0
Pan Ailing	Independent Director	In office	F	49	16 May 2013	16 May 2016	0	0	0	0
Gao Junjie	Chairman of Supervisory Committee	In office	M	43	16 May 2013	16 May 2016	39,606	0	0	39,606
Wang Ju	Supervisor	In office	F	48	16 May 2013	16 May 2016	0	0	0	0
Yang Hongqin	Supervisor	In office	F	46	16 May 2013	16 May 2016	0	0	0	0
Yin Qixiang	Supervisor	In office	M	76	16 May 2013	16 May 2016	0	0	0	0
Guo Guangyao	Supervisor	In office	M	71	16 May 2013	16 May 2016	0	0	0	0
Li Xueqin	deputy general manager	In office	F	48	16 May 2013	16 May 2016	429,348	0	0	429,348
Wang Chunfang	Secretary to the Board, deputy general manager	In office	M	38	16 May 2013	16 May 2016	30,000	100,000	0	130,000
Hu Changqing	deputy general manager	In office	M	48	16 May 2013	16 May 2016	1,238	0	0	1,238
Shao Zhenzhong	deputy general manager, chief marketing officer	In office	M	53	16 May 2013	16 May 2016	0	0	0	0
Chang Liting	deputy general manager	In office	M	60	16 May 2013	16 May 2016	0	0	0	0
Li Zhenzhong	deputy general manager	In office	M	40	16 May 2013	16 May 2016	0	0	0	0
Zhang Yanjun	deputy general manager	Retired	M	48	30 March 2011	16 May 2013	102,393	0	0	102,393
Xia Jigang	deputy general manager	Retired	M	38	12 April 2010	16 May 2013	0	0	0	0
Poon Shiu Cheong	Company secretary, qualified accountant	In office	M	44	16 May 2013	16 May 2016	0	0	0	0
Total	-	-	-	-	-	-	11,207,625	100,000	115,600	11,192,025

VIII Directors, Supervisors and Senior Management and Staff

II. Employment

Major working experiences of Directors, Supervisors and Senior Management during the past five years

1. Directors of the Company

(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, and chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. He is currently the executive Director, deputy general manager and chief marketing officer 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 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. 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 and deputy general manager of the Company in charge of pulp projects in Huanggang.

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 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 and the general manager of Jilin Chenming.

(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 Shandong 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.

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.

VIII Directors, Supervisors and Senior Management and Staff

II. Employment (*Cont'd*)

1. Directors of the Company (*Cont'd*)

(3) Brief biographies of independent non-executive Directors

Mr. Wang Aiguo, professor, doctoral tutor and post doctorate in accounting, “Nationwide Excellent Teacher” (全國優秀教師), Shandong’s Well-known Teacher (山東省教學名師), chief expert (accounting) of Shandong Institute (山東省高等學校首席專家(會計學)), Shandong’s Young Expert with Outstanding Contribution (山東省有突出貢獻的中青年專家), 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 Shandong Zhanqiu Blower Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

Mr. Zhang Zhiyuan, professor, doctor of management, economics postdoctorate, previously served as the Dean of Department of Finance of Shandong Economics College and Dean of Shandong Regional Economic Research School. He currently holds positions as Dean of Shandong University of Finance and School of Finance, Dean of the Regional Economic Research Institute and a doctoral tutor. He is also the person in charge of National Special Professional Construction Point of Finance, chief expert of emphasised discipline of Shandong Province, chief scientist of the Collaborative Innovation Centre for Financial Optimisation and Regional Development, the person in charge of the Shandong provincial government decision-making research base, the person in charge and expert of the Shandong Regional Economic Development and Research Base, Shandong university academic leaders, expert for Shandong “Hundred People Project” and one of the top ten exemplary tertiary teachers of Shandong (金融學國家級特色專業建設點負責人,山東省重點學科首席專家,金融產業優化與區域發展管理協同創新中心首席科學家,山東省政府決策服務調研基地負責人,山東省區域經濟發展研究基地負責人兼首席專家,山東省高校學科帶頭人,山東省“百人工程”理論人才,山東省高校十大師德標兵). He is concurrently Vice-Dean and Chief Secretary of Shandong Regional Economic Society, Standing Director and Member of Academic Committee of Shandong Finance Association, Standing Director of China Finance Institute (山東區域經濟學會副會長兼秘書長、山東省金融學會常務理事兼學術委員會委員、中國區域經濟學會常務理事) and others. In recent years, he was commissioned 4 national projects and over 10 municipal projects and was granted several awards by the Ministry of Education and Shandong Research Institute for his achievements. He is an expert advisor to several municipal governments such as Shandong, Jinan and Rizhao. He is 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. 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 Shandong Haihua Company Limited, Shandong Xinneng Taishan Power Generation Co., Ltd. (山東新能泰山發電股份有限公司) and Shandong Gettop Acoustic Co., Ltd. She has served as an independent nonexecutive Director of the Company since April 2010.

VIII Directors, Supervisors and Senior Management and Staff

II. Employment (*Cont'd*)

1. Directors of the Company (*Cont'd*)

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

Ms. Pan Ailing is a Ph.D. in Economics and obtained a post-doctoral degree in Financial Management. She is currently a professor of the School of Management and the chief of the Department of Accounting in Shandong University, an advisor to doctoral students and a non-practising member of CICPA (Chinese Institute of Certified Public Accountants). She is also a director of the Accounting Institute, Shandong Province (山東省會計學會), a visiting professor at Soochow University in Taiwan, a visiting scholar at University of Connecticut in the United States, a prize winner of Program for New Century Excellent Talents in University (教育部新世紀優秀人才), a state-level candidate for New Century Ten Million Talent Project (新世紀「百千萬人才工程」). She finished various research projects at national and provincial level and published more than 70 papers in CSSCI academic journals. She was awarded first prize for Excellent Achievement Award on Social Science in Shandong Province (山東省社會科學優秀成果) and first prize for Excellent Achievement Award on Soft Science (山東省軟科學優秀成果) in Shandong Province for her research achievements. She has served as an independent non-executive director of the Company since May 2013.

2. 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 Shouguang City (壽光市經濟貿易委員會), chief of Tizheng Department of Shouguang City, Shandong Province (山東省壽光市體政部), and head of Qinghua Bureau of Shouguang 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.

VIII Directors, Supervisors and Senior Management and Staff

II. Employment (Cont'd)

3. 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 Labour 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. 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 chief of the finance department and the financial controller of the Company. He is currently secretary to the Board and the deputy general manager of the Company, and the chairman of the finance company (to be established).

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 Pulp and Paper project.

Mr. Shao Zhenzhong, aged 52, holds a bachelor’s degree from a university. He joined the Company in 2013. He had served as the marketing manager of Butler (Shanghai) Inc. and Asia Pacific regional sales and marketing vice president of UPM (China) Co., Ltd. He is currently the deputy general manager and the chief marketing officer of the Company.

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. Chang Liting joined the Company in 1985. He had served as chairman of the workers’ union of the Company and product general manager 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. 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.

VIII Directors, Supervisors and Senior Management and Staff

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	21 September 2013	21 September 2016	No
Yin Tongyuan	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Geng Guanglin	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Li Xueqin	Shouguang Chenming Holdings Company Limited	Director	21 September 2013	21 September 2016	No
Gao Junjie	Shouguang Chenming Holdings Company Limited	Supervisor	21 September 2013	21 September 2016	No
Explanation of the employment at the shareholder of the Company		Nil			

VIII Directors, Supervisors and Senior Management and Staff

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 unit	End date of the term the other unit	Whether receiving any remuneration or allowance from other unit
Zhang Hong	Shandong Haihua Company Limited	Independent director	27 April 2011	27 April 2014	Yes
Zhang Hong	Shandong Xinneng Taishan Power Generation Co., Ltd.	Independent director	27 May 2011	27 May 2014	Yes
Zhang Hong	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
Wang Aiguo	China Corn Oil Company Limited	Independent director	23 November 2012	23 November 2015	Yes
Wang Aiguo	Hisense Kelon Electrical Holdings Co. Ltd.	Independent director	20 January 2011	20 January 2014	Yes
Wang Aiguo	Shandong Zhanqiu Blower Co., Ltd.	Independent director	12 July 2012	12 July 2015	Yes
Pan Ailing	Shandong Sanwei Shihua Engineering Company Limited	Independent director	11 April 2008	11 March 2013	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 annual remuneration of each of the executive Directors and senior management of the Company was in the band of RMB0.20 million to 5.00 million (tax included) and the specific amount for each of them was determined based on the main financial indicators and operation target completed by 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 remuneration and assessment committee of the Board as well as considered and decided by the Board.
2. The Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB40,000 to RMB100,000 (after tax). The travel expenses for attending board meetings and general meetings of the Company and fees reasonably incurred in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed.

VIII Directors, Supervisors and Senior Management and Staff

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

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

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

Remunerations of Directors, Supervisors and Senior Management during the Reporting Period

Unit: RMB'0000

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	49	In office	500	0	500
Yin Tongyuan	Vice-chairman	M	56	In office	300	0	300
Li Feng	Director, deputy general manager	M	41	In office	86.26	0	86.26
Geng Guanglin	Director, deputy general manager	M	40	In office	279.64	0	279.64
Tan Daocheng	Director	M	47	Retired	20.21	0	20.21
Hou Huancai	Director	M	52	In office	103.57	0	103.57
Zhou Shaohua	Director, deputy general manager	M	52	In office	109.83	0	109.83
Cui Youping	Director	M	50	In office	5	0	5
Wang Xiaoqun	Director	M	58	In office	5	0	5
Wang Fengrong	Director	F	45	Retired	2.08	0	2.08
Zhang Zhiyuan	Independent Director	M	51	In office	5	0	5
Wang Aiguo	Independent Director	M	50	In office	5	0	5
Zhang Hong	Independent Director	F	49	In office	5	0	5
Wang Yumei	Independent Director	F	51	Retired	2.08	0	2.08
Wang Xiangfei	Independent Director	M	63	Retired	5.21	0	5.21
Pan Ailing	Independent Director	F	49	In office	5	0	5

VIII Directors, Supervisors and Senior Management and Staff

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

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

Unit: RMB'0000

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
Gao Junjie	Chairman of Supervisory Committee	M	43	In office	39.28	0	39.28
Wang Ju	Supervisor	F	48	In office	18.68	0	18.68
Yang Hongqin	Supervisor	F	46	In office	17.62	0	17.62
Yin Qixiang	Supervisor	M	76	In office	2.50	0	2.50
Guo Guangyao	Supervisor	M	71	In office	2.50	0	2.50
Li Xueqin	Deputy general manager	F	48	In office	121.86	0	121.86
Wang Chunfang	Financial controller, secretary to the Board	M	38	In office	90.67	0	90.67
Hu Changqing	Deputy general manager	M	48	In office	185.36	0	185.36
Shao Zhenzhong	Deputy general manager, chief marketing officer	M	53	In office	330.73	0	330.73
Chang Liting	Deputy general manager	M	60	In office	95.72	0	95.72
Li Zhenzhong	Deputy general manager	M	40	In office	126.05	0	126.05
Zhang Yanjun	Deputy general manager	M	48	Retired	29.31	0	29.31
Xia Jigang	Deputy general manager	M	38	Retired	43.95	0	43.95
Poon Shiu Cheong	Company secretary, qualified accountant	M	44	In office	11.89	0	11.89
Total	-	-	-	-	2,555.00	0	2,555.00

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

☐ Applicable ☒ Not applicable

VIII Directors, Supervisors and Senior Management and Staff

IV. Changes of Directors, Supervisors and Senior Management

Name	Position	Type	Date	Reason
Chen Hongguo	Chairman and general manager	Elected	16 May 2013	Change of the session
Yin Tongyuan	Vice Chairman	Elected	16 May 2013	Change of the session
Li Feng	Director	Elected	16 May 2013	Change of the session
Geng Guanglin	Director	Elected	16 May 2013	Change of the session
Zhou Shaohua	Director	Elected	16 May 2013	Change of the session
Hou Huancai	Director	Elected	16 May 2013	Change of the session
Wang Aiguo	Independent Director	Elected	16 May 2013	Change of the session
Zhang Zhiyuan	Independent Director	Elected	16 May 2013	Change of the session
Zhang Hong	Independent Director	Elected	16 May 2013	Change of the session
Cui Youping	Director	Elected	16 May 2013	Change of the session
Pan Ailing	Independent Director	Elected	16 May 2013	Change of the session
Wang Xiaogun	Director	Elected	16 May 2013	Change of the session
Gao Junjie	Chairman of Supervisory Committee	Elected	16 May 2013	Change of the session
Yang Hongqin	Supervisor	Elected	16 May 2013	Change of the session
Wang Ju	Supervisor	Elected	16 May 2013	Change of the session
Guo Guangyao	Supervisor	Elected	16 May 2013	Change of the session
Yin Qixiang	Supervisor	Elected	16 May 2013	Change of the session
Li Xueqin	Deputy general manager	Appointed	16 May 2013	Appointment
Li Feng	Deputy general manager	Appointed	16 May 2013	Appointment
Geng Guanglin	Deputy general manager	Appointed	16 May 2013	Appointment
Zhou Shaohua	Deputy general manager	Appointed	16 May 2013	Appointment
Wang Chunfang	Secretary to the Board	Appointed	16 May 2013	Appointment
	Deputy general manager	Appointed	20 March 2014	Appointment
Hu Changqing	Deputy general manager	Appointed	16 May 2013	Appointment
Shao Zhenzhong	Deputy general manager	Appointed	16 May 2013	Appointment
Li Zhenzhong	Deputy general manager	Appointed	16 May 2013	Appointment
Chang Liting	Deputy general manager	Appointed	16 May 2013	Appointment
Poon Shiu Cheong	Company secretary and qualified accountant	Appointed	16 May 2013	Appointment
Tan Daocheng	Director	Expiration of tenure	15 May 2013	Expiration of tenure
Wang Yumei	Independent Director	Expiration of tenure	15 May 2013	Expiration of tenure
Wang Fengrong	Director	Expiration of tenure	15 May 2013	Expiration of tenure
Zhang Yanjun	Deputy general manager	Expiration of tenure	16 May 2013	Expiration of tenure
Xia Jigang	Deputy general manager	Expiration of tenure	16 May 2013	Expiration of tenure
Wang Xiangfei	Independent Director	Expiration of tenure	15 May 2013	Expiration of tenure

VIII Directors, Supervisors and Senior Management and Staff

V. Changes in the information of Directors and Supervisors

Under Rule 13.51(B) of the Listing Rules, changes in the information of Directors and Supervisors since the date of annual report of the year ended 31 December 2013 are set out below:

Name of Director	Details of the changes
Tan Daocheng	No longer an executive director since 15 May 2013 due to expiration of tenure
Wang Yumei	No longer an independent non-executive director since 15 May 2013 due to expiration of tenure
Wang Fengrong	No longer a non-executive director since 15 May 2013 due to expiration of tenure
Wang Xiangfei	No longer an independent non-executive director since 15 May 2013 due to expiration of tenure
Pan Ailing	Being appointed as an independent non-executive director since 16 May 2013

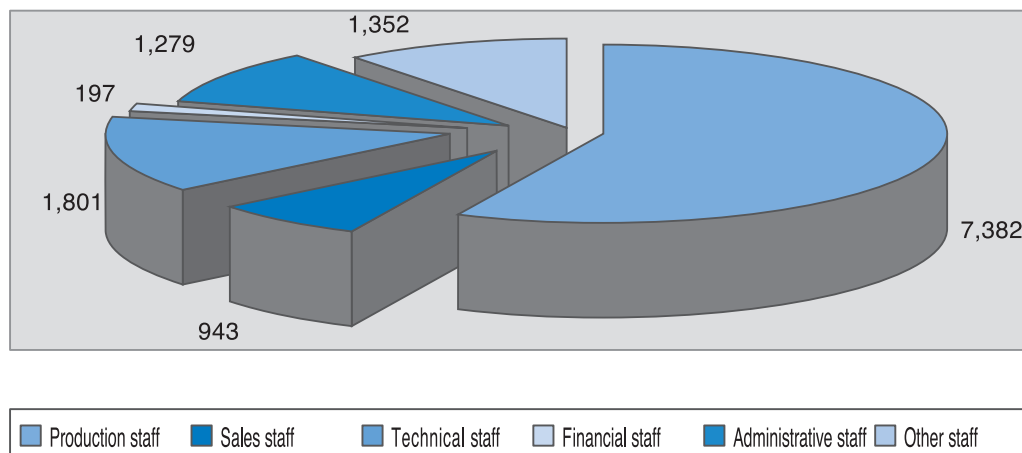
VI. Change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management)

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.

VII. Personnel of the Company

At the end of the reporting period, the Group had 12,954 employees in aggregate.

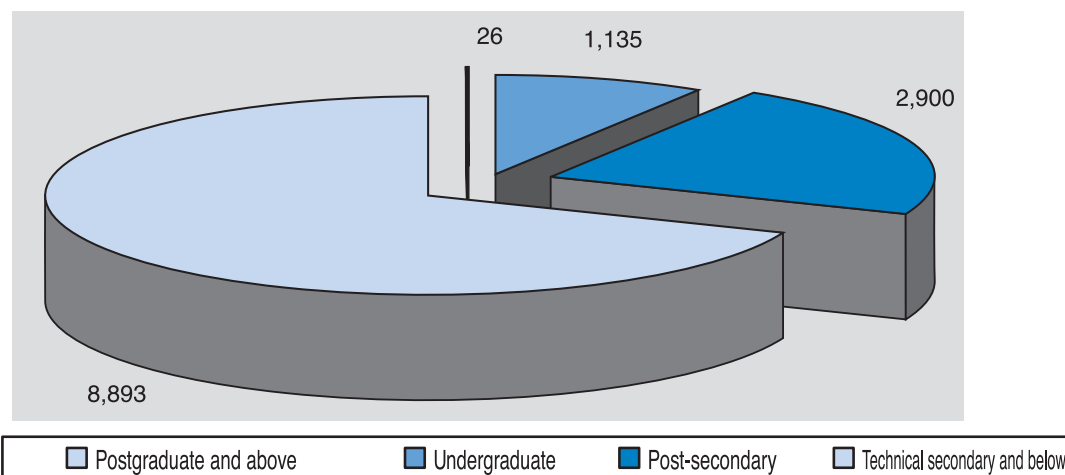
(1) Speciality composition



VIII Directors, Supervisors and Senior Management and Staff

VII. 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 2013 are set out in Note 26 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 26 of the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

(4) Training program

The Company attaches great importance to staff training and actively develops a learning atmosphere. Detailed training programs are prepared annually by all departments and subsidiaries to carry out multi-form and multi-channel training for staff at different levels of different profession. It revised and improved its training management system to well define the training process and relative standards to make good use of internal resources in this respect. It also prepared simple and practical general training materials for staff, and encouraged self-learning in order to improve overall business skills.

IX Corporate Governance

I. Corporate Governance

(1) Corporate governance in practice

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. Save for the details set out in subsection (ix)(i) of this section, 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.

(2) Corporate governance activities

During the Reporting Period, the Board strived to regulate the operation of the Company by improving corporate governance based on relevant special activities carried out in 2013. It improved corporate governance practice in a timely manner according to relevant regulations, and revised Procedure for the Board Meeting, Procedure for the Supervisory Meeting, Procedure for the General Meeting and Rules of the Nomination Committee under the Board. It formulated management systems including amendments to Decision-making Procedure on Significant Transaction, Decision-making Procedure on External Investment, Decision-making Procedure on External Guarantee, Management System of Investor Relation, the Article of Association and other systems. The Company carried out the following activities to continue to improve corporate governance:

1. In order to carry out the spirit of the Notice regarding Implementation of Investor Protection in 2013 (Zheng Jian Ban Fa [2013] No. 21) by CSRC and the Notice regarding Further Implementation of Investor Protection of Listed Companies (Lu Zheng Jian Gong Si Zi [2013] No. 33) issued by Shandong branch of China Securities Regulatory Commission, conscientiously protect investors, especially the legal rights of public investors, the Company formulated and implemented Investor Relations Management System in accordance with the Work Guidance for Relations between Listed Companies and Investors and requirement of above Notices.
2. In accordance with the amendment to the Articles of Association in relation to reduction of the number of the members of the Board of the Company and the resolution in relation to the election of directors as part of the change of the session of the Board approved at the 2012 annual general meeting, the number of directors in the seventh session reduced from 15 to 12, of which independent directors was reduced to 4. In response to the above change, the Company revised its Implementation Rules of the Audit Committee, Implementation Rules of the Remuneration and Assessment Committee, Implementation Rules of the Nomination Committee and implemented the rules accordingly.
3. To ensure that the decision-making on significant transactions, external investment and external guarantee was regulated and valid, the Company formulated Decision-making Procedure on Significant Transaction, Decision-making Procedure on External Investment and Decision-making Procedure on External Guarantee in accordance with requirements of relevant laws, regulations, regulatory documents and the Articles of Association, which were considered and approved at the second extraordinary general meeting of 2013 and implemented thereafter.

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 non-compliance of Companies Law and relevant requirements of CSRC in respect of corporate governance

☐ Yes ☒ No

There is no non-compliance of Companies Law and relevant requirements of CSRC in respect of corporate governance.

IX Corporate Governance

I. Corporate Governance (Cont'd)

(2) Corporate governance activities (Cont'd)

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

The Company revised the Insider Registration System (《内幕信息知情人登記制度》) 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.

IX Corporate Governance

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
2012 annual general meeting	15 May 2013	1. To consider and approve the report of the board of directors of the Company for the year 2012; 2. To consider and approve the report of the supervisory committee of the Company for the year 2012; 3. To consider and approve the report of the independent directors of the Company for the year 2012; 4. To consider and approve the full text and summary of the 2012 annual report of the Company; 5. To consider and approve the financial statements of the Company for the year 2012; 6. To consider and approve the profit distribution plan of the Company for the year 2012; 7. To consider and approve the application for a general bank credit line for 2013; 8. To consider and approve the provision of guarantee for the general banking facilities of some controlling subsidiaries; 9. To consider and approve the provision of financial assistance to some controlling subsidiaries; 10. To consider and approve the engagement of the auditors for 2013; 11. To consider and approve the election of directors as part of the change of the session of the Board; 12. To consider and approve the election of supervisors as part of the change of the session of the supervisory committee; 13. To consider and approve the amendment to the Articles of Association of the Company in relation to reduction of the number of the members of the Board of the Company; and 14. To consider and approve the authorisation by the Company on the construction project of regulated works of Guangdong Huirui Investment.	All considered and approved	16 May 2013	http://www.cninfo.com.cn

IX Corporate Governance

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	Resolutions	Disclosure date	Disclosure index
2013 first extraordinary general meeting	21 August 2013	1. To consider and approve the increase of registered capital of Jiangxi Chenming Paper Co., Ltd., a subsidiary wholly-owned by the Company; 2. To consider and approve the high-end packaging paper project of Jiangxi Chenming; 3. To consider and approve the change of auditor of the Company; 4. To consider and approve the integration project of Huanggang Chenming ; 5. To consider and approve the provision of guarantee to Zhanjiang Chenming for increase in general banking facilities; and 6. To authorise the board of directors of the Company to repurchase certain H Shares of the Company by a general mandate	All considered and approved	22 August 2013	http://www.cninfo.com.cn
2013 first extraordinary Class A, B and H meeting	21 August 2013	To authorise the board of directors of the Company to repurchase certain H Shares of the Company by a general mandate	Considered and approved	22 August 2013	http://www.cninfo.com.cn

IX Corporate Governance

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

2. Extraordinary general meeting during the reporting period (Cont'd)

Meeting	Convened Date	Name of the resolutions of the meeting Resolutions	Resolutions	Disclosure date	Disclosure index
2013 second extraordinary general meeting	15 November 2013	1. To consider and approve the provision of guarantee to Huanggang Chenming; 2. To consider and approve the performance of the syndicated loan collateral contract by Zhanjiang Chenming; 3. To consider and approve the establishment of Shandong Chenming Fuyu; 4. To consider and approve the acquisition of land by Wuhan Wan Xing Real Estate; 5. To consider and approve the joint development project by Wuhan Chenming and Hubei Zheshang; 6. To consider and approve the joint terminal construction by Jiangxi Chenming; 7. To consider and approve the construction of paper cup and high grade cultural paper projects in Zhanjiang Chenming; 8. To approve and adopt the new procedural rules of the board of directors meeting; 9. To approve and adopt the new procedural rules of supervisors meeting; 10. That the amendment to the management system of the connected transaction of the Company be approved and confirmed; 11. To approve and adopt the decision making system to substantial transaction of the Company; 12. To approve and adopt the decision making system to external investment of the Company; 13. To approve and adopt the decision making system to external guarantee of the Company; 14. That the amendment to the articles of association of the Company be approved and confirmed; and 15. To approve and adopt the new procedural rules of the general meeting of the Company	All considered and approved	16 November 2013	http://www.cninfo.com.cn

IX Corporate Governance

III. Performance of Independent Directors during the reporting period

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

Name of Independent Directors	Attendance of Independent Directors in board meetings				Absence for two successive times (attend in person)	
	Number of board meetings attended during the period	Attend in person	Attend via communication channels	Number of appointed attendance		
Zhang Zhiyuan	11	1	9	1	0	No
Wang Aiguo	11	2	9	0	0	No
Zhang Hong	11	2	9	0	0	No
Wang Yumei	5	1	4	0	0	No
Wang Xiangfei	5	0	4	1	0	No
Pan Ailing	6	0	5	1	0	No
No. of the general meetings presented by Independent Directors						0

Explanation on the absence from the Board meeting twice in succession: None of the Independent Directors was absent from the Board meeting twice in succession.

2. Objections from Independent Directors 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 for Directors and Senior Management on Liability Insurance for its Directors and Senior Management was adopted by the Company in order to prevent the professional risk.

IX Corporate Governance

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

1. The audit committee of the Board

(1) The following major tasks were completed during 2013:

- ① it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2012 financial report auditing on pre-auditing work, reviewed the 2012 auditing report and financial report and submitted such reports to the Board of the Company;
- ② it reviewed the interim financial statements for the six months ended 30 June 2013, which were submitted to the Board for approval.

(2) Auditing work conducted on the 2013 financial report of the Company is as follows:

- ① it reviewed the 2013 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 2013 financial statements of the Company with Ruihua 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 2013, 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 2013.

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 2013 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 2013 and assessment of the Directors and the Senior Management of the Company.

3. The nomination committee of the Board

During the reporting period, the nomination committee held one meeting. The first meeting in 2013 considered the proposed resolution in relation to the appointment and re-appointment of Directors of the Company, which was submitted to the sixteenth meeting of the sixth session of the Board of the Company for consideration and approval.

IX Corporate Governance

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

4. The strategic committee of the Board

During the reporting period, the strategic committee held three meetings. The first meeting in 2013 considered the proposed resolutions in relation to the investment in household paper project and technical improvement project by Wuhan Chenming and to the construction and regulation works by Guangdong Huirui, which were submitted to the eighth meeting of the sixth session of the Board of the Company for consideration and approval; the second meeting in 2013 considered the proposed resolution in relation to the investment in high-end packaging paper project by Jiangxi Chenming, which was submitted to the first extraordinary meeting of the seventh session of the Board of the Company for consideration and approval; and the third meeting in 2013 considered the proposed resolutions in relation to the establishment of Shandong Chenming Fuyu, the acquisition of land by Wuhan Wan Xing Real Estate, the joint development project by Wuhan Chenming and Hubei Zheshang, the joint terminal construction by Jiangxi Chenming and the construction of paper cup and high grade cultural paper projects in Zhanjiang Chenming, which were submitted to the second meeting of the seventh session of the Board of the Company for consideration and approval.

Concerned about the authorisation on project development and financing from the Board, the strategic committee keeps constant communication with the management, and is fully aware of each issues within the scope of such authorisation.

V. Performance of duties by the Supervisory Committee

During the reporting period, the supervisory committee held six meetings.

The thirteenth meeting of the sixth session of the Supervisory Committee considered and approved eight proposed resolutions respectively in relation to the 2012 supervisors' report, the full text and summary of the 2012 annual report of the Company, the 2012 financial statements of the Company, the provision of guarantee to certain wholly-owned subsidiaries for increase in general banking facilities, the provision of financial assistance to certain subsidiaries, the self-assessed internal control report of the Company, the engagement of an external auditor for 2013 and re-election of the Supervisory Committee as part of the change of session thereof;

The fourteenth meeting of the sixth session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and body text of the 2013 first quarterly report of the Company;

The first meeting of the seventh session of the Supervisory Committee considered and approved a proposed resolution in relation to election of the chairman of the Supervisory Committee of the Company;

The second meeting of the seventh session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and summary of the 2013 interim report of the Company;

The third meeting of the seventh session of the Supervisory Committee considered and approved a proposed resolution in relation to revise the procedures of the Supervisory meeting ; and

The fourth meeting of the seventh session of the Supervisory Committee considered and approved one proposed resolution in relation to approving the full text and body text of the 2013 third quarterly report of the Company;

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.

IX Corporate Governance

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

1. In terms of business: The Company was completely independent from the controlling shareholder, and had business independence and self 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 that 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 did not interfere 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, and had its business independence and self operation capability.

VII. Industry competition

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

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

The Senior Management of the Company is assessed on monthly and annually basis. 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 during 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 (4) “Chairman and general manager” and (17) “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.

IX Corporate Governance

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

2. Securities transactions by Directors and Supervisors

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.

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 six executive Directors: Chen Hongguo (Chairman), Yin Tongyuan, Li Feng, Geng Guanglin, Hou Huancai, Zhou Shaohua; two non-executive Directors: Cui Youping, Wang Xiaoqun; and four independent non-executive Directors: Zhang Zhiyuan, Wang Aiguo, Zhang Hong and Pan Ailing. 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 wholly responsible for the administration and supervision of company businesses to facilitate its success. The Executive Director or the senior management is authorised to be 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 Corporate Governance

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 11 meetings, 5 of which were regular meetings and 6 were extraordinary meetings. Except Mr. Zhang Zhiyuan and Mr. Wang Xiangfei who was on business trip and absent from the sixteenth meeting of the sixth session of the Board and thus appointed Mr. Wang Aiguo and Ms. Zhang Hong to be present on their behalf;; and Ms. Pan Ailing who was on business trip and absent from the first meeting of the seventh session of the Board and thus appointed Ms. Zhang Hong to be present on her behalf, the other Directors of the Company attended 11 Board meetings.

		Attendance of the relevant meetings (attention required/attended)					General meetings (including class meetings)
		Remuneration and assessment committee meetings					
Name	Position	Board Meetings	Audit committee meetings	Nomination committee meetings	assessment committee meetings	Strategic committee meetings	
I. Executive Directors							
Chen Hongguo	Chairman and General Manager	11/11	N/A	1/1	1/1	3/3	1/1
Yin Tongyuan	Vice Chairman	11/11	N/A	N/A	N/A	3/3	3/4
Li Feng	Director, Deputy General Manager	11/11	N/A	N/A	N/A	N/A	0/0
Geng Guanglin	Director, Deputy General Manager	11/11	N/A	N/A	N/A	N/A	0/2
Hou Huancai	Director	11/11	N/A	N/A	N/A	N/A	0/0
Zhou Shaohua	Director, Deputy General Manager	11/11	N/A	N/A	N/A	N/A	0/0
II. Non-executive Directors							
Cui Youping	Director	11/11	5/5	N/A	N/A	N/A	0/0
Wang Xiaoqun	Director	11/11	N/A	N/A	N/A	N/A	0/4
III. Independent non-executive Directors							
Zhang Zhiyuan	Independent Director	11/11	N/A	1/1	N/A	N/A	0/0
Wang Aiguo	Independent Director	11/11	5/5	1/1	1/1	N/A	0/0
Zhang Hong	Independent Director	11/11	5/5	N/A	N/A	3/3	0/0
Pan Ailing	Independent Director	6/6	N/A	N/A	1/1	N/A	0/0

IX Corporate Governance

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 this Report, none of the members of the Board had any financial, business, family relations or material connections with each other.

The Board held 11 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.

Insurance

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, the Board of directors was re-elected into a new session, comprised of the executive Directors Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng, Mr. Geng Guanglin, Mr. Hou Huancai and Mr. Zhou Shaohua; the non-executive Directors Mr. Cui Youping and Mr. Wang Xiaoqun and the independent non-executive Directors Mr. Zhang Zhiyuan, Mr. Wang Aiguo, Ms. Zhang Hong and Ms. Pan Ailing. Members of the sixth session including Tan Daocheng, Wang Yumei, Wang Xiangfei and Wang Fengrong ceased to serve as directors of the Company upon expiry of their term of office. Directors and Supervisors of the Company were arranged by the Company to attend the 1st and the 2nd session of training courses 2013 for directors and supervisors held by China Securities Regulatory Commission, Shandong; and also, briefing paper in respect of new provisions for disclosure of inside 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 Corporate Governance

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 principle provisions of A.2 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 four 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 Pan Ailing, 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 Corporate Governance

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 May 2013 to May 2016. They may be re-elected for another term upon expiry of tenure.

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

Pursuant 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.

The Board was generally responsible for performing corporate governance, which includes:

- (1) to develop and review the company's policies and practices on corporate governance and make recommendations to the board;
- (2) to review and monitor the training and continuous professional development of directors and senior management;
- (3) to review and monitor the company's policies and practices on compliance with legal and regulatory requirements;
- (4) to develop, review and monitor the code of conduct applicable to employees and directors; and
- (5) to review the company's compliance with the code and disclosure in the Corporate Governance Report.

IX Corporate Governance

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

9. Audit Committee

The Audit Committee of the Company comprises two independent non-executive Directors and one non-executive Director. Its primary duties are serving as a communication media between internal and external audit and the related review and supervision. The Chairman of the Audit Committee is Zhang Hong, an independent non-executive Director, and other members are Cui Youping and Wang Aiguo. 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 2013 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.

10. Remuneration and Assessment Committee

The Company set up a Remuneration and Assessment Committee which comprised three Directors, including Wang Aiguo, the Chairman, and other members, namely Chen Hongguo and Pan Ailing. Two members, including the Chairman, 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.

IX Corporate Governance

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

11. Nomination Committee

The Company set up a Nomination Committee which comprised three Directors, including Zhang Zhiyuan, the Chairman, and other members, namely Chen Hongguo and Wang Aiguo. Three members, including the Chairman, 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) advising to the Board on appointment and re-appointment of directors and on skills, knowledge, experience, background, gender and other characteristics required in serving as a director taking into consideration diversity, balance and efficiency of the Board and benefits thereto; (7) reviewing the Board diversity policy, revising thereon in a timely manner and making relevant disclosure in the corporate governance report in the corresponding annual report; and (8) dealing with other matters as delegated by the Board.

During the reporting period, the Nomination Committee, after studying the needs of the Company for new Directors and managerial personnel and taking into consideration the Board diversity policy, 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 specialised skills of the preliminary candidates. One to two months 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 Corporate Governance

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 three Directors, including Chen Hongguo, the Chairman, and other members, namely, Yin Tongyuan 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

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 and be responsible for domestic auditing of the Company for 2012.

On 15 May 2013, the 2012 annual general meeting of the Company agreed to continue to engage RSM China Certified Public Accountants as the domestic auditors of the Company for 2013 and be responsible for domestic auditing of the Company for 2013. As RSM China Certified Public Accountants (Special General Partnership) has merged with Crowe Horwath Certified Public Accountants (Special General Partnership), domestic auditing of the Company for 2013 was taken up by Ruihua Certified Public Accountants (Special General Partnership). Such change was approved at the first extraordinary general meeting held on 21 August 2013.

The resolution to reappoint Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2014 will be proposed at the forthcoming annual general meeting of the Company.

14. Remuneration for the Auditors

The financial statements for 2013 prepared in accordance with Accounting Standards for Business Enterprises by the Group were audited by Ruihua Certified Public Accountants. In 2013, the Company paid the auditors in aggregate RMB2,000,000 and RMB600,000 in respect of audit financial statements and non-audit services in relation to internal control respectively. Save the above, no other non-audit fee was incurred during the year.

The Company passed a resolution to engage Ruihua Certified Public Accountants as the Auditors of the Company for 2013 at the first 2013 extraordinary general meeting held on 21 August 2013.

Ruihua China Certified Public Accountants have stated their reporting responsibilities on the financial statements of the Group in Section I, Chapter XI hereto.

IX Corporate Governance

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.

Details of the work of the Supervisory Committee during the Reporting Period are set forth in Section V Performance of duties by the Supervisory Committee of this chapter.

16. Company secretary

During the reporting period, the company secretary confirmed that he has received relevant professional training for not less than 15 hours in accordance with Rule 3.29 of the Listing Rules.

17. 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 endeavours 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.

IX Corporate Governance

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

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

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 15 May 2013 by the Company, two extraordinary general meetings and one class meeting was convened in 2013. The attendance record of Directors at each general meeting is set out below:

Name	Attendance of general meetings
Annual general meeting	Chen Hongguo, Yin Tongyuan, Wang Xiaoqun
1st extraordinary meeting	Yin Tongyuan, Geng Guanglin, Wang Xiaoqun
2nd extraordinary meeting	Yin Tongyuan, Wang Xiaoqun
Class meeting	Yin Tongyuan, Geng Guanglin, Wang Xiaoqun

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 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.

IX Corporate Governance

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

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

Shareholders' rights

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

Pursuant to 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.

Pursuant to 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 Corporate Governance

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

17. 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 Secretary (for H Share Shareholders)/ Secretary to the Board (for A, B Share Shareholders) whose contact details are as follows:

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

The Company secretary and the secretary to the Board 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

Pursuant to Article 102 of the Articles of Association of the Company, shareholders individually or jointly holding over 3% of the total shares of the Company are entitled to propose motions to the Company.

Shareholders individually or jointly holding over 3% of the total shares of the Company may submit extraordinary motions to the Board or the secretary to the Board ten working days before the convening of the General Meeting. The Board or the secretary to the Board shall issue supplementary notice of the General Meeting to announce the extraordinary motions within two working days after receiving the proposed motions.

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.

18. Internal Control

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

IX Corporate Governance

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

19. Articles of Association

Amendments to the Articles of Association of the Company were considered and approved by the Company at 2013 second extraordinary general meeting held on 15 November 2013. The purpose to make such amendments is principally in accordance with the requirements of Companies Law (《公司法》), Securities Law (《證券法》) and Listing Rules of Shenzhen Stock Exchange (《深交所上市規則》) and development and needs of the Company. 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. As the Company completed the repurchase and cancellation of its B shares on 24 December 2013, amendments to the number of share capital were made to the Articles of Association accordingly.

20. Board Diversity

On 21 August 2013, the Company formulated policies to diversify Board members and amended the implementing rules of the nomination committee. Pursuant to the new policies, the nomination committee shall regularly review the Board diversity policy to improve efficiency and ensure interest thereof. As the re-election of directors was completed preceding the implementation of such policies, such committee has not yet issued any advice on appointing new directors thereafter, and will advise thereon accordingly when the need arises.

Such policies are summarised as follows:

The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, backgrounds, genders and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Nomination Committee of the Company reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation those described above, in order to maintain an appropriate range and balance of talents, skills, experience and backgrounds on the Board. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

In overseeing the conduct of the annual review of the effectiveness of the Board, the Nomination Committee will consider the balance of talents, skills, experience, independence and knowledge on the Board and the diversity representation of the Board.

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 organisations 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 term of reference, they assumed the functions of discussing the material matters and decision making, raising the science and professionalism of Board decisions. Currently half of the Directors, are external directors of the Company, who play a better role in decision making and supervision.

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》), Insider Registration System (《內幕信息知情人登記制度》), the decision making system to substantial transaction, the decision making system to external investment and the decision making system to external guarantee, 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 works are based on written-provisions, and thus forms a more standardised management structure.

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 board of directors 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 audit procedure, and abstain from 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 prejudicial to the interest 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 decision making system to external guarantee. 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 organised 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》), Provisional Regulations on Management of Large Sums of Money Use (《大額資金使用管理暫行規定》) 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 authorisation 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 organisation 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 emphasise investment returns. Also the Company formulated the decision making system to external guarantee in accordance with requirements of the Shenzhen Stock Exchange Listed Company Internal Control Guidelines (《深圳證券交易所上市公司內部控制指引》) and relevant laws and regulations.

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, standardised 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 computerisation. The Company introduced an ERP system as the common platform for the management techniques. The platform effectively standardised 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 Relation Management System (《投資者關係管理制度》) 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), ShangHai Securities News, STCH (《證券時報》), Securities Daily 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. Investor relation activities were lawfully conducted to ensure open, just and fair information disclosure.

9. Management of internal monitoring and control

In accordance with relevant requirements of the Basic Norms of Internal Control (《公司內部控制基本規範》), the Shenzhen Stock Exchange Listed Company Internal Control Guidelines (《深圳證券交易所上市公司內部控制指引》) and the Corporate Governance Code issued by the Hong Kong Stock Exchange, the Company had management independent on controlling shareholders and established strict internal control systems in supply, production, sales, personnel, finance and resource, thereby effectively ensured the accuracy of disclosures and safety and integrity of assets. Through establishing internal systems, the Company formulated the Vertical Audit Management System, the Financial Audit System, the Procurement Audit System, the Internal Project Audit System, the Project Accounts Audit System and relevant bye-laws, thereby effectively ensured the implementation of internal monitoring and control system.

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 optimise 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 2013 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 and www.cninfo.com.cn.

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 a series of financial management system, which included Management System for Cash, Bank Deposit and Note (《現金、銀行存款、票據管理制度》), Management System for Payment (《付款管理制度》), Management System for Assets Inspection and Inventory Impairment (《財產清查及存貨減值管理制度》), Management System for Fixed Assets (《固定資產管理制度》) and Management System for Intangible Assets (《無形資產管理制度》), which set out the procedures and rules for major financial decisions, standardised 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 computerisation. The Company introduced an ERP system as the common platform for the management techniques. The platform effectively standardised 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. Assessment Report on Internal Control

Particulars of material deficiencies in internal control detected during the reporting period which was contained in the Assessment Report on Internal Control	
No material deficiencies and major deficiencies were identified as at the end of the Reporting Period.	
Date of Disclosure of Assessment Report on Internal Controls	20 March 2014
Index of 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	
We are of the view that Shandong Chenming Paper Holdings Limited had in all material aspects maintained effective internal control over the financial statements in accordance with the Basic Internal Control Norms for Enterprises as of 31 December 2013.	
Date of Disclosure of Auditors' report on internal control	20 March 2014
Index of Auditors' report on internal control Disclosure	http://www.cninfo.com.cn/

Any opinions of non-standardisation 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	20 March 2014
Name of the auditor	Ruihua Certified Public Accountants (special general partnership)
Reference number of the auditors' report	Rui Hua Shen Zi [2014] No.37020006
Name of certified public accountant	Wang Chuanshun, Jing Chuanxuan
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 (hereinafter as the "Chenming Paper Company"), which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for 2013 and notes to the financial statements.

1. Management's responsibility for the financial statements

The management of Chenming Paper Company 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 policies 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 above give a true and fair view of the consolidated and company financial position of Shandong Chenming Paper Holdings Limited as at 31 December 2013 and of its consolidated and company operating results and cash flows for 2013.

Ruihua Certified Public Accountants
(special general partnership)
Beijing, China
20 March 2014

PRC Certified Public Accountant: Wang Chuanshun

PRC Certified Public Accountant: Jing Chuanxuan

XI Financial Report

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	2,547,729,794.24	4,456,217,362.86
Balances with clearing companies		
Loans to banks and other financial institutions		
Held-for-trading financial assets		
Bills receivable	2,870,443,681.49	1,852,478,364.46
Accounts receivable	3,102,643,083.54	3,602,955,051.18
Prepayments	1,589,021,331.24	1,636,233,924.64
Premium receivable		
Receivables from reinsurers		
Reinsurance contract reserves receivable		
Interest receivable		
Dividend receivable		
Other receivables	1,331,900,749.84	1,284,655,342.63
Financial assets purchased under agreements to resell		
Inventories	3,725,809,877.25	4,412,548,700.68
Non-current assets due within one year		
Other current assets	1,740,520,586.37	1,803,256,307.61
Total current assets	16,908,069,103.97	19,048,345,054.06

XI Financial Report

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	115,477,214.86	356,796,777.78
Investment properties	19,473,443.95	21,211,699.99
Fixed assets	21,181,647,488.39	19,751,339,991.06
Construction in progress	5,266,031,817.60	5,017,604,821.59
Construction materials	63,968,067.62	75,054,992.09
Disposal of fixed assets	588,181,647.53	287,309,818.03
Consumable biological assets	1,317,141,123.77	1,169,269,054.15
Oil and gas assets		
Intangible assets	1,365,418,002.26	1,416,497,159.22
Development expenditure		
Goodwill	20,283,787.17	20,283,787.17
Long-term prepaid expenses	168,538,483.68	184,770,685.65
Deferred income tax assets	507,653,388.38	376,938,086.60
Other non-current assets		
Total non-current assets	30,613,814,465.21	28,677,076,873.33
Total assets	47,521,883,569.18	47,725,421,927.39

XI Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	9,818,885,237.85	12,876,398,495.16
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	290,403,790.59	1,285,627,762.07
Accounts payable	2,695,169,927.14	3,239,781,724.81
Advance receipts	442,432,261.58	347,835,800.87
Assets sold under agreements to repurchase		
Handling charges and commission payable		
Staff remuneration payables	130,271,812.18	177,847,769.71
Taxes payable	130,192,936.87	106,816,413.87
Interest payable	153,189,860.42	133,046,123.31
Dividend payable		
Other payables	486,836,595.89	435,772,288.98
Due to reinsurers		
Insurance contract reserves		
Customer brokerage deposits		
Securities underwriting brokerage deposits		
Non-current liabilities due within one year	1,287,804,452.66	1,368,108,800.00
Other current liabilities	3,878,735,536.52	17,659,498.56
Total current liabilities	19,313,922,411.70	19,988,894,677.34
NON-CURRENT LIABILITIES:		
Long-term borrowings	3,723,865,807.90	3,933,167,835.94
Bonds payable	5,768,418,612.73	6,256,263,237.00
Long-term payables	60,000,000.00	
Special payables	971,805,561.39	641,526,872.70
Estimated liabilities		
Deferred income tax liabilities		
Other non-current liabilities	3,045,517,642.57	2,560,151,371.36
Total non-current liabilities	13,569,607,624.59	13,391,109,317.00
TOTAL LIABILITIES	32,883,530,036.29	33,380,003,994.34

XI Financial Report

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)	1,975,471,967.00	2,062,045,941.00
Capital reserves	6,204,682,028.94	6,414,892,999.53
Less: Treasury shares	30,954,891.40	
Special reserves		
Surplus reserves	1,132,116,106.40	1,132,116,106.40
General risk provisions		
Retained profit	4,741,638,941.58	4,149,511,927.88
Foreign currency translation differences	16,934,073.59	929,205.04
Total equity attributable to equity holders of the company	14,039,888,226.11	13,759,496,179.85
Minority shareholders interests	598,465,306.78	585,921,753.20
Total owners' equity (or shareholders' equity)	14,638,353,532.89	14,345,417,933.05
TOTAL LIABILITIES AND OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY)	47,521,883,569.18	47,725,421,927.39

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

XI Financial Report

2. Balance sheet of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing Balance	Opening balance
CURRENT ASSETS:		
Monetary funds	1,454,242,620.40	3,057,756,467.02
Held-for-trading financial assets		
Bills receivable	945,832,396.01	2,592,967,374.30
Accounts receivable	3,814,654,532.05	342,497,381.57
Prepayments	762,470,888.60	646,962,478.93
Interest receivable		
Dividend receivable	191,300,102.21	512,215,933.76
Other receivables	11,051,622,177.96	9,232,778,999.32
Inventories	857,030,449.25	937,107,565.73
Non-current assets due within one year	200,000,000.00	500,000,000.00
Other current assets	103,214,843.26	62,260,013.84
Total current assets	19,380,368,009.74	17,884,546,214.47
NON-CURRENT ASSETS:		
Available-for-sale financial assets		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	8,863,738,003.45	8,991,578,553.83
Investment property	19,473,443.95	21,211,699.99
Fixed assets	5,170,770,619.87	5,006,474,783.75
Construction in progress	127,095,105.63	513,157,612.96
Construction materials	1,813,442.43	2,536,053.61
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	308,163,298.83	313,572,418.35
Development expenditure		
Goodwill		
Long-term prepaid expenses		
Deferred income tax assets	17,082,162.53	21,517,455.45
Other non-current assets		
Total non-current assets	14,508,136,076.69	14,870,048,577.94
TOTAL ASSETS	33,888,504,086.43	32,754,594,792.41

XI Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Closing Balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	5,119,632,573.69	7,847,558,953.68
Held-for-trading financial liabilities		
Bills payable	500,000.00	643,432,387.04
Accounts payable	891,996,724.44	1,044,590,466.45
Advance receipts	185,524,508.71	417,522,231.17
Staff remuneration payables	62,091,273.25	101,268,730.42
Taxes payable	8,949,746.01	25,109,370.51
Interest payable	150,047,305.56	129,893,611.11
Dividend payable		
Other payables	431,217,791.18	255,596,331.72
Non-current liabilities due within one year	343,876,000.00	514,843,000.00
Other current liabilities	3,856,239,467.95	2,328,791.64
Total current liabilities	11,050,075,390.79	10,982,143,873.74
NON-CURRENT LIABILITIES:		
Long-term borrowings	594,568,035.94	352,112,035.94
Bonds payable	5,768,418,612.73	5,760,200,575.93
Long-term payables		
Special payables		
Estimated liabilities		
Deferred income tax liabilities		
Other non-current liabilities	2,607,180,511.28	2,214,846,544.38
Total non-current liabilities	8,970,167,159.95	8,327,159,156.25
Total liabilities	20,020,242,550.74	19,309,303,029.99
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):		
Paid-up capital (or share capital)	1,975,471,967.00	2,062,045,941.00
Capital reserves	6,005,426,779.17	6,184,215,988.77
Less: Treasury shares	30,954,891.40	
Special reserves		
Surplus reserves	1,119,926,524.49	1,119,926,524.49
General risk provisions		
Retained profit	4,798,391,156.43	4,079,103,308.16
Foreign currency translation differences		
Total owners' equity (or shareholders' equity)	13,868,261,535.69	13,445,291,762.42
TOTAL LIABILITIES AND OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY)	33,888,504,086.43	32,754,594,792.41

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

XI Financial Report

3. Consolidated Income Statement

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Total revenue	20,388,890,067.41	19,761,679,230.05
Including: Revenue	20,388,890,067.41	19,761,679,230.05
Interest Income		
Earned premium		
Handling charges and commission income		
II. Total operating costs	20,020,276,909.90	20,190,204,636.07
Including: Operating costs	16,651,886,019.64	16,693,768,322.36
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	85,832,210.98	78,689,990.94
Sales and distribution expenses	1,129,145,035.51	1,144,489,246.04
General and administrative expenses	1,198,704,556.00	1,110,246,902.75
Finance expenses	930,604,174.96	1,092,760,015.04
Loss on impairment of assets	24,104,912.81	70,250,158.94
Plus: Gain on change in fair value ("-" denotes loss)	11,221,828.76	47,822,076.87
Investment income ("-" denotes loss)	23,705,958.58	-35,524,960.75
Including: Investment income from associates and joint ventures	208,888.59	-637,227.71
Foreign exchange gains ("-" denotes loss)		

XI Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
III. Operating profit ("-" denotes loss)	403,540,944.85	-416,228,289.90
Plus: Non-operating income	504,045,185.99	421,528,346.56
Less: Non-operating expenses	41,294,461.31	21,440,038.10
Including: Loss on disposal of non-current assets	36,560,317.17	4,484,098.29
IV. Total profit ("-" denotes total loss)	866,291,669.53	-16,139,981.44
Less: Income tax expenses	175,938,431.91	-62,826,238.51
V. Net profit ("-" denotes net loss)	690,353,237.62	46,686,257.07
Including: Net profit achieved by the acquisition before business merger		
Net profit attributable to shareholders of the Company	710,655,331.72	221,034,822.54
Minority shareholders interests	-20,302,094.10	-174,348,565.47
VI. Earnings per share:	—	—
(I) Basic earnings per share	0.35	0.11
(II) Diluted earnings per share	0.35	0.11
VII. Other comprehensive income	-15,416,892.44	2,250,198.82
VIII. Total comprehensive income	674,936,345.18	48,936,455.89
Total comprehensive income attributable to shareholders of the Company	695,238,439.28	223,285,021.36
Total comprehensive income attributable to minority shareholders interests	-20,302,094.10	-174,348,565.47

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

XI Financial Report

4. Income statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Revenue	9,790,098,706.42	8,641,208,942.54
Less: Operating costs	7,831,543,846.50	7,177,585,076.21
Business taxes and surcharges	43,845,776.65	45,538,835.46
Selling and distribution expenses	301,518,944.89	287,036,491.45
General and administrative expenses	584,409,749.89	531,555,114.76
Finance expenses	545,632,757.10	509,080,279.98
Loss on impairment of assets	9,721,213.30	-8,992,017.36
Plus: Gain on change in fair value ("-" denotes loss)		
Investment income ("-" denotes loss)	353,682,268.40	601,171,586.41
Including: Investment income from associates and joint ventures	-47,492.37	-19,380,904.84
II. Operating profit ("-" denotes loss)	827,108,686.49	700,576,748.45
Plus: Non-operating income	122,069,435.62	206,421,196.02
Less: Non-operating expenses	36,361,095.67	45,274,377.35
Including: Loss on disposal of non-current assets	33,861,095.67	273,373.64
III. Total profit ("-" denotes total loss)	912,817,026.44	861,723,567.12
Less: Income tax expenses	75,000,860.15	45,083,056.27
IV. Net profit ("-" denotes net loss)	837,816,166.29	816,640,510.85
V. Earnings per share:	—	—
(I) Basic earnings per share		
(II) Diluted earnings per share		
VI. Other comprehensive income		
VII. Total comprehensive income	837,816,166.29	816,640,510.85

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

XI Financial Report

5. Consolidated cash flow statement

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	19,924,421,264.23	18,898,272,759.78
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	15,764,794.45	23,554,462.43
Cash received relating to other operating activities	422,990,060.10	478,057,899.37
Subtotal of cash inflows from operating activities	20,363,176,118.78	19,399,885,121.58
Cash paid for goods and services	15,952,557,041.64	13,883,922,321.10
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	1,017,503,439.00	980,078,937.56
Payments of taxes and surcharges	1,067,579,950.69	1,046,466,624.71
Cash paid relating to other operating activities	1,202,918,886.54	1,532,550,760.22
Subtotal of cash outflows from operating activities	19,240,559,317.87	17,443,018,643.59
Net cash flows from operating activities	1,122,616,800.91	1,956,866,477.99

XI Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount 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	201,327,878.35	81,287,275.09
Net cash received from disposal of subsidiaries and other business units	357,810,704.91	114,228,233.04
Cash received relating to other investing activities	1,367,652,767.53	825,144,486.68
Subtotal of cash inflows from investing activities	1,926,791,350.79	1,020,659,994.81
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	3,814,559,167.63	2,836,141,166.67
Cash paid on investments	20,000,000.00	779,039,794.00
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	3,180,221.51	
Subtotal of cash outflows from investing activities	3,837,739,389.14	3,666,784,910.10
Net cash flows from investing activities	-1,910,948,038.35	-2,646,124,915.29
III. Cash flows from financing activities:		
Cash received from capital contribution	66,000,000.00	30,000,000.00
Including: cash received from minority interest contribution to subsidiaries	66,000,000.00	30,000,000.00
Cash received from borrowings	17,437,505,752.43	20,431,257,575.12
Cash received from bond issue		3,773,400,000.00
Cash received relating to other financing activities	5,622,770,312.13	1,083,500,000.00
Subtotal of cash inflows from financing activities	23,126,276,064.56	25,318,157,575.12
Cash repayments of amounts borrowed	21,185,990,488.38	21,884,060,289.27
Cash paid for dividend and profit distribution or interest payment	1,376,004,607.35	1,811,123,256.04
Including: dividend and profit paid to minority interests by subsidiaries	16,657,735.88	34,709,480.76
Cash paid relating to other financing activities	1,396,318,075.00	899,777,585.47
Subtotal of cash outflows from financing activities	23,958,313,170.73	24,594,961,130.78
Net cash flows from financing activities	-832,037,106.17	723,196,444.34
IV. Effect of foreign exchange rate changes on cash and cash equivalents	3,351,087.12	-7,436,441.12
V. Net increase in cash and cash equivalents	-1,617,017,256.49	26,501,565.92
Plus: Balance of cash and cash equivalents as at the beginning of the period	2,343,550,185.45	2,317,048,619.53
VI. Balance of cash and cash equivalents as at the end of the period	726,532,928.96	2,343,550,185.45

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

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6. Cash flow statement of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	9,267,322,187.99	10,633,676,349.76
Tax rebates received		
Cash received relating to other operating activities	219,142,138.18	224,089,911.79
Subtotal of cash inflows from operating activities	9,486,464,326.17	10,857,766,261.55
Cash paid for goods and services	9,497,015,627.73	7,687,404,057.11
Cash paid to and for employees	250,644,717.68	190,589,314.60
Payments of taxes and surcharges	498,627,291.39	447,492,526.52
Cash paid relating to other operating activities	1,967,541,286.56	2,395,664,137.91
Subtotal of cash outflows from operating activities	12,213,828,923.36	10,721,150,036.14
Net cash outflows from operating activities	-2,727,364,597.19	136,616,225.41
II. Cash flows from investing activities:		
Cash received from investments	860,916,016.71	165,000,000.00
Cash received from investment income	618,941,235.06	62,413,545.49
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	21,798,747.08	60,584,699.60
Net cash received from disposal of subsidiaries and other business units		
Cash received relating to other investing activities	274,137,000.00	11,753,324.01
Subtotal of cash inflows from investing activities	1,775,792,998.85	299,751,569.10
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	316,039,924.71	444,035,770.10
Cash paid on investments	468,932,475.00	659,306,351.20
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	784,972,399.71	1,103,342,121.30
Net cash flows from investing activities	990,820,599.14	-803,590,552.20

XI Financial Report

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
III. Cash flows from financing activities:		
Cash received from capital contribution		
Cash received from borrowings	9,915,668,095.86	13,811,876,225.40
Cash received from bond issue		3,773,400,000.00
Cash received relating to other financing activities	5,271,300,000.00	1,083,500,000.00
Subtotal of cash inflows from financing activities	15,186,968,095.86	18,668,776,225.40
Cash repayments of amounts borrowed	12,557,694,467.87	15,569,143,192.60
Cash paid for dividend and profit distribution or interest payment	1,100,076,772.93	1,118,202,959.20
Cash paid relating to other financing activities	1,515,035,053.37	813,788,127.94
Subtotal of cash outflows from financing activities	15,172,806,294.17	17,501,134,279.74
Net cash flows from financing activities	14,161,801.69	1,167,641,945.66
IV. Effect of foreign exchange rate changes on cash and cash equivalents	151,371.37	-4,083,843.36
V. Net increase in cash and cash equivalents	-1,722,230,824.99	496,583,775.51
Plus: Balance of cash and cash equivalents as at the beginning of the period	1,786,622,854.08	1,290,039,078.57
VI. Balance of cash and cash equivalents as at the end of the period	64,392,029.09	1,786,622,854.08

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

7. Consolidated statement of changes in owners' equity

Prepared by: Shandong Chenming Paper Holdings Limited

Amount for the reporting period

Unit: RMB										
Item	Amount for the reporting period									
	Equity attributable to shareholders of the Company								Total owners' equity	
	Paid-up capital (or share capital)	Capital reserves	Less: treasury shares	Special reserves	Surplus reserves	General risk provisions	Others	Minority interests		
I.	Balance as at the end of the prior year	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
	Plus: accounting policy change									
	Corrections of prior period errors									
	Others									
II.	Balance as at the beginning of the year	2,062,045,941.00	6,414,892,999.53			1,132,116,106.40	4,149,511,927.88	929,205.04	585,921,753.20	14,345,417,933.05
	Changes in the period ("-" denotes decrease)									
	(I) Net profit	-86,573,974.00	-210,210,970.59	30,954,891.40			592,127,013.70	16,004,868.55	12,543,553.58	292,935,599.84
	(II) Other comprehensive income		-31,421,760.99				710,655,331.72		-20,302,094.10	690,353,237.62
	Sub-total of (I) and (II) above		-31,421,760.99				710,655,331.72	16,004,868.55	-20,302,094.10	-15,416,892.44
								16,004,868.55		674,936,345.18
(III)	Capital paid in and reduced by owners	-86,573,974.00	-178,789,209.60	30,954,891.40					48,533,141.18	-247,784,933.82
	1. Capital paid in by owners	-86,573,974.00	-178,789,209.60	30,954,891.40					56,100,000.00	-240,218,075.00
	2. Amounts of share-based payments recognised in owners' equity									
	3. Others								-7,566,858.82	-7,566,858.82
(IV)	Profit distribution									
	1. Transfer to surplus reserves						-118,528,318.02		-15,687,493.50	-134,215,811.52
	2. Transfer to general risk provision									
	3. Distribution to owners (or shareholders)									
	4. Others						-118,528,318.02		-15,687,493.50	-134,215,811.52
(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									
	Balance as at the end of the period	1,975,471,967.00	6,204,682,028.94	30,954,891.40		1,132,116,106.40	4,741,638,941.58	16,934,073.59	596,465,306.78	14,638,353,532.89

Unit: RMB

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Amount for the prior period

Unit: RMB

Item	Amount 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							

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

8 Statement of changes in owners' equity of the Company

Prepared by: Shandong Chenming Paper Holdings Limited

Amount for the reporting period

Unit: RMB							
Item	Amount 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							
Paid-up capital (or share capital)							
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		4,079,103,308.16
	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		4,079,103,308.16
III.	Changes in the period ("-" denotes decrease)						
(I)	Net profit	-86,573,974.00	-178,789,209.60	30,954,891.40			719,287,848.27
(II)	Other comprehensive income						837,816,166.29
	Sub-total of (I) and (II) above						837,816,166.29
(III)	Capital paid in and reduced by owners						
1.	Capital paid in by owners	-86,573,974.00	-178,789,209.60	30,954,891.40			-296,318,075.00
2.	Amounts of share-based payments recognised in owners' equity	-86,573,974.00	-178,789,209.60	30,954,891.40			-296,318,075.00
3.	Others						
(IV)	Profit distribution						
1.	Transfer to surplus reserves						-118,528,318.02
2.	Transfer to general risk provision						
3.	Distribution to owners (or shareholders)						-118,528,318.02
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	1,975,471,967.00	6,005,426,779.17	30,954,891.40	1,119,926,524.49		4,798,391,156.43
							13,868,261,535.69

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Amount for the prior year

Unit: RMB

Item	Amount for the prior year						Total owners' equity Paid-up capital (or share capital)
	Paid-up capital (or share capital)	Capital reserves	Less: treasury shares	Special reserves	Surplus reserves	General risk provisions	
I. Balance as at the beginning of the prior year	2,062,045,941.00	6,184,215,988.77			1,119,926,524.49		12,937,958,142.77
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			1,119,926,524.49	3,571,789,688.51	12,937,958,142.77
III. Changes in the period ("-" denotes decrease)							
(I) Net profit						507,333,619.65	507,333,619.65
(II) Other comprehensive income						816,640,510.85	816,640,510.85
Sub-total of (I) and (II)						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							
1. Transfer to surplus reserves						-309,306,891.20	-309,306,891.20
2. Transfer to general risk provision							
3. Distribution to owners (or 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) 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	4,079,103,308.16	13,445,291,762.42

Legal Representative: Chen Hongguo

Financial controller: Li Dong

Head of the financial department: Liu Jun

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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.

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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.

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.

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

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.

Pursuant to resolutions of the 2012 Third Extraordinary General Meeting, resolutions of the 2012 First Class Meeting for Holders of Domestic Listed Share (A shares and B shares), resolutions of the 2012 First Class Meeting for Holders of Overseas Listed Share (H shares) and the Articles of Association (as amended), the Company applied for the reduction of share capital of RMB86,573,974, including a decrease of 86,573,974 Domestic Listed Foreign Shares (B shares) at RMB1 per share. From 7 March 2013 to 11 December 2013, the Company repurchased 86,573,974 Domestic Listed Shares (B shares), and the repurchased shares were cancelled on 24 December 2013. The share capital of the Company was RMB1,975,471,967 upon such change.

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

The Company has a long business period. In the opinion of Directors of the Company, the Company is capable of operating subsidiaries of a limited business period as a going concern upon expiry of their business period.

As of 31 December 2013, the cumulatively issued total share capital of the Company was 1,975,471,967 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 20 March 2014 (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 Group's financial statements are prepared on a going concern basis and based on actual transactions and events, in accordance with the accounting standards for business enterprises promulgated by the Ministry of Finance of PRC on 15 February 2006 and 41 specific accounting standards as promulgated and amended on and after the same date, the 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.

In accordance with the requirements of "Notice on the issuance of 'Accounting Standard for Business Enterprises No. 39 – Fair Value Measurement'" (Cai Kuai [2014] No. 6), "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements'" (Cai Kuai [2014] No. 8), "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 9 – Employee Benefits'" (Cai Kuai [2014] No. 8)", and "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements'" (Cai Kuai [2014] No. 10)" and "Notice on the issuance of 'Accounting Standard for Business Enterprises No. 40 – Joint Arrangement'" (Cai Kuai [2014] No. 11)", entities listed overseas are encouraged to adopt the five accounting standards published or amended in 2014 early. As a result, the Group will adopt the five accounting standards above early with effect from 1 January 2013 as approved by the Fourth Meeting of the Seventh Session of the Board of the Company. For the details of changes in accounting policies arising from the adoption of the five accounting standards above, please refer to Note IV. 30 "Changes in Significant Accounting Policies and Estimates".

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 2013 and relevant information such as the operating results and cash flows of the Company and the Group of the first six months of 2013. 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

The 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 accounting year. The accounting 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., Chenming International Co., Ltd., Chenming Paper Japan Co., Ltd. and Chenming GmbH recognise U.S. dollar ("USD" or "US\$"), Japanese yen ("JPY") and Euro ("EUR") as their respective reporting currency according to the general economic environment in which these subsidiaries operate. The Group prepares its financial statements in RMB.

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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 acquiree 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 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.

XI Financial Report

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 (Cont'd)

(2) Business combination not under common control (Cont'd)

For a business combination not under common control is finished by a stage-up approach with several transactions, these several transactions will be judged whether they belong to “transactions in a basket” in accordance with the judgement standards on “transactions in a basket” as set out in the Notice of the Ministry of Finance on Issuing Accounting Standards for Business Enterprises Interpretation No. 5 (Cai Kuai [2012] No. 19) (see Note IV. 5(2)). If they belong to “transactions in a basket”, they are accounted for with reference to the descriptions as set out in the previous paragraphs of this section and Note IV. 12 “Long-term equity investments”, and if they do not belong to “transactions in a basket”, they are accounted for in separate financial statements and consolidated financial reports:

In separate financial statements, the initial equity investment cost is the aggregate of the carrying amount of the equity investment in the acquiree held prior to the acquisition date and the investment cost newly added as at the acquisition date. Any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date is transferred to investment income at disposal of the investment.

In consolidated financial statements, the equity interest in the acquiree held prior to the acquisition date is re-measured at fair value as at the acquisition date, and the difference between the fair value and the carrying amount is recognised as investment income for the current period. Any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date is transferred to investment income in the period of the acquisition date.

XI Financial Report

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” refers to the fact that the Company has power over the investee and is entitled to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is an 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 opening balance and 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.

XI Financial Report

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

6. Basis for preparation of consolidated financial statements (Cont'd)

② Basis for preparation of the consolidated financial statements (Cont'd)

If the control over a subsidiary is lost due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost. Other comprehensive income related to equity investment in the subsidiary is transferred to investment income at the time when the control is lost. The remaining equity interests are measured subsequently according to "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments" or "Accounting Standard for Business Enterprises No. 22 – Recognition and measurement of Financial Instruments". See Note IV. 12 "Long-term equity investments" or Note IV. 9 "Financial instruments" for details.

When the Company disposes of equity investment in a subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost, it shall determine whether these several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to "transactions in a basket". Usually, these several transactions related to the disposal of equity investment in a subsidiary are accounted for as transactions in a basket when the terms, conditions and economic impacts of these several transactions meet the following one or more conditions: (i) these transactions are entered into at the same time or after considering their impacts on each other; (ii) these transactions as a whole can reach complete business results; (iii) the occurrence of a transaction depends on at least the occurrence of an other transaction; (iv) an individual transaction is not deemed as economic, but is deemed as economic when considered with other transactions. If they are not transactions in a basket, each of which are accounted for in accordance with applicable rules in "partial disposal of long-term equity investment of a subsidiary without losing control over a subsidiary" (see Note IV. 12 (2) ④) separately, and "the control over a subsidiary is lost due to partial disposal of equity investment or other reasons" (see the preceding paragraph). When several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to transactions in a basket, each of which is accounted for as disposal of a subsidiary with a transaction until the control over a subsidiary is lost; however, the different between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal investment shall be recognised as other comprehensive income in consolidated financial statements and transferred to profit or loss at the time when the control is lost.

XI Financial Report

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.

(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.

XI Financial Report

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 (Cont'd)

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.

9. Financial instruments

(1) Determination of fair values for financial assets and financial liabilities

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. 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.

(2) Classification, recognition and 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.

XI Financial Report

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

9. Financial instruments (Cont'd)

(2) Classification, recognition and measurement of financial assets (Cont'd)

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.

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.

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

9. Financial instruments (Cont'd)

(2) Classification, recognition and measurement of financial assets (Cont'd)

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.

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.

(3) Impairment of financial assets

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.

XI Financial Report

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

9. Financial instruments (Cont'd)

(3) Impairment of financial assets (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. The continuous decreasing period is determined on the basis of the drop of fair value accumulated over 10%.

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.

(4) 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.

XI Financial Report

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

9. Financial instruments (Cont'd)

(4) Recognition and measurement of transfers of financial asset (Cont'd)

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.

(5) Classification and 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.

XI Financial Report

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

9. Financial instruments (Cont'd)

(5) Classification and measurement of financial liabilities (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”.

(6) 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.

(7) 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 sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

(8) 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.

Various distributions (excluding dividends) made by the Group to holders of equity instruments reduces owners' equity. The Group does not recognise the movement in fair value of equity instruments.

XI Financial Report

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 receivable

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 individually significant 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.

(2) Accounts receivable provided for bad debt by portfolio

Name of portfolio	Method for making bad debt provision by portfolio	Basis for determining the portfolio
Risk-free portfolio	No bad debt provision	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.

XI Financial Report

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 receivable (Cont'd)

(2) Accounts receivable provided for bad debt by portfolio (Cont'd)

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

☒ Applicable ☐ Not applicable

Ageing	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
Risk-free portfolio	No bad debt provision

(3) Accounts receivable individually insignificant but provided for bad debt separately

Reasons for making bad debt provisions separately Accounts receivable which are individually insignificant but have the following features are subject to impairment tests separately by the Group. If there is objective evidence indicating that the accounts receivable are impaired, then impairment loss will be recognised and bad debts will be provided according to the difference when the present value of future cash flow is lower than its carrying amounts: amounts due from connected parties; 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.

(4) Reversal of provision for bad debts

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

XI Financial Report

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, goods in stock and development 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.

The inventories of land development companies under the Company are initially measured at cost. The inventories primarily consist of land development products. The costs of developing products include pre-construction costs, expenditures for auxiliary facilities, expenses on construction and installation, borrowing costs incurred before the completion of the subject project and other related expenses during the course of the development. Once the inventories are delivered, the actual costs will be determined using specific measurement methods.

(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 realizable 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 stock taking system

Stock 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 undertaken 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 (excluding those constitute joint ventures) 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.

XI Financial Report

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 recognise 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.

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.

XI Financial Report

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)

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. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be accounted for in accordance with the relevant accounting policies as described in Note IV. 6. (1) "Preparation Method of the Consolidated Financial Statements".

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.

(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.

XI Financial Report

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

13. Joint arrangements

A joint arrangement refers to an arrangement of two or more parties have joint control. In accordance with the Company's rights and obligations under a joint arrangement, the Company classifies joint arrangements into: joint ventures and joint operations. Joint operations refer to a joint arrangement during which the Company is entitled to relevant assets and obligations of this arrangement. Joint ventures refer to a joint arrangement during which the Company only is entitled to net assets of this arrangement.

The Company treats investments in joint ventures by using the equity method of accounting in accordance with accounting policies as set out in Note IV.12.(2)② "long-term equity investment by using equity method of accounting".

The Company shall, as a joint venture, recognise the assets held and obligations assumed solely by the Company, and recognise assets held and obligations assumed jointly by the Company in appropriation to the share of the Company; recognise revenue from disposal of the share of joint operations of the Company; recognise fees solely occurred by Company and recognise fees from joint operations in appropriation to the share of the Company.

When the Company, as a joint venture, invests or sells assets to or purchase assets (the assets dose not constitute a business, the same below) from joint operations, the Company shall only recognise the part of profit or lost from this transaction attributable to other parties of joint operations before these assets are sold to the third party. If the occurrence of these assets meet the impairment loss of asset as set our in "Accounting Standard for Business Enterprises No. 8 – Asset Impairment", the Company shall recognise the full amount of this loss in relation to the Company invests in or sells assets to joint operations; the Company recognise the loss according to the Company's share of commitment in relation to the Company purchase assets from joint operations.

14. 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. 21 "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.

XI Financial Report

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

15. 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. 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.

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 (%)
Housing and buildings structures	20-40	5%-10%	2.25-4.75
Machinery and equipment	8-20	5%-10%	4.5-11.88
Electronic equipment	5	5%-10%	18.00-19.00
Transportation equipment	5-8	5%-10%	11.25-19.00

(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. 21 "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 Chenming Paper 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.

XI Financial Report

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

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

The method for impaired test of construction in progress and measurement of impairment provision are detailed in Note IV. 21 "Impairment of non-current non-monetary financial asset".

17. 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.

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 on a specific purpose borrowing denominated in foreign currency shall be capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

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.

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.

XI Financial Report

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

18. Consumable 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.

19. Intangible assets

(1) 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.

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, Chenming Paper shall estimate the useful life of that asset and apply the accounting policies accordingly.

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

19. Intangible assets (Cont'd)

(2) Research and development expenditure

Research and development expenditure of the Group was divided into expenses incurred during the research phase and expenses incurred during the development phase.

Expenses incurred during the research phase are recognised as profit or loss in the current period.

Expenses incurred during the development phase 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 phase of the intangible asset can be measured reliably.

If the expenses incurred during the research phase and the development phase cannot be distinguished separately, all development expenses incurred are accounted for in the profit or loss for the current period.

(3) Method for impairment test of intangible asset and measurement of impairment provision

The method for impaired test of intangible asset and measurement of impairment provision are detailed in Note IV. 21 "Impairment of non-current non-financial assets".

20. 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.

XI Financial Report

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

21. 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.

22. 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.

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.

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

23. Repurchase of Chenming Paper's shares

Share repurchase consideration paid and transaction costs to reduce the owner's equity, repurchase, transfer or cancellation of Chenming Paper's shares, the gains or losses are not recognised.

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.

24. Revenue

(1) The specific criteria for recognition of revenue from sales of goods

Revenue is recognised when Chenming Paper 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. 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.

(2) Basis for recognition of revenue from the rendering of services

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.

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.

(3) Revenue from rendering of services

Revenue from rendering of services is recognised as income on the accrual basis in accordance with the underlying contracts or agreements.

(4) Interest income

Interest income is calculated based on the time during which the Group's monetary fund, and the effective interest rates.

XI Financial Report

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

25. 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. Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: ① In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and ② in case of general description without specifying any project in such documents, the grants are classified as related to income.

(2) Accounting policy

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. Government grants are generally recognised when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the accounting period that the Company will meet related requirements of such grants and will be able to receive the grants. The government grants so measured should also satisfy the following conditions: ① the amount of the grants be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; ② the grants be given based on financial support projects and fund management policies officially published and voluntarily disclosed by local financial authorities in accordance with the requirements under disclosure of government information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; and ③ the date of payment be specified in related documents and the payment thereof be covered by corresponding budget to ensure such grants will be paid on time as specified.

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.

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

26. 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.

(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 recognises 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.

Chenming Paper 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, Chenming Paper 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.

XI Financial Report

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

26. 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.

27. Other comprehensive income

Any profit or loss not recognised in profit or loss for the current period in accordance with other accounting policies is stated as other comprehensive income. Under related accounting policies, other comprehensive income is classified into:

- (1) Those not to be reclassified into profit or loss in subsequent periods, which mainly includes changes arising from re-measuring net assets or net liabilities of defined benefit plan, share of investee's other comprehensive income not to be reclassified into profit or loss in subsequent periods using the equity method;
- (2) Those to be reclassified into profit or loss after meeting certain criteria in subsequent periods, which mainly includes share of investee's other comprehensive income to be reclassified into profit or loss after meeting certain criteria in subsequent periods, profit or loss arising from change of fair value of available-for-sale financial assets, profit or loss arising from reclassifying held-to-maturity investment into available-for-sale financial assets, the effectively hedged portion in profit or loss generated from cash flow hedging instruments, translation difference of foreign currencies in financial statements.

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

28. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets may or may not eventually be transferred. All other leases are classified as operating leases.

(1) 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.

(2) 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.

29. Employee benefits

In the accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits payable as a liability.

Expenditures paid by the Group for the social security system set up by the government, such as basic pension insurance, medical insurance, housing funds and others, are recognised in the costs of related assets or the current profit or loss.

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, the Company shall recognise employee compensation liabilities arising from compensation for staff dismissal and account for profit or loss at the current period, when the Company cannot revoke unilaterally compensation for dismissal due to the cancellation of labour relationship plans and employee redundant proposals; the Company recognise cost and expenses related to payment of compensation for dismissal and restructuring, whichever is earlier.

The early retirement plan shall be accounted for in accordance with the accounting principles for compensation for termination of employment. The salaries or wages and the social contributions to be paid for the employees who retire before schedule from the date on which the employees stop rendering services to the Group to the scheduled retirement date, shall be recognised (as compensation for termination of employment) in the current profit or loss if the recognition principles for provisions are satisfied.

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

30. Changes in Significant Accounting Policies and Estimates

Any changes in significant accounting policies and accounting estimates during the reporting period

☒ Yes ☐ No

In accordance with the requirements of "Notice on the issuance of 'Accounting Standard for Business Enterprises No. 39 – Fair Value Measurement'" (Cai Kuai [2014] No. 6), "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements'" (Cai Kuai [2014] No. 8), "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 9 – Employee Benefits'" (Cai Kuai [2014] No. 8)", and "Notice on the issuance of amendment to 'Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements'" (Cai Kuai [2014] No. 10)" and "Notice on the issuance of 'Accounting Standard for Business Enterprises No. 40 – Joint Arrangement'" (Cai Kuai [2014] No. 11)", entities listed overseas are encouraged to adopt the five accounting standards published or amended in 2014 early. As a result, the Group will adopt the five accounting standards above early with effect from 1 January 2013 as approved by the Fourth Meeting of the Seventh Session of the Board of the Company.

The changes in accounting policies arising from the adoption of the above accounting standards by the Group do not have any effect on the financial statements for the reporting period.

31. Corrections on accounting errors in prior periods

Any prior accounting errors identified during the reporting period

☐ Yes ☒ No

There were no accounting errors for prior periods identified during the year.

32. Critical accounting judgments and estimates

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)

32. Critical accounting judgments and estimates (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)

32. Significant accounting policies and accounting estimates (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.

(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.

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

32. Significant accounting policies and accounting estimates (Cont'd)

(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 deductible 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 expensing 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.

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V. Taxation

1. Main Tax Types and Tax Rates of Chenming Paper

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.
Business tax	Rental income	3%-5%
Urban maintenance and construction tax	Value-added tax and business tax paid	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 paid	3%
Local educational surcharges	Value-added tax and business tax paid	2%

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V. Taxation (Cont'd)

1. Main Tax Types and Tax Rates of Chenming Paper (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 Pulp & Paper Co., Ltd.	25%	Wuhan Chenming Qianneng Electric Power Co., Ltd.	25%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	25%	Huanggang Chenming Arboriculture Co., Ltd.	Tax free	Jilin Chenming Machinery Manufacturing Co., Ltd.	25%
Shandong Chenming Power Supply Holdings Co., Ltd.	25%	Shouguang Shun Da Customs Declaration Co., Ltd.	25%	Shouguang Chenming Cement Co., Ltd.	25%
Hailaer Chenming Paper Co., Ltd.	25%	Chenming International Co., Ltd.	—	Shandong Chenming Panels Co., Ltd.	25%
Haicheng Haiming Mining Company Limited	25%	Shouguang Chenming Hongxin Packaging Co., Ltd.	25%	Shouguang Chenming Floor Board Co., Ltd.	25%
Jiangxi Chenming Paper Co., Ltd.	15%	Shouguang Chenming Papermaking Machine Co., Ltd.	25%	Shandong Chenming Xinli Power Co., Ltd.	25%
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	25%	Shouguang Chenming Import and Export Trade Co., Ltd.	25%	Nanchang Chenming Arboriculture Co., Ltd.	Tax free
Shandong Grand View Hotel Co., Ltd.	25%	Shouguang Chenming Industrial Logistics Co., Ltd.	25%	Shouguang Hongyi Decorative Packaging Co., Ltd.	25%
Shouguang Chenming Art Paper Co., Ltd.	25%	Shouguang Chenming Jiatai Property Management Co., Ltd.	25%	Shouguang Xinyuan Coal Co., Ltd.	25%
Jilin Chenming Paper Co., Ltd.	25%	Shouguang Hengfeng Storage Co., Ltd.	25%	Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	25%
Zhanjiang Chenming Pulp & Paper Co., Ltd.	25%	Japan Chenming Paper Company Limited	—	Shouguang Wei Yuan Logistics Company Limited	25%
Shouguang Meilun Paper Co. Ltd.	25%	Chenming GmbH	—	Wuxi Song Ling Paper Co., Ltd.	25%
Shandong Chenming Paper Sales Company Limited	25%	Zhanjiang Chenming New-style Wall Materials Co., Ltd.	25%	Guangdong Huirui Investment Co., Ltd.	25%
Chenming (HK) Limited	16.5%	Zhanjiang Chenming Arboriculture Co., Ltd.	Tax free	Shouguang Hongxiang Printing and Packaging Co., Ltd.	25%
Shouguang Chenming Modern Logistic Co., Ltd.	25%	Yangjiang Chenming Arboriculture Co., Ltd.	Tax free	Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	25%
Fuyu Chenming Paper Co., Ltd.	25%	Zhanjiang Meilun Pulp & Paper Co., Ltd.	25%		

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V. Taxation (Cont'd)

2. Business tax to value-added tax

Income from transportation business was previously subject to business tax at 3%. Pursuant to requirements including Notice in relation to Pilot Tax Collection Policy in the Transportation Industry and Certain Modern Service Industries Issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2013] No. 37), income of certain subsidiaries of the Company, namely Shouguang Chenming Modern Logistic Co., Ltd. and Shouguang Wei Yuan Logistics Company Limited, were subject to value-added tax at 11% from 1 August 2013.

3. Tax Incentives and Approvals

(1) Enterprise Income Tax:

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) dated 16 March 2007, the Company is recognised as a high and 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 from 1 January 2012 to 31 December 2014.

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) dated 16 March 2007, Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, is recognised as a high and new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Nanchang Economic and Technological Development Zone, Jiangxi. An enterprise income tax rate of 15% is applicable to Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, from 1 January 2012 to 31 December 2015.

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稅法》) 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稅法實施條例》), subsidiaries of Chenming Paper, namely, Zhanjiang 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 Chenming Paper, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2013 was 16.5%.

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

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V. Taxation (Cont'd)

3. Tax Incentives and Approvals (Cont'd)

(2) 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. Zhanjiang Chenming 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 2013.

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., a subsidiary of the Company, produce products that apply integrated use of resources and is subject to an immediate VAT refund policy.

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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	211,370,000	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	202,820,000.00		50.93%	50.93%	Yes	203,521,200.00		
Shandong Chenming Power Supply Holdings Co., Ltd.	Controlling subsidiary	Shouguang, China	Electricity	99,550,000	Manufacture and supply of electricity and heat	157,810,000.00		86.71%	86.71%	Yes	24,769,300.00		
Hailaer Chenming Paper Co., Ltd.	Controlling subsidiary	Hailaer, China	Manufacture of paper	16,000,000	Sales and processing; sales of machine-made paper and pulp paper	12,000,000.00		75%	75%	Yes	15,306,100.00		
Haicheng Haiming Mining Company Limited	Controlling subsidiary	Haicheng, China	Mining	240,000,000	Processing and sales of magnesite and talc	144,000,000.00		60%	60%	Yes	96,000,000.00		
Jiangxi Chenming Paper Co., Ltd.	wholly-owned subsidiary	Nanchang, China	Manufacture of paper	US\$272 million	Production and processing of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials, etc.	1,206,590,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Controlling subsidiary	Shouguang, China	Arboriculture	10,590,000	Development, nurture of fast growth poplar, forest, vegetable and fruit	7,200,000.00		68%	68%	Yes	-974,100.00		
Shandong Grand View Hotel Co., Ltd.	Controlling subsidiary	Shouguang, China	Restaurant and beverage	US\$13.9057 million	Restaurant and beverage services	80,500,000.00		70%	70%	Yes	-17,199,200.000		
Shouguang Chenming Art Paper Co., Ltd.	Controlling subsidiary	Shouguang, China	Manufacture of paper	US\$20 million	Production and sales of machine-made paper and others	113,620,000.00		75%	75%	Yes	32,654,100.00		

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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	1,500,000,000	Processing and sales of machine-made paper, paperboard, paper product, paper pulp	1,501,350,000.00		100%	100%	Yes	0.00		
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Paper pulp	3,000,000,000	Processing and sales of paper pulp	3,000,000,000.00		100%	100%	Yes	0.00		
Shouguang Meilun Paper Co. Ltd.	Wholly-owned subsidiary	Shouguang, China	Manufacture of paper	2,200,000,000.00	Production and sales of machine-made paper and paperboard	2,200,000,000.00		100%	100%	Yes	0.00		
Shandong Chenming Paper Sales Company Limited	Wholly-owned subsidiary	Shouguang, China	Sales of paper	100,000,000	Sales of machine-made paper, paperboard and paper makin raw materials	100,000,000.00		100%	100%	Yes	0.00		
Chenming (HK) Limited	Wholly-owned subsidiary	Hong Kong, China	Trade of paper	US\$10.10 million	Export and import trade of paper products and market research	62,580,000.00		100%	100%	Yes			
Shouguang Chenming Modern Logistic Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	10,000,000	Transportation of goods	10,000,000.00		100%	100%	Yes	0.00		
Fuyu Chenming Paper Co., Ltd.	Wholly-owned subsidiary	Fuyu, China	Manufacture of paper	208,000,000	Production and sales of machine-made paper and paperboard	208,000,000.00		100%	100%	Yes	0.00		
Huanggang Chenming Pulp & Paper Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Manufacture of paper	20,000,000	Operation and acquisition of forest; establishment of paper pulp projects	20,000,000.00		100%	100%	Yes	0.00		
Huanggang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Huanggang, China	Arboriculture	70,000,000	Plantation, processing and sales of forests	70,000,000.00		100%	100%	Yes	0.00		

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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	1,500,000	Business agency of professional customs declaration and inspection declaration	1,500,000.00		100%	100%	Yes	0.00		
Chenming International Co., Ltd.	Wholly-owned subsidiary	Los Angeles, U.S.	Import and export, technology research and development	US\$3 million	Import and export, technology research and development	US\$3 million		100%	100%	Yes	0.00		
Shouguang Chenming Hongxin Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Packaging	1,000,000	Sales of paper packaging	1,000,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Papermaking Machine Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Machinery manufacturing	2,000,000	Processing and repair of paper making machines	2,000,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Import and Export Trade Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Import and export trade	10,000,000	Import and export of goods and technology	10,000,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Industrial Logistics Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Transportation	10,000,000	Land transport, storage of goods	10,000,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Jiatai Property Management Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Property management	1,000,000	Property management	1,000,000.00		100%	100%	Yes	0.00		

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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 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	0.00		
Japan Chenming Paper Company Limited	Wholly-owned subsidiary	Tokyo, Japan	Trade of paper	US\$1.50 million	Trade of paper and raw materials	US\$1.50 million		100%	100%	Yes	0.00		
Chenming GmbH	Wholly-owned subsidiary	Hamburg, Germany	Trade of machine-made paper	EUR25,000	Trade of machine-made paper	EUR25,000		100%	100%	Yes	0.00		
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Wholly-owned subsidiary	Fuyu, China	Sales of paper	1,000,000	Sales of machine-made paper, paper board, paper-making materials and accessories and paper machinery	1,000,000.00		100%	100%	Yes	0.00		
Zhanjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Arboriculture	1,000,000	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	0.00		
Yangjiang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Yangjiang, China	Arboriculture	1,000,000	Plantation and development of forest, and technology consultation of forestry	1,000,000.00		100%	100%	Yes	0.00		
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Paper pulp	100,000,000	Manufacture, production, processing and sales of paper pulp and related products	100,000,000.00		100%	100%	Yes	0.00		
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	Wholly-owned subsidiary	Zhanjiang, China	Wall materials	10,000,000	Production and sales of wall materials, and sales and mixed use of coal ash	10,000,000.00		100%	100%	Yes	0.00		

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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
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Controlling subsidiary	Wuhan, China	Electricity	88,240,000	Generation and sales of electricity and heat	45,000,000.00		51%	51%	Yes	39,073,900.00		
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	0.00		
Shouguang Chenming Cement Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Sales of cement	7,000,000	Utilisation of ash in the production of cement and sales of cement	7,000,000.00		100%	100%	Yes	0.00		
Shandong Chenming Panels Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Sales of panels	30,000,000	Decorative board of the layer of laminated board, wooden products, laminated board and fortified wooden floorboard	30,000,000.00		100%	100%	Yes	0.00		
Shouguang Chenming Floor Board Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Sales of floor board	500,000	Production, processing and sales of fortified wooden floorboard and impregnated paper	500,000.00		100%	100%	Yes	0.00		
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	80,765,200.00		
Nanchang Chenming Arboriculture Co., Ltd.	Wholly-owned subsidiary	Nanchang, China	Arboriculture	10,000,000	Processing and sales of wooden finished products, semi-finished products and by-products of timber	10,000,000.00		100%	100%	Yes	0.00		

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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
Shouguang Hongyi Decorative Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Packaging	1,550,000	Processing and sales of packaging products, indoor and outdoor decorations	1,550,000.00		100%	100%	Yes	0.00		
Shouguang Xinyuan Coal Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Coal	3,000,000	Retail of coal, gasoline, construction materials and plumbing parts	3,000,000.00		100%	100%	Yes	0.00		
Shouguang Runsheng Waste Paper Recycle Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Purchase and sales of waste and obsolete materials	1,000,000	Purchase and sales of waste and obsolete materials	1,000,000.00		100%	100%	Yes	0.00		
Shouguang Wei Yuan Logistics Company Limited	Wholly-owned subsidiary	Shouguang, China	Transportation	3,930,000	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency services	3,930,000.00		100%	100%	Yes	0.00		
Wuxi Songling Paper Co., Ltd.	Controlling subsidiary	Wuxi, China	Papermaking	5,010,000	Sales, cutting and processing of paper	5,010,000.00		100%	100%	Yes	0.00		
Guangdong Huirui Investment Co., Ltd.	Controlling subsidiary	Zhanjiang, China	Investment	258,000,000	Investment in marine engineering projects	131,580,000.00		51%	51%	Yes	124,548,70.00		
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Wholly-owned subsidiary	Shouguang, China	Printing of packaging materials	800,000	Processing and sales of packaging products and indoors and outdoors decoration	2,730,000.00		100%	100%	Yes	0.00		

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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

Chenming Paper 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

Details for the change in the scope of consolidation are set out in the Notes VI. 4.

☒ Applicable ☐ Not applicable

During the year (period), five more companies were consolidated as compared to the prior year due to the reasons as follows:

During the reporting period, the Company established four companies through investments, namely Chenming GmbH, Zhanjiang Meilun Pulp & Paper Co., Ltd., Zhanjiang Chenming New-style Wall Materials Co., Ltd. and Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd., respectively; and acquired Shouguang Hongxiang Printing and Packaging Co., Ltd. through business combination not under common control.

In order to push forward with the Company's sales of paper products, further expand the Company's products' share in the European market, and establish a broader and more comprehensive marketing network, the Company decided to set up a sales company in Germany. On 7 January 2013, the Company obtained "Overseas Investment certificate" approved by the Ministry of Commerce, which ratified our establishment of Chenming GmbH ("Chenming GmbH") with its registered capital of EUR25,000. The Company may make more investments timely based on the operations of the new company. It was included in the scope of consolidation since March 2013.

In order to make full use of ancillary facilities of public works, realise diversification of the product mix of the Company, and further lower the costs and increase the Company's capability to resist risks, the fifth extraordinary meeting of the sixth session of the Board passed the "Resolution in relation to establishment of Zhanjiang Meilun Pulp & Paper Co., Ltd." and thereby approved the establishment of Zhanjiang Meilun Pulp & Paper Co., Ltd. ("Zhanjiang Meilun"), with its registered capital amounting to RMB100.00 million and the company was included in the scope of consolidation since January 2013.

In order to strengthen comprehensive utilisation of resources and actively respond to national policy for resource utilisation, we decided to, based on local needs, set up Zhanjiang Chenming New-style Wall Materials Co., Ltd. ("Zhanjiang Wall Materials"), which was invested by Zhanjiang Chenming, a wholly-owned subsidiary of our Company, with its registered capital amounting to RMB10.00 million. The company was included in the scope of consolidation since March 2013.

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VI. Business Combination and Consolidated Financial Statements (*Cont'd*)

3. Explanation on changes in the scope of consolidation (*Cont'd*)

During the year (period), six companies were deconsolidated as compared to the prior year due to the reasons as follows:

The Company lost its control over Yanbian Chenming Paper Co., Ltd., Wuhan Chenjian New-style Wall Materials Co., Ltd., Shanghai Runchen Equity Investment Fund Co., Ltd. and Wuhan Chenming Wan Xing Real Estate Co., Ltd. due to disposal of equity interest during the period. Therefore, the above three companies ceased to be included in the scope of consolidation. The registration of Wuhan Xingzhilian Paper Company Limited and Jilin Chenming Waste Collection Co., Ltd. was cancelled according to actual needs of operations during the period. Therefore, the above two companies ceased to be included in the scope of consolidation.

On 26 April 2013, the seventeenth meeting of the sixth session of the Board of Directors of the Company passed "Resolution in relation to disposal of equity interests in Shanghai Runchen. On the same day, the Company entered into an equity transfer agreement with Shanghai Ruibao Environmental Technology Co., Ltd. (hereinafter referred to as Shanghai Runchen) to transfer 98.36% equity interest in Shanghai Runchen Equity Investment Fund Co., Ltd. at a consideration of RMB300,916,016.71. The Company lost its control over Shanghai Runchen and Shanghai Runchen ceased to be included in the scope of consolidation effective from 26 April 2013.

On 15 May 2013, the Company entered into an equity transfer agreement with Yanbian Shixian Bailu Paper Co., Ltd and Yanbian State-owned Assets Management Co., Ltd. to transfer its 49% and 51% equity interest in Yanbian Chenming Paper Co., Ltd. (hereinafter referred to as Yanbian Chenming), respectively, at a consideration of RMB54.00 million and RMB56.00 million. The Company lost its control over Yanbian Chenming and Yanbian Chenming ceased to be included in the scope of consolidation effective from 15 May 2013.

On 31 January 2013, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a subsidiary of the Company, entered into an equity transfer agreement with Hubei Zhongjian Haohua Environment Protection Co., Ltd. to transfer its 51% equity interest in Wuhan Chenjian New-style Wall Materials Co., Ltd. (hereinafter referred to as Chenjian Company) at a consideration of RMB5.10 million. The Company lost its control over Chenjian Company and Chenjian Company ceased to be included in the scope of consolidation.

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VI. Business Combination and Consolidated Financial Statements (*Cont'd*)

3. Explanation on changes in the scope of consolidation (*Cont'd*)

On 27 September 2013, the second extraordinary meeting of the seventh session of the Board approved the Resolution on the joint development of real estate project by Wuhan Chenming and Hubei Zheshang. On 27 September 2013, the Framework Contract on the Contracted Real Estate Development and the Supplementary Agreement of the Framework Contract on the Contracted Real Estate Development were entered into among Wuhan Chenming Hanyang Paper Holdings Co., Ltd. (hereinafter referred to as “Wuhan Chenming”), Wuhan Chenming Wan Xing Real Estate Co., Ltd. (hereinafter referred to as the “Project Company”) (both are subsidiaries of the Company) and Hubei Zheshang Wan Xing Investment Co., Ltd. (hereinafter referred to as “Hubei Zheshang”), whereby the Project Company changed from a wholly-owned subsidiary of the Company’s subsidiary, Wuhan Chenming, to a 40%-owned associate of the Company. The Company lost its control over the Project Company and the Project Company ceased to be included in the scope of consolidation.

Jilin Chenming Waste Collection Co., Ltd. had been inactive for many years. With a view to saving relevant expenses, the Board of Jilin Chenming agreed to cancel the registration of Jilin Waste. Assets and liabilities of Jilin Waste were consolidated into Jilin Chenming for audit on 30 May 2013. Since the date on cancellation of registration of Jilin Waste, on 25 June 2013, this company ceased to be included in the scope of consolidation.

According to the Company’s strategic plans and needs of production and operation, the household paper project was assigned to Wuhan Chenming for investment and development, so as to reduce relevant expenses. It was resolved at the fourteenth meeting of the fifth session of the Board of Wuhan Chenming that the registration of Wuhan Xingzhilian Paper Company Limited was approved to be cancelled. The relevant registration cancellation procedures were completed on 18 March 2013. Since the date on cancellation of registration of Wuhan Xingzhilian, this company ceased to be included in the scope of consolidation.

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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
Chenming GmbH	-12,910,470.68	-16,404,255.49
Zhanjiang Meilun Pulp & Paper Co., Ltd.	99,599,761.63	-400,238.37
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	9,720,643.11	-279,356.89
Shouguang Hongxiang Printing and Packaging Co., Ltd.	15,939,559.76	10,888,575.24
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	996,654.25	-3,345.75

(1) Chenming GmbH, Zhanjiang Meilun Pulp & Paper Co., Ltd., Zhanjiang Chenming New-style Wall Materials Co., Ltd. and Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd. were new subsidiaries established by contribution during the year (Note VI. 1 (1)).

(2) Shouguang Hongxiang Printing and Packaging Co., Ltd. was a subsidiary acquired through business combination not under common control during the year, where its net profit for the year represented the net profit for the period from the date of acquisition thereof to the end of the year (Note VI. 1 (2)).

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
Yanbian Chenming Paper Co., Ltd.	128,385,259.16	-3,929,284.60
Wuhan Chenjian New-style Wall Materials Co., Ltd.	25,411,399.32	-1,086,132.46
Shanghai Runchen Equity Investment Fund Co., Ltd.	305,931,289.86	573,994.12
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	69,466,030.31	-7,212,008.77
Wuhan Xingzhilian Paper Company Limited		-2,715.42
Jilin Chenming Waste Collection Co., Ltd.		24,876.07

(1) Yanbian Chenming Paper Co., Ltd., Wuhan Chenjian New-style Wall Materials Co., Ltd., Shanghai Runchen Equity Investment Fund Co., Ltd. and Wuhan Chenming Wan Xing Real Estate Co., Ltd. ceased to be included in the scope of consolidated as the Company had lost control over them due to disposal of their equity interest (contribution rights) (Note VI. 3).

(2) The registrations of Wuhan Xingzhilian Paper Company Limited and Jilin Chenming Waste Collection Co., Ltd. were cancelled during the period and they ceased to be included in the scope of consolidated (Note VI. 3).

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VI. Business Combination and Consolidated Financial Statements (Cont'd)

5. Business combination not under common control during the reporting period

Unit: RMB

Combined entity	Amount of goodwill	Calculation of the amount of goodwill
Shouguang Hongxiang Printing and Packaging 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.

On 27 September 2013, the Company acquired 100% equity interest in Shouguang Hongxiang Printing and Packaging Co., Ltd. held by Song Peijun, Tian Changzhi and Zhang Bo. The acquisition date of the transaction was 27 September 2013, the date when the Group gained control over Shouguang Hongxiang Printing and Packaging Co., Ltd.. The acquisition date was determined based on the completion of the payment of consideration and the control over the company by appointing all directors including the general manager.

- 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	2,730,000.00
Total cost of combination	2,730,000.00
Less: fair value of the identifiable net assets acquired	5,138,368.37
Excess of the fair value of the identifiable net assets over the cost of combination recognised in profit or loss	2,408,368.37

The fair value of combined net assets is determined after taking into consideration assessment conducted by Golden Standard & Headman Appraisal and Advisory Co., Ltd. Beijing Guoyou Dazeng Assets Appraisal Co., Ltd. (later renamed to Golden Standard & Headman Appraisal and Advisory Co., Ltd.)

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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 Shouguang Hongxiang Printing and Packaging 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	3,713,926.53	3,713,926.53	7,832,287.65
Accounts receivable	29,654,352.30	29,654,352.30	34,286,963.97
Inventory	664,048.15	664,048.15	86,559.47
Fixed assets	6,934,536.39	4,313,021.01	4,242,337.43
Intangible assets			
Deferred income tax assets	3,500,000.00	3,500,000.00	
Less: borrowings			
Payables	24,756,895.02	24,756,895.02	23,830,492.33
Salaries payable	67,642.25	67,642.25	9,222.72
Other liabilities	14,503,957.73	14,503,957.73	393,344.74
Net assets	5,138,368.37	2,516,852.99	22,215,088.73
Less: minority interests			
Net assets acquired	5,138,368.37	2,516,852.99	22,215,088.73
Consideration paid in cash	2,730,000.00		
Less: cash and cash equivalents acquired of the acquired subsidiary	3,713,926.53		
Cash from other financing activities	983,926.53		

Chenming Paper adopted valuation techniques to ascertain the fair value of assets and liabilities of Beijing Guoyou Dazeng Assets Appraisal Co., Ltd. as at the acquisition date. The assessment adopted the asset-based approach with principal assumptions: that the company was a going-concern; that all assets and liabilities, whether included in the balance sheet, were identifiable on the date of the assessment; and that there was no assets or liabilities of the entity subject to the assessment having a material effect on the value thereof and being unidentifiable.

- ③ Income, net profit and cash flow of Shouguang Hongxiang Printing and Packaging Co., Ltd. during the period from the acquisition date to the end of the year are set out below:

Item	Amount
Revenue from operations	62,104,960.27
Net profit	10,888,575.24
Cash flows from operating activities	-3,467,334.96
Net cash flows	-3,607,156.35

Whether there was business combination through several transactions resulting in gaining control during the reporting period

☐ Applicable ☒ Not applicable

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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
Yanbian Chenming Paper Co., Ltd.	15 May 2013	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.
Wuhan Chenjian New-style Wall Materials Co., Ltd.	31 January 2013	Ditto
Shanghai Runchen Equity Investment Fund Co., Ltd.	26 April 2013	Ditto
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	5 December 2013	Ditto

(1) Yanbian Chenming Paper Co., Ltd.

On 15 May 2013, Chenming Paper transferred 49% and 51% equity interest in Yanbian Chenming Paper Co., Ltd. held by it to Yanbian Shixian Bailu Paper Co., Ltd and Yanbian State-owned Assets Management Co., Ltd., respectively. 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 Yanbian Chenming Paper Co., Ltd.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	110,000,000.00
Cash and cash equivalents received from disposal	110,000,000.00
Less: cash and cash equivalents held by Yanbian Chenming	34,675.02
Net cash received from disposal	109,965,324.98

② Net assets of disposal of Yanbian 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	47,720,649.88	145,392,684.32
Non-current assets	176,574,100.70	180,333,803.65
Current liabilities	91,715,920.00	189,218,372.79
Non-current liabilities	4,193,571.42	4,193,571.42
Total net assets	128,385,259.16	132,314,543.76

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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) Yanbian Chenming (Cont'd)

- ③ Gain or loss on disposal is calculated as follows:

Item	Amount
Disposal price	110,000,000.00
Less: net assets of Yanbian Chenming as at the date of disposal	128,385,259.16
Plus: other consolidated income in relation to Yanbian Chenming transferred to gain or loss for the period of disposal	31,421,760.99
Investment gains arising from disposal	13,036,501.83

- ④ Revenue, expenses and profit of Yanbian Chenming from the beginning of the year of disposal to the date of disposal are set out as follows:

Item	Amount
Revenue	61,124,299.59
Less: costs and expenses	66,363,345.73
Total profit	-5,239,046.14
Less: income tax expenses	-1,309,761.54
Net profit	-3,929,284.60

- ⑤ On the date the Company ceased to have control over the subsidiary, other comprehensive income previously related to equity investment in such subsidiary was transferred to investment income or loss amounting to RMB31,421,760.99.

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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) Wuhan Chenjian New-style Wall Materials Co., Ltd.

On 31 January 2013, Wuhan Chenming Hanyang Paper Holdings Co., Ltd., a subsidiary of the Company will transfer 51% equity interest in Wuhan Chenjian New-style Wall Materials Co., Ltd. to Hubei Zhongjian Haohua Environment Protection Co., Ltd. The date of disposal was the date when Chenming Paper actually no longer had control over the net assets and financial and operating decisions of Wuhan Chenjian New-style Wall Materials Co., Ltd.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	5,100,000.00
Cash and cash equivalents received from disposal	5,100,000.00
Less: cash and cash equivalents held by Chenjian Company	2,140,518.36
Net cash received from disposal	2,959,481.64

② Net assets of disposal of Chenjian Company 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	23,489,940.59	24,552,015.23
Non-current assets	17,376,409.34	17,019,890.80
Current liabilities	15,454,950.61	11,074,374.25
Non-current liabilities		
Total net assets	25,411,399.32	30,497,531.78

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	5,100,000.00
Less: net assets of Chenjian Company attributable to the Group as at the date of disposal	12,959,813.65
Plus: other consolidated income related transferred to gain or loss for the current period	
Investment gains arising from disposal	-7,859,813.65

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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) Wuhan Chenjian New-style Wall Materials Co., Ltd. (Cont'd)

- ④ Revenue, expenses and profit of Chenjian Company from the beginning of the year of disposal to the date of disposal are set out as follows:

Item	Amount
Revenue	290,082.30
Less: costs and expenses	1,376,214.76
Total profit	-1,086,132.46
Less: income tax expenses	
Net profit	-1,086,132.46

- ⑤ On the date the Company ceased to have control over the subsidiary, other comprehensive income previously related to equity investment in such subsidiary was transferred to investment income or loss amounting to RMB0.

(3) Shanghai Runchen Equity Investment Fund Co., Ltd.

On 26 April 2013, Chenming Paper transferred 98.36% equity interest in Shanghai Runchen Equity Investment Fund Co., Ltd. held by it to Shanghai Ruibao Environmental Technology Co., Ltd. The date of disposal was the date when Chenming Paper actually no longer had control over the net assets and financial and operating decisions of Shanghai Runchen Equity Investment Fund Co., Ltd.

- ① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	300,916,016.71
Cash and cash equivalents received from disposal	250,916,016.71
Less: cash and cash equivalents held by Shanghai Runchen	6,030,118.42
Net cash received from disposal	244,885,898.29

- ② Net assets of disposal of Shanghai Runchen 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	320,052,650.32	56,236,406.82
Non-current assets	269,314,863.63	268,743,677.13
Current liabilities	283,436,224.09	309,101.71
Non-current liabilities		
Total net assets	305,931,289.86	324,670,982.24

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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) Shanghai Runchen Equity Investment Fund Co., Ltd. (Cont'd)

③ Gain or loss on disposal are calculated as follows:

Item	Amount
Disposal price	300,916,016.71
Less: net assets of Shanghai Runchen attributable to the Company as at the date of disposal	300,916,016.71
Plus: other consolidated income in relation to Shanghai Runchen transferred to gain or loss for the current period	—
Investment gains arising from disposal	0.00

④ Revenue, expenses and profit of Shanghai Runchen 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	-3,743.50
Plus: investment income	571,186.50
Total profit	3,743.50
Less: expense of income tax	935.88
Net profit	573,994.12

⑤ On the date the Company ceased to have control over the subsidiary, other comprehensive income previously related to equity investment in such subsidiary was transferred to investment income or loss amounting to RMB0.

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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)

(4) Wuhan Chenming Wan Xing Real Estate Co., Ltd.

On 5 December 2013, Wuhan Chenming, a subsidiary of the Company, and Hubei Zheshang Wan Xing Investment Co., Ltd. contributed RMB20 million and RMB60 million into Wuhan Chenming Wan Xing Real Estate Co., Ltd., respectively. After the capital contribution, Wuhan Chenming held 40% equity interest in Wan Xing Real Estate. The date of capital contribution was the date when Chenming Paper actually no longer had control over the net assets and financial and operating decisions of Wuhan Chenming Wan Xing Real Estate Co., Ltd.

① Disposal price and the cash flows are set out as follows:

Item	Amount
Disposal price	60,000,000.00
Cash and cash equivalents received from disposal	60,000,000.00
Less: cash and cash equivalents held by Wan Xing Real Estate	83,180,221.51
Cash and cash equivalents paid to investee	20,000,000.00
Other cash paid related to investment activities	3,180,221.51

② Net assets of disposal of Wan Xing Real Estate 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	638,939,855.90	111,002,810.67
Non-current assets	95,280.67	40,987.27
Current liabilities	569,569,106.26	114,365,758.86
Non-current liabilities		
Total net assets	69,466,030.31	-3,321,960.92

③ Gain or loss on disposal is calculated as follows:

Item	Amount
Share of net assets after capital injection	27,786,412.12
Less: amount of injection	20,000,000.00
Less: net assets of Wan Xing Real Estate attributable to the Company as at the date of disposal	-10,533,969.69
Plus: other consolidated income in relation to Wan Xing Real Estate transferred to gain or loss for the current period	
Investment gains arising from disposal	18,320,381.81

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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)

(4) Wuhan Chenming Wan Xing Real Estate Co., Ltd. (Cont'd)

- ④ Revenue, expenses and profit of Wan Xing Real Estate 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	7,212,008.77
Total profit	-7,212,008.77
Less: expense of income tax	—
Net profit	-7,212,008.77

- ⑤ On the date the Company ceased to have control over the subsidiary, other comprehensive income previously related to equity investment in such subsidiary was transferred to investment income or loss amounting to RMB0.

Whether there was disposal of investment in a subsidiary through several transactions resulting in loss of control during the reporting period

☐ Applicable ☒ Not applicable

7. Exchange rate of translating major financial statement items of overseas operating entities

Item	Assets and liabilities items	
	31 December 2013	1 January 2013
Chenming (HK) Limited	USD1 = RMB6.0969	USD1 = RMB6.2855
Japan Chenming Paper Company Limited	JPY100 = RMB5.7771	JPY100 = RMB7.3049
Chenming GmbH	EUR1 = RMB8.8149	
Item	Revenue, expense and cash flow items	
	For the year 2013	For the year 2012
Chenming (HK) Limited	USD1 = RMB 6.1811	USD1 = RMB6.3029
Japan Chenming Paper Company Limited	JPY100 = RMB 6.2623	JPY100 = RMB7.7856
Chenming GmbH	EUR1 = RMB8.1517	

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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:	—	—	1,333,503.27	—	—	1,398,324.17
RMB	—	—	879,154.77	—	—	937,182.22
–USD	40,000.00	6.0969	243,876.00	46,900.00	6.2855	294,789.95
–EUR	25,000.00	8.4189	210,472.50	20,000.00	8.3176	166,352.00
Deposits with banks:	—	—	725,199,425.69	—	—	2,342,151,861.28
RMB	—	—	612,023,754.51	—	—	2,187,734,778.74
–USD	11,698,274.37	6.0969	71,323,209.01	23,459,592.25	6.2855	147,455,267.10
–EUR	1,548,593.85	8.4189	13,037,456.78	61,101.44	8.3176	508,217.34
–JPY	498,558,670.00	0.057771	28,802,232.92	85,917,693.00	0.073049	6,276,201.56
–HKD	16,245.21	0.78623	12,772.47	218,778.49	0.81085	177,396.54
Other monetary funds:	—	—	1,821,196,865.28	—	—	2,112,667,177.41
RMB	—	—	1,788,148,011.28	—	—	1,953,372,355.46
–USD	5,420,599.65	6.0969	33,048,854.00	25,343,206.29	6.2855	159,294,723.14
–EUR	—	—	—	11.88	8.3176	98.81
Total	—	—	2,547,729,794.24	—	—	4,456,217,362.86

Amounts subject to limitations, deposited overseas and exposed to recovery risk due to security, pledge or immobilisation should be separately stated:

- Note: ① Other monetary funds amounted to RMB249,333,637.64 (31 December 2012: RMB987,167,187.90) were the guarantee deposit for the application for bank acceptance with the banks by the Group.
- ② Other monetary funds of RMB1,380,738,601.00 (31 December 2012: RMB595,207,540.73) were the guarantee deposit for the application for letter of credit with the banks by the Group.
- ③ Other monetary funds of RMB140,836,352.11 (31 December 2012: 394,200,000.00) were the guarantee deposit for the application for guarantees with the banks by the Group.
- ④ Other monetary funds amounted to RMB50,288,274.53 (31 December 2012: RMB136,092,448.78) were the guarantee deposit for the application for bank loan by the Group.

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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	2,827,024,280.10	1,852,478,364.46
Commercial acceptances	43,419,401.39	
Total	2,870,443,681.49	1,852,478,364.46

(2) Bills receivable pledged at the end of the period

Unit: RMB

Issuing entity	Issuing date	Maturity date	Amount	Remark
Chengdu Jintaiyuan Paper Industry Co., Ltd.	26 July 2013	26 January 2014	5,000,000.00	
Jiangxi Lanhai International Trading Co., Ltd.	26 July 2013	26 January 2014	4,000,000.00	
Samson Paper (Shenzhen) Company Limited	31 July 2013	31 January 2014	4,000,000.00	
Shanghai Jianglong Paper Co., Ltd.	30 July 2013	29 January 2014	4,000,000.00	
Jiaxing Minhe Industry and Trade Co., Ltd.	29 September 2013	29 March 2014	3,600,000.00	
Total	—	—	20,600,000.00	—

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

2. Bills receivable (Cont'd)

- (3) Bills reclassified into accounts receivable due to default on the part of the drawer and outstanding notes endorsed to other parties by Chenming Paper at the end of the period

There were no bills reclassified into accounts receivable due to default on the part of the drawer during the reporting period.

Outstanding notes endorsed to other parties by Chenming Paper

Unit: RMB

Issuing entity	Issuing date	Maturity date	Amount	Remark
Quanzhou Rensheng Trading Co., Ltd.	28 November 2013	28 May 2014	5,000,000.00	De-recognised
Jiangsu Publishing and Printing Supplies Company	29 August 2013	8 February 2014	4,000,000.00	De-recognised
Leefung-Asco Printers (Shenzhen) Ltd.	26 September 2013	2 January 2014	4,000,000.00	De-recognised
Dalian Mori Mitsui Packaging Co., Ltd.	25 October 2013	24 January 2014	3,606,094.50	De-recognised
Shanghai Changyi Adhesive Products Co., Ltd.	30 October 2013	30 April 2014	3,600,000.00	De-recognised
Total	—	—	20,206,094.50	—

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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

Category	Closing balance		Provision for bad debts		Opening balance		Provision for bad debts	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable that are individually significant and provided for bad debts separately	48,605,549.72	1.46%	48,605,549.72	100%	48,696,549.72	1.26%	48,696,549.72	100%
Accounts receivable that are provided for bad debts on portfolio basis								
Risk-free portfolio	457,124,812.49	13.73%			358,778,459.12	9.27%		
General portfolio	2,823,789,275.45	84.81%	178,271,004.40	6.31%	3,461,286,305.68	89.47%	217,109,713.62	6.27%
Sub-total for portfolio	3,280,914,087.94	98.54%	178,271,004.40	5.43%	3,820,064,764.80	98.74%	217,109,713.62	5.68%
Accounts receivable that are individually insignificant but are provided for bad debts separately					86,850.13		86,850.13	100%
Total	3,329,519,637.66	—	226,876,554.12	—	3,868,848,164.65	—	265,893,113.47	—

Presentation of accounts receivable according to ageing analysis

Unit: RMB

Item	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	3,172,267,013.90	95.28%	3,709,154,191.60	95.88%
1-2 years	50,136,238.22	1.50%	65,152,312.73	1.68%
2-3 years	26,223,349.82	0.79%	3,440,056.06	0.09%
Over 3 years	80,893,035.72	2.43%	91,101,604.26	2.35%
Total	3,329,519,637.66	100.00%	3,868,848,164.65	100.00%

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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 with limits 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 reporting date:

Unit: RMB

Ageing	Closing balance	Opening balance
Within 1 year	3,036,498,972.05	3,541,635,404.98
1-2 years	45,123,524.40	58,637,081.46
2-3 years	21,020,587.09	2,682,564.74
Total	3,102,643,083.54	3,602,955,051.18

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

Unit: RMB

Ageing	Closing balance	Opening balance
Within 1 year	515,745,255.68	897,287,266.76
1-2 years	45,123,524.40	58,637,081.46
2- 3 years	21,020,587.09	2,682,564.74
Total	581,889,367.17	958,606,912.96

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 separately at the end of the period

☒ Applicable ☐ Not applicable

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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)

Unit: RMB

Particulars of accounts receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for bad debts provision
Payment for goods	48,605,549.72	48,605,549.72	100%	Mainly are payment for goods overdue for over three years and are unlikely to be recovered
Total	48,605,549.72	48,605,549.72	—	—

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

☒ Applicable ☐ Not applicable

Unit: RMB

Ageing	Closing balance		Provision for bad debts	Opening balance		Provision for bad debts
	Book balance			Book balance		
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year						
Of which:	—	—	—	—	—	—
Within 1 year	2,715,360,837.57	96.16%	135,768,041.85	3,350,375,732.48	96.8%	167,518,786.62
Sub-total						
within 1 year	2,715,360,837.57	96.16%	135,768,041.85	3,350,375,732.48	96.8%	167,518,786.62
1-2 years	50,127,138.22	1.78%	5,012,713.82	65,152,312.73	1.88%	6,515,231.27
2-3 years	26,013,813.66	0.92%	5,202,762.73	3,353,205.93	0.1%	670,641.19
Over 3 years	32,287,486.00	1.14%	32,287,486.00	42,405,054.54	1.22%	42,405,054.54
Total	2,823,789,275.45	—	178,271,004.40	3,461,286,305.68	—	217,109,713.62

Accounts receivable 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

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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)

Unit: RMB

Name of portfolio	Book balance	Provision for bad debts
Risk-free portfolio	457,124,812.49	0.00
Total	457,124,812.49	0.00

Accounts receivable that are individually insignificant but are provided for bad debts separately at the end of the period

☐ Applicable ☒ Not applicable

(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 three years and unlikely to be recovered	45,059,061.86	45,059,061.86
Total	—	—	45,059,061.86	—

(3) Particulars of accounts receivable actually written off during the reporting period

Accounts receivable written off accumulated to RMB908,010.41. There is no accounts receivable in significant amount actually written off.

(4) There was no accounts receivable from any company in which the Company held 5% (5% inclusive) or more voting rights during the reporting period.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

3. Accounts receivable (Cont'd)

(5) Particulars of top five accounts receivable

Unit: RMB

Name of entity	Relation with Chenming Paper	Amount	Term	As a percentage of the total of accounts receivable (%)
Shanghai Yaoji Playing Card Co., Ltd.	Non-related party	65,717,836.66	Within 1 year	1.97%
Shanxi Printing Materials Company	Non-related party	30,747,042.34	Within 1 year	0.92%
Hangzhou Weisheng Paper Co., Ltd.	Non-related party	28,869,282.19	Within 1 year	0.87%
Hubei Changjiang Publish Print Material Co., Ltd.	Non-related party	27,688,858.88	Within 1 year	0.83%
Beijing Zhongbanlian Printing Materials Co., Ltd	Non-related party	26,904,618.69	Within 1 year	0.81%
Total	—	179,927,638.76		5.4%

(6) Particulars of accounts receivable of the related parties

Particulars of related party accounts receivable and accounts payable in Note IX. 5.

(7) Accounts receivable denominated in foreign currency stated in original currency and exchange rate are as follows:

Item	Amount in foreign currency	Closing balance Exchange rate	Translated into RMB	Amount in foreign currency	Opening balance Exchange rate	Translated into RMB
EURO	602,271.27	8.4189	5,070,461.60			
USD	66,378,968.74	6.0969	404,705,934.51	46,883,111.89	6.2855	294,683,799.78
JPY	331,554,816.00	0.057771	19,154,253.28	102,504,709.99	0.073049	7,487,866.56
Total			428,930,649.39			302,171,666.34

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

4. Other receivables

(1) Disclosure of other receivable according to classification

Unit: RMB

Category	Closing balance		Provision for bad debts		Opening balance		Provision for bad debts	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable that are individually significant and are provided for bad debts separately	8,918,424.06	0.64%	8,918,424.06	100%	8,918,424.06	0.66%	8,918,424.06	100%
Accounts receivable that are provided for bad debts on portfolio basis								
Risk-free portfolio	1,251,663,625.86	89.22%			1,213,593,786.15	89.91%		
General portfolio	128,661,773.06	9.17%	48,424,649.08	37.64%	113,580,888.39	8.41%	42,519,331.91	37.44%
Sub-total for portfolio	1,380,325,398.92	98.39%	48,424,649.08	3.51%	1,327,174,674.54	98.32%	42,519,331.91	3.2%
Accounts receivable that are individually insignificant but are provided for bad debts separately	13,717,509.43	0.97%	13,717,509.43	100%	13,771,354.38	1.02%	13,771,354.38	100%
Total	1,402,961,332.41	—	71,060,582.57	—	1,349,864,452.98	—	65,209,110.35	—

The presentation of accounts receivable according to ageing analysis is as follows

Unit: RMB

Item	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,200,466,405.38	85.57%	1,145,721,315.64	84.88%
1-2 years	100,811,139.72	7.18%	131,913,116.61	9.77%
2-3 years	41,370,171.48	2.95%	13,139,381.38	0.97%
Over 3 years	60,313,615.83	4.30%	59,090,639.35	4.38%
Total	1,402,961,332.41	100.00%	1,349,864,452.98	100.00%

Accounts receivable that are individually significant and are provided for bad debts separately 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
Open credit	8,918,424.06	8,918,424.06	100%	Mainly are amounts with customers for over three years and are unlikely to be recovered
Total	8,918,424.06	8,918,424.06	—	—

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

√ Applicable □ Not applicable

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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)

Unit: RMB

Ageing	Closing balance		Provision for bad debts	Opening balance		Provision for bad debts
	Book balance Amount	Ratio (%)		Book balance Amount	Ratio (%)	
Within 1 year						
Of which:						
Within 1 year	44,912,660.62	34.91%	2,245,633.03	52,096,861.35	45.87%	2,604,843.05
Sub-total						
within 1 year	44,912,660.62	34.91%	2,245,633.03	52,096,861.35	45.87%	2,604,843.05
1-2 years	6,967,923.12	5.42%	696,792.31	13,434,171.09	11.83%	1,343,417.10
2-3 years	39,123,706.98	30.41%	7,824,741.40	11,848,480.25	10.43%	2,369,696.05
Over 3 years	37,657,482.34	29.26%	37,657,482.34	36,201,375.70	31.87%	36,201,375.70
Total	128,661,773.06	—	48,424,649.08	113,580,888.39	—	42,519,331.90

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 bad debts
Risk-free portfolio	1,251,663,625.86	0.00
Total	1,251,663,625.86	0.00

Other receivable that are individually insignificant but are provided for bad debts separately at the end of the period

☒ Applicable ☐ Not applicable

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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)

Unit: RMB

Particulars of other receivable	Book balance	Provision for bad debts	Provision rate (%)	Reason for provision
Open credit	13,717,509.43	13,717,509.43	100%	Mainly are open credit for over three years and are unlikely to be recovered
Total	13,717,509.43	13,717,509.43	—	—

(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
Open credit	Collection of open credit	Overdue for over three years and unlikely to be recovered	7,023,563.36	7,023,563.36
Total	—	—	7,023,563.36	—

(3) Particulars of other receivables actually written off during the reporting period

Unit: RMB

Name of entity	Nature of other receivables	Time of written-off	Amount of written-off	Reason for written-off	Whether the amount is the result of related transactions or not
Wuhan Dongjing Waste Material Recycling Co. Ltd.	Open credit		2,227,742.56	Company deregistration	No
Total	—	—	2,227,742.56	—	—

(4) No outstanding amount within other receivables due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

4. Other receivables (Cont'd)

(5) Particulars of top five other receivables

Unit: RMB

Name of entity	Relation with the Company	Amount	Term	As a percentage of the total of other receivable (%)
Shandong Jianghe Paper Co. Ltd.	Non-related party	587,776,068.96	1-2years	41.9%
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Related party	551,964,609.01	Within 1 year, 1-2years	39.34%
Jiangsu Xinhai Port Engineering Co., Ltd.	Non-related party	60,396,083.33	Within 1 year	4.3%
Zhanjiang Finance Bureau	Non-related party	30,517,103.35	Within 1 year	2.18%
Tianyuan Construction Group Co., Ltd.	Non-related party	16,745,771.53	2-3 years	1.19%
Total	—	1,247,399,636.18	—	88.91%

(6) Particulars of other receivables of the related parties

See Note IX. 5 Related party accounts receivable and accounts payable.

5. Prepayments

(1) Prepayments stated according to ageing

Unit: RMB

Ageing	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	647,808,677.28	40.77%	1,458,377,404.07	89.13%
1-2 years	941,212,653.96	59.23%	177,856,520.57	10.87%
Total	1,589,021,331.24	—	1,636,233,924.64	—

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

5. Prepayments (Cont'd)

(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	880,000,000.00	Within 1 year, 1-2 years	Prepayments for construction fee according to the agreed contract
Each village of Huanggang City	Non-related party	89,821,337.60	Within 1 year, 1-2 years	Prepayments for forestry deposits according to the agreed contract
Chongqing Lee & Man Paper Manufacturing Limited	Non-related party	22,614,881.68	Within 1 year	Prepayments for goods according to the agreed contracts
Manzhouli Jinfa Trading Co., Limited	Non-related party	19,267,277.77	Within 1 year	Prepayments for goods according to the agreed contracts
Huashang Digital Information Co., Ltd.	Non-related party	13,854,408.77	Within 1 year	Prepayments for goods according to the agreed contracts
Total	—	1,025,557,905.82	—	—

(3) No outstanding amount within other receivables due from shareholders holding 5% or more (including 5%) in the voting shares of the Company during the reporting period

(4) Description of payments

Prepayments denominated in foreign currency stated in original currency and exchange rate are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
EUR	22,541,744.63	8.4189	189,776,693.87	5,685,388.64	8.3176	47,288,788.51
USD	29,277,464.16	6.0969	178,501,771.24	42,598,033.82	6.2855	267,749,941.56
JPY	9,343,583.00	0.057771	539,788.13			
Total			368,818,253.24			315,038,730.07

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

6. Inventories

(1) Categories of inventories

Unit: RMB

Item	Book balance	Closing balance Impairment provision	Book value	Book balance	Opening balance Impairment provision	Book value
Raw material	2,102,799,924.39		2,102,799,924.39	1,961,862,887.18		1,961,862,887.18
Work-in-process products	55,128,694.09		55,128,694.09	179,769,195.77		179,769,195.77
Goods in stock	1,516,242,717.77	36,472,052.20	1,479,770,665.57	2,285,369,746.18	14,453,128.45	2,270,916,617.73
Products under development	88,110,593.20		88,110,593.20			
Total	3,762,281,929.45	36,472,052.20	3,725,809,877.25	4,427,001,829.13	14,453,128.45	4,412,548,700.68

(2) Impairment provision for inventories

Unit: RMB

Type of inventories	Opening book balance	Provision during the period	Decrease during the period		Closing book balance
			Reversal	Write-off	
Goods in stock	14,453,128.45	36,472,052.20		14,453,128.45	36,472,052.20
Total	14,453,128.45	36,472,052.20		14,453,128.45	36,472,052.20

(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 a decrease in the market price of white coated linerboard.		

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

7. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Prepaid enterprise income tax	74,006,369.37	103,139,626.04
Non-credited VAT proceeds	1,666,514,217.00	1,700,116,681.57
Total	1,740,520,586.37	1,803,256,307.61

8. Investments in associates

Name of investee	Type of enterprise	Registration place	Legal representative	Nature of business	Registered capital	Equity interest held by the Company (%)	Voting right in the investee by the Company (%)
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Limited liability company	Hubei, China	Wang Chun	Real estate developing	100,000,000.00	40.00	40.00
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

(Continued)

Name of investee	Total assets as at the end of the year	Total liabilities as at the end of the year	Total net assets as at the end of the year	Total revenue from operations during the year	Net profit for The year	Relationship	Organisation code
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	641,447,498.07	572,768,481.62	68,679,016.45		-7,999,022.63	Associate	69534385-0
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Long-term equity investment was written down to zero due to excess loss for prior years					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.	50,143,033.28	27,717,783.98	22,425,249.30	18,689,549.86	-224,444.11	Associate	79479506-X

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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
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Equity method	40,000,000.00		27,471,606.58	27,471,606.58	40%	40%				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00				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	4,792,675.12	-47,492.37	4,745,182.75	21.16%	21.16%				
Shanghai Anzhou New Energy Co., Ltd.	Equity method	250,000,000.00	268,743,677.13	-268,743,677.13							
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 Mine 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	50,000,000.00		50,000,000.00	16.67%	16.67%				
Total	-	461,950,000.00	359,386,352.25	-241,319,562.92	118,066,789.33	-	-	-	2,589,574.47		

(2) Classification of long-term equity investments

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Investment in associates	274,436,352.25	27,471,606.58	268,791,169.50	33,116,789.33
Other equity investments	84,950,000.00			84,950,000.00
Less: impairment provision for long-term equity investments	2,589,574.47			2,589,574.47
Total	356,796,777.78	27,471,606.58	268,791,169.50	115,477,214.86

(4) The breakdown of impairment provision for 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

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

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. Housing and Building Structure	38,291,395.70			38,291,395.70
II. Accumulated depreciation and accumulated amortisation in total	17,079,695.71	1,738,256.04		18,817,951.75
1. Housing and Building Structure	17,079,695.71	1,738,256.04		18,817,951.75
III. Net book value of investment properties in total	21,211,699.99			19,473,443.95
1. Housing and Building Structure	21,211,699.99			19,473,443.95
V. Book value of investment properties in total	21,211,699.99			19,473,443.95
1. Housing and Building Structure	21,211,699.99			19,473,443.95

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

(2) The breakdown of investment properties

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Investment property adopting cost method for subsequent measurement	21,211,699.99		1,738,256.04	19,473,443.95
Less: impairment provision for investment properties				
Total	21,211,699.99		1,738,256.04	19,473,443.95

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

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:	28,412,923,014.84	3,626,770,096.17	1,743,756,557.25	30,295,936,553.76	
Of which: Housing and					
building structure	4,539,770,091.32	502,087,028.73	407,376,889.65	4,634,480,230.40	
Machinery and equipment	23,039,134,217.46	3,064,309,919.94	1,063,710,326.14	25,039,733,811.26	
Vehicle	216,843,313.45	13,854,584.67	33,207,413.55	197,490,484.57	
Electronic equipment and other	617,175,392.61	46,518,562.83	239,461,927.91	424,232,027.53	
	Opening book balance	Increase for the period	Provision for the period	Decrease for the period	Closing for the period balance
II. Accumulated depreciation and accumulated amortisation in total:	8,648,567,024.93	1,322,959,919.80	883,457,879.36	9,088,069,065.37	
Of which: Housing and					
building structure	827,808,803.62	133,659,156.59	160,975,764.13	800,492,196.08	
Machinery and equipment	7,354,849,826.06	1,128,083,337.49	529,810,479.69	7,953,122,683.86	
Vehicle	88,283,565.63	26,223,777.60	19,376,368.75	95,130,974.48	
Electronic equipment and other	377,624,829.62	34,993,648.12	173,295,266.79	239,323,210.95	
	Opening book balance		—		Closing for the period balance
III. Net carrying amount of fixed assets	19,764,355,989.91	—		21,207,867,488.39	
Of which: Housing and					
building structure	3,711,961,287.70	—		3,833,988,034.32	
Machinery and equipment	15,684,284,391.40	—		17,086,611,127.40	
Vehicles	128,559,747.82	—		102,359,510.09	
Electronic equipment and others	239,550,562.99	—		184,908,816.58	
IV. Total impairment provision	13,015,998.85	—		26,220,000.00	
Machinery and equipment	13,015,998.85	—		26,220,000.00	
Electronic equipment and other		—		—	
V. Total carrying amount of fixed assets	19,751,339,991.06	—		21,181,647,488.39	
Of which: Housing and					
building structure	3,711,961,287.70	—		3,833,988,034.32	
Machinery and equipment	15,671,268,392.55	—		17,060,391,127.40	
Vehicles	128,559,747.82	—		102,359,510.09	
Electronic equipment and other	239,550,562.99	—		184,908,816.58	

Depreciation for the current period amounted to RMB1,322,959,919.80. RMB3,354,109,295.74 was reclassified from construction in progress into the original value of fixed assets for the current period.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

11. Fixed assets (Cont'd)

(2) Details of restricted fixed assets

As at 31 December 2013, the ownership of buildings and structures and equipment of the carrying amount of approximately RMB6,096,739,906.27 (the original value of RMB6,696,658,597.87) (31 December 2012: carrying amount of RMB6,351,131,719.77 and original value of RMB6,654,874,429.83) was restricted as collateral for long-term borrowings of RMB2,784,334,971.96 (31 December 2012: RMB3,098,403,800.00) (Note VII. 32) and long-term borrowings due within one year of RMB269,313,900.00 (31 December 2012: RMB290,625,800.00) (Note VII. 30).

(3) Particular of Temporarily unused fixed assets

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Net carrying amount	Remark
Housing and Building Structure	18,543,388.90	1,538,986.90		17,004,402.00	
Machinery and equipment	59,287,663.47	1,004,224.43		58,283,439.04	
Total	77,831,052.37	2,543,211.33		75,287,841.04	

(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
Shandong Chenming Paper Holdings Limited	Processing	2014
Shouguang Meilun Paper Co., Ltd.	Processing	2014
Jiangxi Chenming Paper Co., Ltd.	Processing	2014
Fuyu Chenming Paper Co., Ltd.	Processing	2014
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Processing	2014

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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
Power plant phase III further expansion (parent company)				483,981,213.99		483,981,213.99
Railway project (parent company)	67,825,111.06		67,825,111.06	430,297.89		430,297.89
technology upgrade for white paper board projects (parent company)	57,275,709.38		57,275,709.38	18,231,971.17		18,231,971.17
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade (Zhanjiang Chenming)	267,839,895.73		267,839,895.73	116,258,400.00		116,258,400.00
180,000 tonne paper cup raw paper project (Zhanjiang Chenming)	313,760,579.02		313,760,579.02			
190,000 tonne high-end cultural paper project (Zhanjiang Chenming)	284,958,974.38		284,958,974.38			
7,800 tonne paper machine press section rebuild (Jiangxi Chenming)	62,598,886.06		62,598,886.06			
Desulphurisation and denitrification project of power plant (Jiangxi Chenming)	27,249,910.87		27,249,910.87			
Packaging paper for food project (Jiangxi Chenming)	122,625,351.96		122,625,351.96			
New production line of household paper machine upgrade in Wuhan second factory (Wuhan Chenming)	445,390,478.03		445,390,478.03	47,110,293.82		47,110,293.82
Technological upgrade for specialty paper project (Wuhan Chenming)	185,261,723.30		185,261,723.30	37,306,505.60		37,306,505.60
Relocation of Jilin (Jilin Chenming)	2,218,570,285.48		2,218,570,285.48	1,358,160,725.92		1,358,160,725.92
Magnesite mining (Haicheng Haiming)	463,059,536.30		463,059,536.30	196,118,936.12		196,118,936.12
600,000 tonne white coated linerboard project (Shouguang Meilun)				2,488,623,232.74		2,488,623,232.74
Meilun paper making additive project (Shouguang Meilun)	339,261,614.70		339,261,614.70	50,464,830.16		50,464,830.16
Thermal paper upgrade project (Shouguang Art Paper)	208,582,395.43		208,582,395.43	92,572.74		92,572.74
Forestry pulp integration project (Huanggang Chenming)	130,795,345.46		130,795,345.46	120,872,039.53		120,872,039.53
Others	70,976,020.44		70,976,020.44	99,953,801.91		99,953,801.91
Total	5,266,031,817.60		5,266,031,817.60	5,017,604,821.59		5,017,604,821.59

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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 asset	Other deductions	Investment to budget (%)	Construction progress	Accumulated capitalised interest am	Of which: capitalised interest amount for the period (%)	Capitalisation rate of the interest amount for the period	Source of funds	Closing balance
Power plant phase II further expansion (parent company)	583,000,000.00	483,961,213.99	71,071,928.66	555,053,142.65		100%	100%	38,944,601.01	8,832,820.16	6%	Capital and borrowings	
Railway project (parent company)	240,000,000.00	430,297.89	67,384,813.17			28%	28%	1,276,468.60	1,276,468.60	6%	Capital and borrowings	67,825,111.06
technology upgrade for white paper board projects (parent company)	200,000,000.00	18,231,971.17	71,744,108.89	32,700,370.68		29%	29%				Self-raised	57,275,709.38
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade (Zhanjiang Chenming)	270,000,000.00	116,258,400.00	151,581,495.73			99%	99%	9,939,148.74	6,380,723.66	6%	Capital and borrowings	267,839,895.73
180,000 tonne paper cup raw paper project (Zhanjiang Chenming)	1,322,000,000.00		313,760,579.02			24%	24%	16,395,272.65	16,395,272.65	6%	Capital and borrowings	313,760,579.02
190,000 tonne high-end cultural paper project (Zhanjiang Chenming)	3,097,000,000.00		284,958,974.38			9%	9%				Self-raised	284,958,974.38
7,800 tonne paper machine press section rebuild (Jiangxi Chenming)	76,000,000.00		62,598,886.06			82%	82%	390,973.45	390,973.45	6%	Capital and borrowings	62,598,886.06
Desulphurisation and denitrification project of power plant (Jiangxi Chenming)	82,000,000.00		27,249,910.87			33%	33%				Self-raised	27,249,910.87
Packaging paper for food project (Jiangxi Chenming)	1,830,000,000.00		122,825,351.96			7%	7%	765,014.18	765,014.18	6%	Capital and borrowings	122,825,351.96
New production line of household paper machine upgrade in Wuhan second factory (Wuhan Chenming)	450,000,000.00	47,110,293.82	398,521,446.27			99%	99%	19,477,807.67	18,400,104.52	6.39%	Capital and borrowings	445,390,478.03
Technological upgrade for specialty paper project (Wuhan Chenming)	248,000,000.00	37,306,505.60	147,855,217.70			75%	75%	3,604,911.14	3,321,830.19	6%	Capital and borrowings	185,261,723.30
Relocation of Jilin (Jilin Chenming)	2,300,000,000.00	1,358,160,725.92	936,308,330.16		76,498,770.60	96%	96%	5,498,999.99			Capital and borrowings	2,218,570,285.48
Magneite mining (Haicheng Haiming)	500,000,000.00	196,118,936.12	266,940,600.18			93%	93%				Self-raised	463,059,536.30
600,000 tonne white coated linerboard project (Shouguang Mellun)	2,600,000,000.00	2,488,623,232.74	89,648,981.23	2,578,272,213.97		100%	100%	200,669,260.09			Capital and borrowings	
Mellun paper making additive project (Shouguang Mellun)	550,000,000.00	50,464,830.16	288,796,784.54			62%	62%	7,703,579.92	7,703,579.92	6%	Capital and borrowings	339,261,614.70
Thermal paper upgrade project (Shouguang Art Paper)	200,000,000.00	92,572.74	208,489,822.89			100%	100%	1,141,837.45	1,141,837.45	5.8%	Capital and borrowings	208,582,395.43
Forestry pulp integration project (Huanggang Chenming)	3,485,000,000.00	120,872,038.53	9,823,305.93			4%	4%				Self-raised	130,795,345.46
Others		99,953,801.91	158,864,524.91	188,083,588.44				2,629,679.94	1,993,523.68	6%	Capital and borrowings	70,976,020.44
Total	18,033,000,000.00	5,017,804,821.59	3,679,035,082.35	3,354,109,295.74	76,498,770.60	-	-	308,438,755.83	66,601,949.46	-	-	5,266,031,817.60

Explanation on changes in material construction in progress projects: the reason for the deduction in construction in progress of the relocation of Jilin Chenming is some assets were written off due to the relocation.

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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
Power plant phase III further expansion (parent company)	100%	Construction progress was estimated on the basis of the percentage of investment to budget
Railway project (parent company)	28%	Construction progress was estimated on the basis of the percentage of investment to budget
technology upgrade for white paper board projects (parent company)	29%	Construction progress was estimated on the basis of the percentage of investment to budget
Zhanjiang Chenming 700,000 tonne pulp equipment upgrade (Zhanjiang Chenming)	99%	Construction progress was estimated on the basis of the percentage of investment to budget
180,000 tonne paper cup raw paper project (Zhanjiang Chenming)	24%	Construction progress was estimated on the basis of the percentage of investment to budget
190,000 tonne high-end cultural paper project (Zhanjiang Chenming)	9%	Construction progress was estimated on the basis of the percentage of investment to budget
7,800 tonne paper machine press section rebuild (Jiangxi Chenming)	82%	Construction progress was estimated on the basis of the percentage of investment to budget
Desulphurisation and denitrification project of power plant (Jiangxi Chenming)	33%	Construction progress was estimated on the basis of the percentage of investment to budget
Packaging paper for food project (Jiangxi Chenming)	7%	Construction progress was estimated on the basis of the percentage of investment to budget
New production line of household paper machine upgrade in Wuhan second factory (Wuhan Chenming)	99%	Construction progress was estimated on the basis of the percentage of investment to budget
Technological upgrade for specialty paper project (Wuhan Chenming)	75%	Construction progress was estimated on the basis of the percentage of investment to budget
Relocation of Jilin (Jilin Chenming)	96%	Construction progress was estimated on the basis of the percentage of investment to budget
Magnesite mining (Haicheng Haiming)	93%	Construction progress was estimated on the basis of the percentage of investment to budget
600,000 tonne white coated linerboard project (Shouguang Meilun)	100%	Construction progress was estimated on the basis of the percentage of investment to budget
Meilun paper making additive project (Shouguang Meilun)	62%	Construction progress was estimated on the basis of the percentage of investment to budget
Thermal paper upgrade project (Shouguang Art Paper)	100%	Construction progress was estimated on the basis of the percentage of investment to budget
Forestry pulp integration project (Huanggang Chenming)	4%	Construction progress was estimated on the basis of the percentage of investment to budget

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

13. Materials for project

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Special materials	38,672,668.55	659,611,752.87	662,469,772.11	35,814,649.31
Special equipment	36,382,323.54	96,087,584.93	104,316,490.16	28,153,418.31
Total	75,054,992.09	755,699,337.80	766,786,262.27	63,968,067.62

14. Disposal of fixed assets

Unit: RMB

Item	Opening carrying amount	Closing carrying amount	Reasons for transferring to disposal
Relocation of Jilin Chenming Paper Co., Ltd. due to environmental reason	287,015,185.63	242,538,418.36	Relocation
Relocation of Wuhan Chenming Hanyang Paper Holdings Co., Ltd.		345,643,229.17	Relocation
Fuyu Chenming Paper Co., Ltd.	294,632.40		
Total	287,309,818.03	588,181,647.53	—

Note: The net value of fixed assets of Jilin Chenming Paper Co., Ltd. amounting to RMB17,160,644.51 was reclassified into disposal due to its relocation in 2013. Construction in progress reclassified into disposal of fixed assets was RMB76,498,770.60, while materials for projects reclassified into disposal of fixed assets was RMB19,781,725.75. The net value of assets disposed of was RMB158,004,749.34. The net value of fixed assets of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. amounting to RMB520,014,570.53 was reclassified into disposal due to its relocation in 2013. The net value of assets disposed of was RMB174,371,341.36.

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
Forestry				
Timber	1,169,269,054.15	170,257,270.82	22,385,201.20	1,317,141,123.77
Total	1,169,269,054.15	170,257,270.82	22,385,201.20	1,317,141,123.77

(1) Consumable biological assets are measured at fair value. The fair value of timber increased by RMB12,924,958.49 due to acquisition, increased by RMB146,110,483.57 due to breeding, decreased by RMB22,385,201.20 due to disposal, and increased by RMB11,221,828.76 due to change of fair value.

(2) As of 31 December 2013 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 Golden Standard & Headmen Appraisal and Advisory Co., Ltd. The consumable biological assets measured at carrying amount as their fair value amounted to RMB124,503,050.23 and the consumable biological assets measured at assessed value as their fair value amounted to RMB1,192,638,073.54.

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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				
Land use right	1,607,671,950.95	156,276,649.45	199,061,078.12	1,564,887,522.28
Software	1,590,505,598.38	155,074,574.55	199,011,078.12	1,546,569,094.81
	17,166,352.57	1,202,074.90	50,000.00	18,318,427.47
II. Total accumulated amortisation				
Land use rights	191,174,791.73	31,794,800.76	23,500,072.47	199,469,520.02
Software	179,397,382.19	29,769,094.70	23,471,600.25	185,694,876.64
	11,777,409.54	2,025,706.06	28,472.22	13,774,643.38
III. Total net carrying amount of intangible asset				
Land use right	1,416,497,159.22	124,481,848.69	175,561,005.65	1,365,418,002.26
Software	1,411,108,216.19	125,305,479.85	175,539,477.87	1,360,874,218.17
	5,388,943.03	-823,631.16	21,527.78	4,543,784.09
IV. Total impairment provision	0.00	0.00	0.00	0.00
Land use rights	0.00	0.00	0.00	0.00
Software	0.00	0.00	0.00	0.00
Total carrying amount of intangible asset				
Land use rights	1,416,497,159.22	124,481,848.69	175,561,005.65	1,365,418,002.26
Software	1,411,108,216.19	125,305,479.85	175,539,477.87	1,360,874,218.17
	5,388,943.03	-823,631.16	21,527.78	4,543,784.09

The amortisation amount was RMB 31,794,800.76 during the period.

- ① The original value of the decreased intangible assets due to disposal of subsidiaries amounted to RMB40,132,700.00 during the year. The cumulative amortisation of the decreased intangible assets due to the disposal of subsidiaries amounted to RMB1,270,868.77.
- ② On 31 December 2013, the ownership of intangible assets of carrying amount of RMB323,501,839.10 (31 December 2012: RMB330,717,493.46) was restricted, of which land use rights and fixed assets of carrying amount of RMB323,501,839.10 were the pledge for long-term borrowings of RMB2,784,334,971.96 (31 December 2012: RMB3,098,403,800.00) and long-term borrowings due within one year of RMB269,313,900.00 (31 December 2012: RMB290,625,800.00) (For details, see Note VII. 10). The amortisation of such land use rights in 2013 amounted to RMB7,215,654.36 (2012: RMB7,215,654.36).
- 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.

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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 book balance	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	

The goodwill of the Company arose from the business combined not under common control during the prior year.

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% (2012: 5%) expected by the market, and time value of currency was estimated using the discount rate of 8.32% (2012: 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, 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	12,108,612.65		1,724,187.60	10,384,425.05		Disposal of Yanbian during the period
Woodland expenses	170,460,955.74	2,756,861.13	6,833,966.41		166,383,850.46	
Other	2,201,117.26		46,484.04		2,154,633.22	
Total	184,770,685.65	2,756,861.13	8,604,638.05	10,384,425.05	168,538,483.68	—

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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	76,545,138.40	76,283,989.46
Deductible losses	391,818,687.83	244,104,208.24
Elimination of unrealised profit arising from intra-group	14,392,382.14	20,805,987.85
Unpaid payables	10,652,244.21	17,531,699.23
Deferred income	14,244,935.80	18,212,201.82
Sub-total	507,653,388.38	376,938,086.60

Deferred income tax liabilities:

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary differences	2,095,852.19	118,431,196.57
Deductible loss	420,230,273.61	329,374,556.35
Total	422,326,125.80	447,805,752.92

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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)

Deductible loss of unrecognised deferred income tax assets will expire by the following periods

Unit: RMB

Year	Closing balance	Opening balance	Remark
2013		74,170.94	
2014	60,626,308.87	38,442,223.21	
2015	37,886,444.37	67,208,911.93	
2016	64,240,356.54	70,887,235.48	
2017	116,631,374.76	152,762,014.79	
2018	140,845,789.07		
Total	420,230,273.61	329,374,556.35	—

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	328,446,526.51	322,820,452.56
Elimination of unrealised profit arising from intra-group	57,569,528.58	83,223,951.42
Unpaid payables	53,895,396.66	95,609,060.53
Deferred income	70,461,516.47	86,010,898.97
Deductible losses	1,567,274,751.26	976,416,833.00
Sub-total	2,077,647,719.48	1,564,081,196.48

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

20. Breakdown of provision for impairment of assets

Unit: RMB

Item	Opening balance of carrying amount	Increase for the period	Decrease for the period Reversal	Write-off	Other	Closing balance of carrying amount
I. Provisions for bad debts	331,102,223.82	24,715,485.83	52,082,625.22	4,864,308.41	933,639.33	297,937,136.69
II. Provisions for inventory impairment	14,453,128.45	36,472,052.20		14,453,128.45		36,472,052.20
III. Provision for long-term equity investment impairment	2,589,574.47					2,589,574.47
IV. Provisions for fixed assets	13,015,998.85	15,000,000.00		1,795,998.85		26,220,000.00
V. Provisions for intangible assets	0.00	0.00				0.00
Total	361,160,925.59	76,187,538.03	52,082,625.22	21,113,435.71	933,639.33	363,218,763.36

Explanation on provision for impairment of assets: Other deduction in provision for impairment of assets resulted from the disposal of its subsidiaries, namely Wuhan New-style Wall.

21. Assets with limited ownership or usage rights

Item	Closing balance	Reason for limitation
Sub-total of assets used for providing guarantees:	6,749,964,377.30	
Land (Zhanjiang)	323,501,839.10	As collaterals for bank borrowings
Fixed assets (Zhanjiang)	6,096,739,906.27	As collaterals for bank borrowings
Bills receivable	329,722,631.93	As collaterals for bank borrowings, received short-term borrowings
Sub-total of assets with limited ownership or use rights due to other reasons:	1,821,196,865.28	
Other monetary funds	1,821,196,865.28	Secured bank borrowings, bank acceptance bills and letter of credit deposits
Total	8,571,161,242.58	

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

22. Short-term borrowings

(1) Types of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowings	398,617,193.53	
Guarantee loans	3,999,962,588.92	3,893,489,091.48
Credit loans	5,420,305,455.40	5,925,909,403.68
Discounted loans		3,057,000,000.00
Total	9,818,885,237.85	12,876,398,495.16

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 guarantor.

(2) The Company had no short-term borrowings due and outstanding.

23. Bills payable

Unit: RMB

Type	Closing balance	Opening balance
Bank acceptance bills	290,403,790.59	1,285,627,762.07
Total	290,403,790.59	1,285,627,762.07

Amount to be due in the next accounting period amounted to RMB 290,403,790.59.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

24. Accounts payable

(1) Particulars of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	2,251,158,621.76	2,937,983,262.67
1- 2 years	240,434,222.13	158,572,722.64
2- 3 years	120,073,847.85	49,693,420.80
Over 3 years	83,503,235.40	93,532,318.70
Total	2,695,169,927.14	3,239,781,724.81

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

(3) Explanation on significant trade payable for over 1 year

Name of creditors	Amount	Reason of being outstanding	Repaid after the reporting date
VOITH PAPER FABRICS ASIA PACIFIC SDN.BHD	116,057,475.18	Temporary outstanding	No
Andritz (China) Co., Ltd.	19,012,083.50	Temporary outstanding	No
Shandong Nge Logistics Co., Ltd.	10,142,997.00	Temporary outstanding	No
Itochu Corporation, Japan	3,232,405.93	Temporary outstanding	No
Styron SBR (Zhangjiagang) Co., Ltd.	2,917,572.65	Temporary outstanding	No
Total	151,362,534.26		

(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
EUR	1,382,095.29	8.4189	11,635,722.04	1,574,136.46	8.3176	13,093,037.42
USD	123,474,097.22	6.0969	752,809,223.34	95,627,910.37	6.2855	601,069,230.63
JPY	256,639,724.00	0.057771	14,826,333.50			
GBP	19,125.00	10.0556	192,313.35	19,125.00	10.1611	194,331.04
Total			779,463,592.23			614,356,599.09

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

25. Advance receipts

(1) Particulars of advance receipts

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	425,728,033.93	340,139,089.13
1-2 years	16,704,227.65	7,696,711.74
Total	442,432,261.58	347,835,800.87

(2) During the reporting period, advance receipts were not due to any shareholders or related parties holding over 5% (5% inclusive) voting rights of the Company's shares.

(3) Explanation on significant advance receipts for over one year

Name of creditors	Amount	Reason for not being carried forward
Guo Dongsheng	2,246,605.80	No delivery requirement from the counterparty
Yong Yi Adhesive (Zhongshan) Co. Ltd.	1,384,668.41	No delivery requirement from the counterparty
Zhanjiang Chemical Service Company	1,245,024.80	No delivery requirement from the counterparty
Shandong Kailong Paper Science and Technology Co., Ltd.	1,082,000.00	No delivery requirement from the counterparty
Total	5,958,299.01	

(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
EUR	2,067,646.02	8.4189	17,407,305.08			
USD	37,181,309.64	6.0969	226,690,726.74	30,582,379.55	6.2855	192,225,546.66
JPY	4,046,425.00	0.057771	233,766.02			
Total			244,331,797.84			192,225,546.66

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

26. 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	113,061,559.95	665,639,708.64	704,993,755.65	73,707,512.94
II. Staff welfare		31,091,957.62	31,091,957.62	
III. Social insurance premium	12,309,783.97	154,898,316.00	157,386,831.22	9,821,268.75
Of which: 1. Medical insurance premium	7,814,322.06	35,263,623.74	35,783,572.58	7,294,373.22
2. Pension insurance premium	3,130,098.40	108,356,774.08	110,111,854.15	1,375,018.33
3. Unemployment insurance premium	35,238.75	3,250,579.30	3,099,138.30	186,679.75
4. Work-related injury insurance premium	63,922.14	4,220,696.43	4,283,029.39	1,589.18
5. Maternity insurance premium	1,266,202.62	3,806,642.45	4,109,236.80	963,608.27
IV. Housing provident funds	10,020,193.56	50,251,402.81	55,065,165.93	5,206,430.44
V. Lay off welfare	23,648,552.72	12,822,469.94	13,751,093.30	22,719,929.36
VI. Non-monetary welfare				
VII. Lay off welfare	3,083.97	83,865,306.12	83,856,314.94	12,075.15
VIII. Cash-settled share-based payment				
IX. Others	18,804,595.54			18,804,595.54
Total	177,847,769.71	998,569,161.13	1,046,145,118.66	130,271,812.18

The delayed payment in respect of staff remuneration payables amounted to RMB0.00.

Union operation costs and employee education costs amounted to RMB13,751,093.30, non-monetary welfare amounted to RMB0.00 and compensation arising from termination of service amounted to RMB83,856,314.94.

There was no delayed payment staff remuneration payables. Apart from IX. Others, which is special fund for housing reform without specific payment plan, the rest are all short-term staff remuneration.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

27. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Value added tax	6,620,418.81	39,231,100.57
Business tax	596,310.07	962,094.33
Enterprise income tax	104,402,645.76	42,565,684.15
Individual income tax	1,780,803.13	170,709.08
Urban maintenance and construction tax	1,713,580.49	2,792,836.34
Land use tax	5,495,793.45	8,114,849.29
Property tax	7,824,057.43	8,224,888.15
Educational surcharges and others	446,510.66	2,678,529.97
Stamp duty	1,312,817.07	2,075,721.99
Total	130,192,936.87	106,816,413.87

28. Interest payable

Unit: RMB

Item	Closing balance	Opening balance
Interest on corporate bonds	65,559,777.08	65,900,289.97
Interest on medium-term notes	27,455,083.34	67,145,833.34
Interest on private raised fund	60,175,000.00	
Total	153,189,860.42	133,046,123.31

29. Other payables

(1) Particulars of other payables

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	419,910,089.94	310,080,861.84
1-2 years	23,967,481.29	58,740,745.82
2-3 years	16,877,980.44	16,748,468.93
Over 3 years	26,081,044.22	50,202,212.39
Total	486,836,595.89	435,772,288.98

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

29. Other payables (Cont'd)

- (2) During the reporting period, other payables were not due to any shareholders or related parties holding over 5% (5% inclusive) voting rights of the Company's shares.

For details, see Note IX. 5 Related party accounts receivable and accounts payable.

- (3) Explanation on significant other payables for over 1 year

Name of creditors	Amount	Reason of being outstand	Repaid after the reporting date
State-owned Shouguang Qingshuipo Farm	8,800,000.00	Temporarily outstanding	No
China Light Industry Construction Co., Ltd.	2,354,000.00	Temporarily outstanding	No
Fujian Industrial Equipment Installation Co., Ltd. Sanming Branch Company	2,280,000.00	Temporarily outstanding	No
Shandong Longtai Stainless Steel Products Co., Ltd.	1,500,000.00	Temporarily outstanding	No
Jilin Jiangcheng Water Supply Engineering Co., Limited	1,200,000.00	Temporarily outstanding	No
Total	16,134,000.00		

- (4) Explanation of the significant other payables

Name of creditors	Closing balance	Nature or details
Land Management Office of Nanchang Economic and Technological Development Zone	92,000,000.00	Land Payment
Liaoning BeiHai Industries Group Co., Ltd.	21,804,600.00	Fund for shareholders of subsidiaries
Shouguang Hengtai Enterprise Investment Company Limited	18,668,679.17	Fund for shareholders of subsidiaries
State-owned Shouguang Qingshuipo Farm	8,800,000.00	Open credit
Jilin Installation Group Co., Ltd – Jilin NO.1 Branch	4,823,879.66	Quality guarantee deposit
Total	146,097,158.83	

30. 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	789,115,500.00	1,368,108,800.00
Payable bonds due within one year	498,688,952.66	
Total	1,287,804,452.66	1,368,108,800.00

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

30. Non-current liabilities due within one year (Cont'd)

(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	269,313,900.00	290,625,800.00
Guarantee borrowings	175,925,600.00	562,640,000.00
Credit borrowings	343,876,000.00	389,133,000.00
Total	789,115,500.00	1,368,108,800.00

Rollover of overdue borrowings within long-term borrowing due within a year amounted to RMB0.00.

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
The Export-Import Bank of China Qingdao branch	13 April 2011	12 April 2014	RMB	5.5%		100,000,000.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2023	RMB	5.9%		86,406,900.00		
China Development Bank Guangdong branch	25 March 2008	24 March 2023	USD	3.15%	30,000,000.00	182,907,000.00		
Sumitomo Mitsui Banking Corporation (China) Limited	21 March 2012	30 November 2014	USD	2.31%	40,000,000.00	243,876,000.00		
Mitsui syndicated loan	11 April 2011	11 March 2014	USD	2.98%	24,000,000.00	146,325,600.00		
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 2013	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
Total	—	—	—	—	—	759,515,500.00	—	1,019,175,800.00

Overdue borrowings within long-term borrowings due within one year: Nil.

(3) Payable bond due within one year

Unit: RMB

Name of bond	Nominal value	Issue date	Term of bond	Issue amount	Opening interest payable	Interest accrued for the period	Interest paid for the period	Closing interest payable	Closing balance
11 Chenming Hong Kong debt	500,000,000.00	13 April 2011	3 years	491,750,000.00	3,152,512.20	14,740,042.66	14,750,000.00	3,142,554.86	498,688,952.66

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

31. Other current liabilities

Unit: RMB

Item	Closing book balance	Opening book balance
Deferred income to be amortised within one year	25,246,647.62	17,659,498.56
Short- term commercial paper	3,853,488,888.90	
Total	3,878,735,536.52	17,659,498.56

Particulars of other current liabilities

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	1,693,753.30	3,129,665.41
Project fund for National technological support scheme	164,700.00	492,453.30
Special subsidy fund for Songhuajiang environmental protection project	1,030,000.08	1,030,000.08
Sewage treatment and water conservation reconfiguration project	990,418.60	990,418.60
Financial grants for technological modification project	7,260,000.00	687,067.67
Zhanjiang integrated forestry, pulp and paper project	13,956,068.49	11,305,973.76
Others	151,707.15	23,919.74
Total	25,246,647.62	17,659,498.56

The breakdown of short- term commercial paper is as follows:

Item	Closing balance	Opening balance
short- term commercial paper		
short- term commercial paper CP001	1,836,733,333.34	
short- term commercial paper CP002	2,016,755,555.56	
Total	3,853,488,888.90	

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

32. Long-term borrowings

(1) Types of long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowing		125,710,000.00
Secured borrowings	3,053,648,871.96	3,389,029,600.00
Guarantee borrowing	470,888,400.00	895,292,000.00
Credit borrowings	988,444,035.94	891,245,035.94
Less: long-term borrowings due within one year(see Note VII. 30)	789,115,500.00	1,368,108,800.00
Total	3,723,865,807.90	3,933,167,835.94

Description of types of long-term borrowings: For the category and amount of secured assets under secured borrowings, please see Note VII. 11 and Note VII. 16.

(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
Bank of Communications, Weighing Shouguang Branch	31 July 2013	30 July 2016	RMB	5.51%		200,000,000.00		
The Export-Import Bank of China Qingdao branch	8 July 2013	8 July 2015	USD	2.31%	20,000,000.00	121,938,000.00		
China Development Bank Guangdong branch	25 March 2008	24 February 2023	RMB	5.9%		1,016,233,971.96		
China Development Bank Guangdong branch	25 March 2008	24 February 2023	USD	3.15%	290,000,000.00	1,768,101,000.00		
Export-Import Bank of China Guangdong branch	7 July 2013	1 July 2015	RMB	5.68%		160,000,000.00		
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 syndicated loan	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
Total	-	-	-	-	-	3,266,272,971.96	-	3,700,675,800.00

For long-term borrowings, RMB 898,143,000.00 will be paid in the second year after the balance sheet date (2012: RMB 1,001,385,900.00), RMB 1,204,701,900.00 will be paid within the third to fifth year after the balance sheet date (2012: RMB 953,372,100.00) and RMB1,621,020,907.90 will be paid over after the fifth year (2012: RMB 1,978,409,835.94).

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

33. Bonds payable

Unit: RMB

Bond name	Nominal value	Issue date	Term of bond	Issued amount	Opening interest payable	Interest accrued for the period	Interest paid for the period	Closing interest payable	Closing balance
11 Chenming debt	2,000,000,000.00	6 July 2011	5years	1,982,000,000.00	59,169,444.44	118,669,444.45	119,000,000.00	58,838,888.89	1,990,203,485.86
11 Chenming Hong Kong debt	500,000,000.00	13 April 2011	3years	491,750,000.00	3,152,512.20	14,740,042.66	14,750,000.00	3,142,554.86	498,688,952.66
12 Chenming debt	3,800,000,000.00	26 February 2012	5years	3,773,400,000.00	3,578,333.33	214,700,000.00	214,700,000.00	3,578,333.33	3,778,215,126.87
Sub-total	6,300,000,000.00			6,247,150,000.00	65,900,289.97	348,109,487.11	348,450,000.00	65,559,777.08	6,267,107,565.39
Less: closing balance for the year of amount due within one year(Note VII. 30)									498,688,952.66
Total									5,768,418,612.73

34. Long-term payables

Classification of long-term payables

Entity	Term	Borrowing conditions	Closing balance	Opening balance
Nanchang Economic and Technological Development Zone Investment Holdings Limited	December 2013 – January 2019	Secure	60,000,000.00	
Total			60,000,000.00	

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	641,526,872.70	650,000,000.00	319,721,311.31	971,805,561.39	
Relocation of Wuhan Chenming due to environmental reason		314,840,000.00	314,840,000.00		
Total	641,526,872.70	964,840,000.00	634,561,311.31	971,805,561.39	—

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 RMB650 million. The Company utilised the relocation compensation to offset loss on disposal of fixed asset and suspension of production of RMB86,945,723.83 and RMB99,453,494.34, respectively. Compensation and written-off for the land value of old Jilin factory amounted to RMB133,322,093.14.

During the year, pursuant to the meeting spirit related to elimination of backward production capacity and environmental relocation of Wuhan Chenming by Wuhan Government, the Company received relocation compensation of RMB314,840,000.00. The Company utilised the relocation compensation to offset loss on disposal of fixed asset and suspension of production of RMB121,575,124.36 and RMB193,264,875.64, respectively.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

36. Other Non-current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Deferred income	468,354,064.53	375,881,264.56
Medium-term notes	1,088,060,197.75	2,184,270,106.80
Private Raised Bond	1,489,103,380.29	
Of which: due within 1 year		1,100,000,000.00
Due within 1-2 years		
During within 2-5 years	2,600,000,000.00	1,100,000,000.00
Unamortised issuance costs	-22,836,421.96	-15,729,893.20
Total	3,045,517,642.57	2,560,151,371.36

Liabilities related to government grants

Unit: RMB

Liabilities item	Opening balance	new grants for the period	amount included non-operating income	Other changes	Closing balance	asset-related/ revenue-related
Special subsidy funds for environmental protection	63,922,883.01	17,814,600.00	10,207,530.24	-4,491,238.09	67,038,714.68	asset-related
Project fund for National technological support scheme	7,605,425.00		164,700.00		7,440,725.00	asset-related
Special subsidy fund for Songhuajiang environmental protection project	27,790,829.88		877,750.08		26,913,079.80	asset-related
Modification of alkaline recycling system	4,883,749.85				4,883,749.85	asset-related
Sewage treatment and water conservation reconfiguration project	12,899,569.87		990,418.60		11,909,151.27	asset-related
Financial grants for technological modification project	1,972,781.97	100,000,000.00	1,428,571.44		100,544,210.53	asset-related
Zhanjiang integrated forestry, pulp and paper project	273,472,850.82	11,837,241.00	11,663,338.49		273,646,753.33	asset-related
Others	992,672.72	327,000.00	95,345.03		1,224,327.69	asset-related
Deferred income to be amortised within 1 year	-17,659,498.56				-25,246,647.62	asset-related
Total	375,881,264.56	129,978,841.00	25,427,653.88	-4,491,238.09	468,354,064.53	—

Deferred income of RMB129,978,841.00 was received during the period. Deferred income amortisation recognised through profit or loss was RMB25,427,653.88. The decrease in deferred income due to disposal of equity of Yanbian Chenming Paper Co., Ltd. was RMB4,491,238.09.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

37. Share capital

Unit: RMB

Item	Opening balance		New issue	Change during the year(Increase/decrease)			Sub-total	Closing balance	
	Amount	%		Bonus shares	Shares converted from reserve	Others		Amount	%
I. Restricted shares									
Shares held by the Senior Management	9,336,404.00	0.45				-1,170,185.00	-1,170,185.00	8,166,219.00	0.41
Total for restricted shares	9,336,404.00	0.45				-1,170,185.00	-1,170,185.00	8,166,219.00	0.41
II. Non-restricted shares									
1. RMB ordinary shares (A shares)	1,103,942,052.00	53.54				1,170,185.00	1,170,185.00	1,105,112,237.00	55.94
2. Domestic listed foreign shares (B shares)	557,497,485.00	27.04				-86,573,974.00	-86,573,974.00	470,923,511.00	23.84
3. Overseas listed foreign shares (H shares)	391,270,000.00	18.97						391,270,000.00	19.81
Total for non-restricted shares	2,052,709,537.00	99.55				-85,403,789.00	-85,403,789.00	1,967,305,748.00	99.59
III. Total number of shares	2,062,045,941.00	100.00				-86,573,974.00	-86,573,974.00	1,975,471,967.00	100.00

The Company repurchased 86,573,974 overseas listed foreign shares (B shares) during 2013. The adjusted share capital was RMB1,975,471,967. The share capital was reviewed by Ruihua Certified Public Accountants, which published a capital review report named Rui Hua Yan Zi [2013] No. 91110005 for the certification of the review.

38. Capital reserves

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Repurchase of B shares of the Company		265,363,183.60	265,363,183.60	
Repurchase of H shares of the Company		30,954,891.40		30,954,891.40
Total		296,318,075.00	265,363,183.60	30,954,891.40

At the 2013 first extraordinary general meeting, the 2013 first class meeting for holders of domestic listed shares (A shares and B shares) and the 2013 first class meeting for holders of overseas listed shares (H shares) of the Company convened on 21 August 2013, the Company resolved to repurchase not more than 39,127,000 overseas listed shares (H shares) at a repurchase price of not more than HK\$4 per share (the repurchase price on the repurchase date shall not be higher by 5% or more than the average closing price of shares on The Stock Exchange of Hong Kong Limited for the 5 preceding trading days) within twelve months from the date of the general meeting and class meetings. The amount to be used for the repurchase of shares shall not be more than HK\$160,000,000 (equivalent to approximately RMB127,000,000, based on the exchange rate of HK\$1:RMB0.79532 as at 21 August 2013). As of 31 December 2013, the Company repurchased 11,484,500 H shares at a consideration of HK\$39,371,292.62 (including stamp duty and commission), which was equivalent to RMB30,954,891.40.

Upon expiry of the above repurchase period or completion of the repurchase, the Company will cancel all repurchased H shares and reduce its registered capital accordingly.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

39. Capital reserves

Unit: RMB

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Capital premium (share premium)	5,713,148,731.33		178,789,209.60	5,534,359,521.73
Of which: capital contributed by investor	3,373,256,665.49		178,789,209.60	3,194,467,455.89
Exercise of conversion right of convertible corporate bonds	2,018,215,301.98			2,018,215,301.98
Acquisition of minority interests	321,676,763.86			321,676,763.86
Other capital reserves	701,744,268.20		31,421,760.99	670,322,507.21
Of which: conversion of capital reserves under the previous system	701,744,268.20		31,421,760.99	670,322,507.21
Total	6,414,892,999.53		210,210,970.59	6,204,682,028.94

At the ninth extraordinary general meeting of the sixth session of the Board of the Company convened on 15 May 2013, the resolution in respect of the disposal of equity of Yanbian Chenming Paper Co., Ltd. and acquisition of assets was approved and passed. The Company transferred its 49% and 51% equity interest in Yanbian Chenming to Yanbian Shixian Bailu Paper Co., Ltd. and Yanbian State-owned Assets Management Co., Ltd. at a consideration of RMB54 million and RMB56 million, respectively. The conversion of capital reserves under the previous system of RMB31,421,760.99 was transferred to investment income for the current period. The Company repurchased 86,573,974 overseas listed foreign shares (B shares) at a consideration in Hong Kong dollar equivalent to RMB265,363,183.60, which offset capital premium under capital reserves of RMB178,789,209.60.

40. 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

Pursuant to the Companies Law and the Articles of Association, the Company 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 Company can transfer the discretionary surplus reserve upon the transfer of statutory surplus reserve. Once approved, the discretionary surplus reserve can be used to offset loss for prior years or increase the share capital.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

41. Retained profit

Unit: RMB

Item	Amounts	Proportion of appropriation or allocation
Retained profit as at the end of the prior year before adjustment	4,149,511,927.88	—
Retained profit as at the beginning of the year after adjustment	4,149,511,927.88	—
Plus : Net profit for year attributable to shareholders of the parent company	710,655,331.72	—
Ordinary dividend payable	118,528,318.02	—
Retained profit as at the end of the period	4,741,638,941.58	—

(1) 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.

(2) According to the proposed profit distribution plan for 2012 approved by the 2013 annual general meeting of the Company on 15 May 2013, the Company paid a cash dividend of RMB0.06 (2012: RMB0.15) per share to all shareholders. As the Company had repurchased B shares, based on the number of shares of 1,975,471,967 at the dividend registration date, the total amount to be distributed was RMB118,528,318.02 (2012: RMB309,306,892.20).

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

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

The transfer to surplus reserve of subsidiaries of the Company in 2013 was RMB45,584,915.52, of which RMB45,584,915.52 was attributable to the parent company.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

42. 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	20,152,795,532.07	19,418,385,445.41
Revenue from other activities	236,094,535.34	343,293,784.64
Operating costs	16,651,886,019.64	16,693,768,322.36

(2) Principal activities (by industries)

Unit: RMB

Industry name	Amounts during the period		Amounts during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
I. Machine-made paper	18,244,191,565.62	15,088,624,360.62	18,148,184,354.47	15,448,210,584.92
II. Electricity and steam	1,519,119,225.58	1,128,949,590.22	800,330,990.18	603,017,916.41
III. Construction materials	241,343,187.87	204,068,954.93	344,778,147.53	301,384,927.59
IV. Paper chemicals			63,109,642.95	47,193,191.78
V. Hotel	36,324,584.14	8,589,278.93	48,334,822.55	12,493,732.14
VI. Others	111,816,968.86	62,297,587.77	13,647,487.73	10,492,427.23
Total	20,152,795,532.07	16,492,529,772.47	19,418,385,445.41	16,422,792,780.07

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

42. 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	959,374,495.99	797,143,663.55	1,170,332,533.70	1,039,609,451.91
Duplex press paper	2,573,322,197.99	2,101,348,540.72	2,893,040,859.96	2,486,129,792.61
Writing paper	307,750,040.04	249,202,911.49	278,621,119.55	265,618,292.24
Coated paper	4,504,344,844.03	3,863,437,378.40	4,039,555,866.49	3,763,791,638.91
News press paper	1,501,678,237.85	1,103,153,831.64	1,774,456,795.28	1,253,184,006.48
Paperboard	812,352,574.23	815,342,139.62	527,059,863.45	513,468,478.94
White paper board	2,161,704,531.76	1,738,047,195.43	2,009,960,531.99	1,646,210,297.10
Static paper	1,906,857,070.30	1,496,527,676.12	1,590,707,172.04	1,225,698,307.75
Other machine-made paper	3,516,807,573.43	2,924,421,023.65	3,864,449,612.01	3,254,500,318.98
Electricity and steam	1,519,119,225.58	1,128,949,590.22	800,330,990.18	603,017,916.41
Building materials	241,343,187.87	204,068,954.93	344,778,147.53	301,384,927.59
Paper chemicals			63,109,642.95	47,193,191.78
Hotel	36,324,584.14	8,589,278.93	48,334,822.55	12,493,732.14
Others	111,816,968.86	62,297,587.77	13,647,487.73	10,492,427.23
Total	20,152,795,532.07	16,492,529,772.47	19,418,385,445.41	16,422,792,780.07

(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	17,419,575,119.36	14,112,022,512.66	16,652,392,812.02	13,832,363,392.83
Other countries and regions	2,733,220,412.71	2,380,507,259.81	2,765,992,633.39	2,590,429,387.24
Total	20,152,795,532.07	16,492,529,772.47	19,418,385,445.41	16,422,792,780.07

(5) Operating revenue from top 5 customers of the Company

Unit: RMB

Period	Total operating revenue from top 5 customers	Percentage of the operating revenue for the period (%)
2013	1,159,451,679.05	5.69%
2012	809,133,619.82	4.09%

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

43. Business taxes and surcharges

Unit: RMB

Item	Amounts during the period	Amounts during the prior period	Calculation standard
Business tax	15,368,137.34	12,913,487.64	Business tax calculated at 3%-5% of taxable revenue
Urban maintenance and construction tax	38,246,715.31	36,055,424.89	Calculated at 7% of actual current tax paid
Educational surcharges	24,829,356.69	24,692,978.62	Calculated at 3% of actual current tax paid
Water engineering funds	4,748,112.49	4,169,692.98	
Local educational surcharges	2,468,807.39	811,004.25	Calculated at 2% of actual current tax paid
Others	171,081.76	47,402.56	
Total	85,832,210.98	78,689,990.94	—

44. Selling and distribution expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Wages	116,750,755.01	106,775,704.85
Depreciation expenses	18,004,121.19	21,819,218.81
Office expenses	6,365,282.20	6,794,411.68
Travel expenses	29,520,578.69	27,239,405.77
Sales commission	6,965,244.83	6,406,566.86
Transportation expenses	771,135,730.03	708,273,839.04
Cargo handling charges	24,267,204.90	25,234,845.39
Rental expenses	8,946,309.54	6,865,846.36
Hospitality expenses	65,119,426.31	75,188,472.21
Warehouse expenses	7,840,514.22	11,896,779.46
Others	74,229,868.59	147,994,155.61
Total	1,129,145,035.51	1,144,489,246.04

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

45. General and administrative expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Wages and surcharges	185,735,210.11	191,908,796.59
Welfare expenses	36,143,571.41	22,478,619.26
Social insurance premium	10,261,700.98	20,136,048.25
Insurance premium	17,221,874.87	14,829,959.11
Depreciation expenses	56,957,280.03	60,751,168.63
Waste disposal expenses	24,375,706.65	28,983,197.70
Hospitality expenses	21,996,694.34	34,413,765.89
Amortisation of intangible assets	30,699,445.68	23,835,110.94
Technological development expenses	379,261,152.54	293,698,298.28
Tax	75,806,245.69	36,156,445.61
Production interruption loss	65,937,178.56	74,297,144.39
Dismissal welfares	83,865,306.31	
Others	210,443,188.83	308,758,348.10
Total	1,198,704,556.00	1,110,246,902.75

46. Finance expenses

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Interest expenses	1,370,531,985.38	1,434,634,633.92
Less: interest income	211,164,138.80	167,001,504.37
Less: capitalised interest amount	128,341,431.11	212,844,904.48
Foreign exchange gains and losses	-164,346,803.25	-11,933,355.58
Less: capitalised foreign exchange gains and losses amount		
Others	63,924,562.74	49,905,145.55
Total	930,604,174.96	1,092,760,015.04

47. 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	11,221,828.76	47,822,076.87
Total	11,221,828.76	47,822,076.87

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

48. 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	208,888.59	-637,227.71
Investment gain on disposal of long-term equity investments	23,497,069.99	-34,887,733.04
Total	23,705,958.58	-35,524,960.75

(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	Change in revenue of investee
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-47,492.37	4,396.33	Change in revenue of investee
Shanghai Anzhou New Energy Co., Ltd.	571,186.50	18,743,677.13	Change in revenue of investee
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	-314,805.54		Change in accounting methods of investee
Total	208,888.59	-637,227.71	—

49. Loss on impairment of assets

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
I. Loss on bad debts	-27,367,139.39	44,611,035.76
II. Loss on inventory impairment	36,472,052.20	14,419,123.18
III. Loss on fixed asset impairment	15,000,000.00	11,220,000.00
Total	24,104,912.81	70,250,158.94

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

50. 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	6,695,769.19	30,576,886.51	6,695,769.19
Of which: Gain on disposal of fixed assets	6,695,769.19	30,576,886.51	6,695,769.19
Gain on debt restructuring	268,577.19	11,256,702.04	268,577.19
Government grants	190,712,413.64	258,711,984.00	174,947,619.19
Revenue from Wuhan relocation	193,264,875.64		193,264,875.64
Special payables for Jilin	99,453,494.34	95,977,067.70	99,453,494.34
Business combination not under common control	2,408,368.37		2,408,368.37
Others	11,241,687.62	25,005,706.31	11,241,687.62
Total	504,045,185.99	421,528,346.56	488,280,391.54

(2) Breakdown of government grants

Item	Amounts during the year	Amounts during the prior year
Amortised deferred income	25,427,653.88	19,148,832.88
Grants income	149,519,965.31	216,008,688.69
Value-added tax refund	15,764,794.45	23,554,462.43
Total	190,712,413.64	258,711,984.00

51. 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	36,560,317.17	4,484,098.29	36,560,317.17
Of which: Loss on disposal of fixed assets	36,560,317.17	4,484,098.29	36,560,317.17
Loss on debt restructuring		10,315,257.61	
Donation	2,800,000.00		2,800,000.00
Others	1,934,144.14	6,640,682.20	1,934,144.14
Total	41,294,461.31	21,440,038.10	41,294,461.31

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

52. 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	324,213,944.11	156,822,377.11
Adjustment to deferred income tax	-148,275,512.20	-219,648,615.62
Total	175,938,431.91	-62,826,238.51

Reconciliation of income tax expenses and total profit is set out as follows:

Item	Amounts for the year	Amounts for the prior year
Profit before tax	866,291,669.53	-16,139,981.44
Income tax calculated under the tax rate under the law	216,572,917.38	-4,034,995.36
Add: Effect of non-deductible costs, expenses and loss	42,318,807.13	43,947,272.95
Less: Effect of tax concessions	115,277,133.60	59,472,189.81
Less: Utilisation of unrecognised deductible loss and deductible temporary differences for prior years	24,000,975.01	60,826,791.73
Add: Effect of unrecognised deductible loss and deductible temporary differences for the current period	56,324,816.01	17,560,465.44
Income tax expenses	175,938,431.91	-62,826,238.51

53. 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.

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

53. Calculation of basic earnings per share and diluted earnings per share (Cont'd)

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

Profit for the reporting period	Amounts during the year		Amounts during the prior year	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	0.35	0.35	0.11	0.11
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.20	0.20	-0.08	-0.08

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

- ① Net profit for the period attributable to ordinary shareholders for the purpose of calculating basic 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	710,655,331.72	221,034,822.54
Of which: net profit attributable to continuing operations	710,655,331.72	221,034,822.54
net profit attributable to discontinued operations		
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	406,170,148.25	-159,777,900.37
Of which: net profit attributable to continuing operations	406,170,148.25	-159,777,900.37
net profit attributable to discontinued operations		

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

Item	Amounts during the year	Amounts during the prior year
Number of outstanding ordinary 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	52,130,683	
Number of outstanding ordinary shares as at the end of the year	2,009,915,258	2,062,045,941

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

54. Other comprehensive income

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Translation difference of financial statements denominated in foreign currency	16,004,868.55	2,517,765.07
Less: Disposal of overseas operation charged to the net profit or loss for the period		
Sub-total	16,004,868.55	2,517,765.07
Others		
Less: Effect of income tax arising from others charged to other comprehensive income		
Reclassification to net profit or loss of others charged to other comprehensive income during the prior period	31,421,760.99	267,566.25
Sub-total	-31,421,760.99	-267,566.25
Total	-15,416,892.44	2,250,198.82

Changes in other comprehensive income item

Item	Amounts during the year	Amounts during the prior year
Opening balance	702,673,473.24	700,423,274.42
Of which: Capital reserves – conversion under the previous system	701,744,268.20	702,011,834.45
Translation difference of financial statements denominated in foreign currency	929,205.04	-1,588,560.03
Plus: Change during the period	-15,416,892.44	2,250,198.82
Of which: Capital reserves – conversion under the previous system	-31,421,760.99	-267,566.25
Translation difference of financial statements denominated in foreign currency	16,004,868.55	2,517,765.07
Closing balance	687,256,580.80	702,673,473.24
Of which: Capital reserves – conversion under the previous system	670,322,507.21	701,744,268.20
Translation difference of financial statements denominated in foreign currency	16,934,073.59	929,205.04

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

55. Breakdown of the profit before tax of the Group after deducting items

Item	Amounts during the year	Amounts during the prior year
Material expense	13,094,823,156.46	13,630,113,683.36
Labour costs	969,927,481.47	1,010,862,815.62
Accumulated depreciation	1,322,959,919.80	1,471,443,592.08
Energy and power	2,012,679,649.75	1,965,334,285.64
Other production costs	758,129,910.44	459,284,268.99
Changes in inventory balance	-540,994,617.31	-1,053,743,319.49
Net financial expense	930,604,174.96	1,092,760,015.04
Amortisation of intangible assets	30,699,445.68	23,835,110.94
Tax	161,638,456.67	171,304,772.47
Impairment loss on assets	24,104,912.81	70,250,158.94
Loss on disposal of non-current assets	36,560,317.17	4,484,098.29
Loss on debt reduction		10,315,257.61
Production interruption loss	65,937,178.56	74,297,144.39
Transportation expense	773,000,263.65	762,494,590.62
Hospitality expense	87,116,120.65	111,439,584.31
Others	334,385,000.45	407,168,615.36
Total	20,061,571,371.21	20,211,644,674.17

56. Notes to the cash flow statements

(1) Cash received relating to other operating activities

Unit: RMB

Item	Amount
Finance support fund	149,519,965.31
Interest income	211,164,138.80
Income on default penalty and fine	1,319,963.69
Bank balances and other income	60,985,992.30
Total	422,990,060.10

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

56. Notes to the cash flow statements (Cont'd)

(2) Cash paid relating to other operating activities

Unit: RMB

Item	Amount
Transportation expenses	773,000,263.65
Hospitality expenses	87,116,120.65
Rental expenses	16,064,169.16
Travel expenses	43,339,796.08
Office expenses	13,856,616.40
Waste disposal expenses	24,375,706.65
Insurance premium	19,774,877.15
Repair expenses	25,589,983.20
Intermediary service expenses	5,472,804.41
Financial institutions charge	63,924,562.74
Cargo handling charges	24,267,204.90
Paid on other expense and bank balances	106,136,781.55
Total	1,202,918,886.54

(3) Cash received relating to other investing activities

Unit: RMB

Item	Amount
Special subsidy funds received	129,978,841.00
Demolition and relocation compensation received	964,840,000.00
Business merger not under common control	983,926.53
Government grants on phasing out backward production equipment	
Equity transfer deposits received	271,850,000.00
Total	1,367,652,767.53

(4) Cash paid relating to other investing activities

Unit: RMB

Item	Amount
Net cash received from disposal of subsidiaries and other operating units	3,180,221.51
Total	3,180,221.51

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

56. Notes to the cash flow statements (Cont'd)

(5) Cash received relating to other financing activities

Unit: RMB

Item	Amount
Short-term commercial paper	3,784,800,000.00
Privately placing bond	1,486,500,000.00
Increase in restricted bank deposits	291,470,312.13
Borrowings from Nanchang Economic and Technological Development Zone Investment Holdings Limited	60,000,000.00
Total	5,622,770,312.13

(6) Cash paid relating to other financing activities

Unit: RMB

Item	Amount
Repayment of medium-term notes	1,100,000,000.00
Repurchase of B shares	265,363,183.60
Repurchase of H shares	30,954,891.40
Total	1,396,318,075.00

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VII. Notes to major items of the Consolidated Financial Statements (Cont'd)

57. Supplementary information on cash flow statements

(1) 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	690,353,237.62	46,686,257.07
Plus: Provision for impairment of assets	19,539,893.55	69,456,190.75
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	1,324,698,175.84	1,473,181,848.12
Amortisation of intangible assets	31,794,800.76	38,461,236.57
Amortisation of long-term prepaid expenses	8,604,638.05	14,644,085.34
Loss on disposal of fixed assets, intangible assets and other long-term assets ("—" denotes gain)	29,864,547.98	-26,092,788.22
Loss on changes in fair value ("—" denotes gain)	-11,221,828.76	-47,822,076.87
Finance expenses ("—" denotes gain)	1,238,839,467.15	1,229,226,170.56
Investment loss ("—" denotes gain)	-23,705,958.58	35,524,960.75
Decrease in deferred income tax assets("—" denotes increase)	-148,275,512.20	-219,648,615.62
Decrease in inventories ("—" denotes increase)	664,719,899.68	1,216,128,795.92
Decrease in operating receivables("—" denotes increase)	-801,235,384.48	-1,006,510,462.52
Increase in operating payables("—" denotes decrease)	-1,777,633,893.33	-703,983,647.43
Decrease in consumable biological assets	-123,725,282.37	-162,385,476.43
Others		
Net cash flows from operating activities	1,122,616,800.91	1,956,866,477.99
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	726,532,928.96	2,343,550,185.45
Less: cash balance at the beginning of the period	2,343,550,185.45	2,317,048,619.53
Net increase in cash and cash equivalents	-1,617,017,256.49	26,501,565.92

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VII · Notes to major items of the Consolidated Financial Statements (Cont'd)

57. 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. Consideration from acquisition of subsidiaries and other operating units	2,730,000.00	
2. Cash and cash equivalents paid on acquisition of subsidiaries and other operating units	2,730,000.00	131,555,073.05
Less: cash and cash equivalents held by subsidiaries and other operating units	3,713,926.53	79,951,123.62
3. Net cash paid on acquisition of subsidiaries and other operating units	-983,926.53	51,603,949.43
4. Net assets of subsidiaries acquired	5,138,368.37	257,951,123.62
Current assets	34,032,326.98	257,951,123.62
Non-current assets	10,434,536.39	
Current liabilities	39,328,495.00	
II. Relevant information with respect to disposal of subsidiaries and other operating units:	—	—
1. Consideration from disposal of subsidiaries and other operating units	476,016,016.71	396,850,000.00
2. Cash and cash equivalents received from disposal of subsidiaries and other operating units	426,016,016.71	125,000,000.00
Less: cash and cash equivalents held by subsidiaries and other operating units	91,385,533.31	10,771,766.96
3. Net cash received from disposal of subsidiaries and other operating units	357,810,704.91	114,228,233.04
4. Net assets of subsidiaries disposed of	529,193,978.65	432,005,299.29
Current assets	1,030,203,096.69	563,633,079.26
Non-current assets	463,360,654.34	875,610,612.06
Current liabilities	960,176,200.96	991,181,707.26
Non-current liabilities	4,193,571.42	16,056,684.77

- (3) Cash and cash equivalents composition

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	726,532,928.96	2,343,550,185.45
Of which: Treasury cash	1,333,503.27	1,398,324.17
Bank deposit that can be used for payment at any time	725,199,425.69	2,342,151,861.28
III. Balance of cash and cash equivalent at end of period	726,532,928.96	2,343,550,185.45

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.

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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.

1. Segment revenue

Amounts unit: RMB'0,000

Item	Machine-made paper		Construction materials		Electricity and heat	
	The year	Prior year	The year	Prior year	The year	Prior year
Revenue from external transactions	1,824,419.16	1,814,818.44	24,134.32	34,477.81	151,911.92	80,033.10
Revenue from inter-segment transactions			6,851.53	6,512.70	107,399.99	70,568.56
Total segment revenue	1,824,419.16	1,814,818.44	30,985.85	40,990.51	259,311.91	150,601.66
Operating costs	1,608,663.81	1,668,138.63	28,058.28	40,129.05	221,873.75	132,503.75
Segment operating profit	215,755.35	146,679.81	2,927.57	861.46	37,438.16	18,097.91

(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
Revenue from external transactions	38,423.61	46,838.57			2,038,889.01	1,976,167.92
Revenue from inter-segment transactions	2,309,112.70	169,880.38	2,423,364.22	246,961.64		
Total segment revenue	2,347,536.31	216,718.95	2,423,364.22	246,961.64	2,038,889.01	1,976,167.92
Operating costs	2,337,860.97	209,867.01	2,423,364.22	246,961.64	1,773,092.59	1,803,676.80
Segment operating profit	9,675.34	6,851.94			265,796.42	172,491.12
Adjustment items						
Administrative expenses					58,440.97	53,155.86
Finance expenses					124,219.06	122,178.97
Profit or loss from change in fair value					-1,122.18	-4,782.21
Investment income					-2,847.78	3,552.50
Gross profit					87,106.35	-1,614.00
Income tax					17,593.84	-6,282.62
Net profit					69,512.51	4,668.62

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VIII. Segment reporting (Cont'd)

2. Segment assets and liabilities

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	4,426,572.67	4,441,797.61	18,639.91	23,011.10	282,990.91	252,032.41
Segment liabilities	3,266,397.02	3,298,322.54	9,459.70	11,974.84	14,285.74	21,122.71

(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	95,985.48	114,936.41	72,000.61	59,235.34	4,752,188.36	4,772,542.19
Segment liabilities	70,211.15	65,815.65	72,000.61	59,235.34	3,288,353.00	3,338,000.40

IX. Related parties and related party transactions

1. Parent company of the Company

Name of parent company	Relationship	Company type	Place of incorporation	Legal representative	Business nature	Registered capital	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	RMB1,685.42 million	10.45%	10.45%	Shouguang Chenming Holdings Co., Ltd.	78348518-9

2. Information on subsidiaries, joint ventures and associates of the Company

Details please refer to Note (VI). 1. Subsidiaries, Note (VII). 8. Associates and Note (VII). 9. Long-term equity investments.

3. Information on other related parties of the Company

Name of other related parties	Relationship with the Company	Organisation code
Shouguang Hengtai Enterprise Investment Company Limited	Company invested by the senior management of the Company	56251690-6

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IX. Related parties and related party transactions (Cont'd)

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	21,522,366.71	0.14%	78,374,277.12	0.4%
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	Sales of paper	Market price Authorised by the Board	8,429.40		18,484.62	

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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	Chenming (HK) Limited	500,000,000.00	13 April 2011	12 April 2014	No
	Huanggang Chenming				
The Company	Arboriculture Co., Ltd.	29,600,000.00	19 September 2011	18 September 2014	No
	Huanggang Chenming				
The Company	Arboriculture Co., Ltd.	26,000,000.00	27 June 2012	26 June 2015	No
The Company	Shouguang Meilun Paper Co., Ltd.	146,325,600.00	10 September 2010	10 February 2014	No
The Company	Shouguang Meilun Paper Co., Ltd.	48,775,200.00	9 June 2013	10 December 2014	No
	Shandong Chenming Paper Sales				
The Company	Company Limited	399,996,000.00	7 November 2013	12 January 2014	No
	Shandong Chenming Paper Sales				
The Company	Company Limited	413,883,518.50	7 June 2013	6 June 2014	No
The Company	Jiangxi Chenming Paper Co., Ltd.	75,000,000.00	13 December 2012	13 April 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	73,162,800.00	13 November 2013	13 November 2015	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	160,000,000.00	3 July 2013	3 July 2015	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	160,000,000.00	4 September 2013	10 September 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	100,000,000.00	27 June 2013	26 June 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	330,000,000.00	23 July 2013	22 July 2015	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	54,826,000.00	5 August 2013	5 August 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	100,000,000.00	15 November 2013	14 November 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	51,823,650.00	27 December 2013	26 March 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	150,000,000.00	10 December 2013	10 March 2014	No
	Zhanjiang Chenming				
The Company	Pulp & Paper Co., Ltd.	100,000,000.00	12 November 2013	9 December 2014	No
Zhanjiang Chenming	Guangdong Huirui Investment				
Pulp & Paper Co., Ltd.	Co., Ltd.	40,000,000.00	28 November 2013	27 November 2015	No

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IX. Related parties and related party transactions (Cont'd)

4. Related party transactions (Cont'd)

(3) Related parties loans

Unit: RMB

Related party	Loan amount	Starting date	Expiry date	Explanation
Loan to Jiangxi Chenming Paper Co., Ltd.	200,000,000.00	19 December 2013	19 December 2014	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	RMB25.5500 million	RMB21.1587 million
Of which: (number of staff in each band of amount)		
RMB4.80-5.20 million	1	
RMB3.60-4.00 million		1
RMB3.20-3.60 million	1	
RMB2.80-3.20 million	1	
RMB2.40-2.80 million	1	1
RMB1.60-2.00 million	1	1
RMB1.20-1.60 million	2	1
RMB0.80-1.20 million	5	8
Below RMB0.80 million	18	19

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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

Key management staff	Amounts during the year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan (note 1 and 2)	5.00			5.00
Wang Aiguo (note 1 and 2)	5.00			5.00
Zhang Hong (note 1 and 2)	5.00			5.00
Pan Ailing (note 2)	5.00			5.00
Wang Yumei (note 1)	2.08			2.08
Wang Xiangfei (note 1)	5.21			5.21
Sub-total of Independent Non-executive Directors	27.29	—	—	27.29
Cui Youping (note 1 and 2)	5.00			5.00
Wang Xiaoqun (note 1 and 2)	5.00			5.00
Wang Fengrong (note 1)	2.08			2.08
Sub-total of Non-executive Directors	12.08			12.08
Chen Hongguo (note 1 and 2)	495.21	3.35	1.44	500.00
Yin Tongyuan (note 1 and 2)	295.21	3.35	1.44	300.00
Li Feng (note 1 and 2)	81.47	3.35	1.44	86.26
Geng Guanglin (note 1 and 2)	274.85	3.35	1.44	279.64
Hou Huancai (note 1 and 2)	98.78	3.35	1.44	103.57
Zhou Shaohua (note 1 and 2)	104.16	4.29	1.38	109.83
Tan Daocheng (note 1)	15.42	3.35	1.44	20.21
Sub-total of Executive Directors	1,365.28	24.26	9.97	1,399.51
Gao Junjie (note 1 and 2)	34.49	3.35	1.44	39.28
Wang Ju (note 1 and 2)	14.84	2.69	1.15	18.68
Yang Hongqin (note 1 and 2)	14.19	2.40	1.03	17.62
Yin Qixiang (note 1 and 2)	2.50			2.50
Guo Guangyao (note 1 and 2)	2.50			2.50
Total of Supervisor	68.52	8.44	3.62	80.58
Sub-total of other senior management	1,006.80	20.10	8.64	1,035.54
Total	2,479.79	52.93	22.28	2,555.00

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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			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan	5.00			5.00
Wang Aiguo	5.00			5.00
Zhang Hong	5.00			5.00
Pan Ailing				—
Wang Yumei	5.00			5.00
Wang Xiangfei	12.50			12.50
Sub-total of Independent Non-executive Directors	32.50			32.50
Cui Youping	5.00			5.00
Wang Xiaoqun	5.00			5.00
Wang Fengrong	5.00			5.00
Sub-total of Non-executive Directors	15.00			15.00
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
Geng Guanglin	117.18	2.98	1.30	121.46
Hou Huancai	87.51	2.98	1.30	91.79
Zhou Shaohua	119.01	0.65	0.23	119.89
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

Notes: (A) The annual remuneration is determined by reference to the stipulations of the Group and individual performance of directors, and approved by the Remuneration Committee.

(B) "Note 1" ---- Resigned on 15 May 2013

"Note 2" ---- Appointed on 16 May 2013

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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)

- ③ The five highest paid individuals of the Group during the year comprised of 3 directors and 2 other senior management of the Company. The remuneration band of the 2 senior management were RMB3.20-3.60 million and RMB1.60-2.00 million, respectively.

The five highest paid individuals of the Group during 2012 comprised of 4 directors and 1 other senior management of the Company. The remuneration band of the senior management was RMB1.60-2.00 million.

A. Remuneration of the five highest paid individuals

Item	Amounts during the year (RMB'0,000)	Amounts during the prior year (RMB'0,000)
Basic annual remuneration	1,581.36	1,080.39
Provident fund	4.32	4.13
Social welfare contribution	10.05	9.59
Total	1,595.73	1,094.11

B. Distribution band of remuneration of the five highest paid individuals

Band of annual remuneration	Number of individual during the year	Number of individual during the prior year
RMB4.80-5.20 million	1	
RMB3.60-4.00 million		1
RMB3.20-3.60 million	1	
RMB2.80-3.20 million	1	
RMB2.40-2.80 million	1	1
RMB1.60-2.00 million	1	1
RMB1.20-1.60 million		1
RMB0.80-1.20 million		1

- ④ During the year, no other 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.

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IX. Related parties and related party transactions (Cont'd)

4. Related party transactions (Cont'd)

(5) Joint investment of the Company and related parties

Name of investee	Contribution by the Company	Contribution by Shouguang Hengtai Enterprise Investment Company Limited	Contribution by non-related shareholder	Registered capital	Business nature
Haicheng Haiming Mining Company Limited	RMB144.00 million	RMB24.00 million	RMB72.00 million	RMB240.00 million	Processing and sales of magnetite and talc

As of 31 December 2013, the total assets of Haicheng Haiming Mining amounted to RMB466,945,780.81. Its total liabilities and net asset amounted to RMB226,945,780.81 and RMB240,000,000.00, respectively. No revenue was recorded during the period.

5. Related party accounts receivable and accounts payable

Accounts receivables of the listed company due from the related party

Unit: RMB

Item	Related party	At the end of period Book balance	Bad debt provision	At the beginning of the period Book balance	Bad debt provision
Accounts receivable	Anhui Time Source Corporation	16,580,021.04	829,001.05	15,739,073.73	786,953.69
Accounts receivable	Jiangxi Jiangbao Media Colour Printing Co., Ltd.			21,627.00	1,081.35
Other receivables	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	551,964,609.01			
Other receivables	Arjo Wiggins Chenming Specialty Paper Co., Ltd.	1,290,901.12	1,290,901.12	1,290,901.12	1,290,901.12

Accounts payables of the listed company due to the related party

Unit: RMB

Item	Related party	Closing balance	Opening balance
Other payables	Shouguang Hengtai Enterprise Investment Company Limited	18,668,679.17	

X. Contingency

As of 31 December 2013, no significant contingent event had to be disclosed by the Group.

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XI. Commitments

1. Significant commitments

(1) Capital commitment

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	2,437,963,978.39	3,492,740,126.70
– Huirui BT Project	3,637,017,103.35	
– Commitments in relation to external investment	6,028,000.00	
Total	6,081,009,081.74	3,492,740,126.70

(2) Operating lease commitments

As at the balance sheet date, the Company entered into irrevocable operating lease contracts with external companies as follows:

RMB

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	21,250,728.73	25,750,281.07
The second year after balance sheet date	13,786,011.70	14,197,441.54
The third year after balance sheet date	13,814,410.50	13,894,570.34
In the years thereafter	572,915,704.51	592,968,638.50
Total	621,766,855.44	646,810,931.45

2. Performance of commitments for the prior period

As of 31 December 2013, no significant commitments had to be disclosed by the Group.

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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	1,169,269,054.15	11,221,828.76	189,043,642.16		1,317,141,123.77
Aggregate amount	1,169,269,054.15	11,221,828.76	189,043,642.16		1,317,141,123.77
Financial liabilities	0.00	0.00			0.00

2. Financial assets and liabilities denominated in foreign currency

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	314,173,046.44				146,678,873.68
Accounts receivable	302,171,666.34				428,930,649.39
Prepayments	315,038,730.07				368,818,253.24
Sub-total of financial assets	931,383,442.85				944,427,776.31
Financial liabilities	6,195,056,274.80				7,883,240,255.94

3. Net current assets/liabilities, total assets less current liabilities

Item	Closing balance	Opening balance
Net current assets/(liabilities)	(2,405,853,307.73)	(940,549,623.28)
Total assets less current liabilities	28,207,961,157.48	27,736,527,250.05

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XII. Other material matters (Cont'd)

4. Others

- (1) 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. On 30 December 2013, the preparation works for the construction project was completed with the construction works officially commenced. The construction project is expected to take approximately 17 months to complete.
- (2) 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. On 20 January 2014, Shouguang Chenming Holdings Co., Ltd. repurchased the disposed 86,600,000 shares through agreed repurchase type securities trading. The shareholding after the transaction as follows:

Item	Before the transaction	After the transaction
Number of shares of the Company being held	206,403,657.00	293,003,657.00
Total share capital of the Company	1,975,471,967.00	1,975,471,967.00
As a percentage of the total share capital of the Company	10.45%	14.83%

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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 (main sources 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 2013, the Group did not entered into any forward foreign exchange contracts.

As at 31 December 2013 and 31 December 2012, the foreign currency-denominated assets and foreign currency-denominated liabilities held by the Group were translated into RMB as follows:

31 December 2013

Item	USD	EUR	GBP	HKD	JPY
Assets denominated in foreign currency-					
Monetary funds	104,615,939.01	13,247,929.28		12,772.47	28,802,232.92
Accounts receivable	404,705,934.51	5,070,461.60			19,154,253.28
Prepayments	178,501,771.24	189,776,693.87			539,788.13
Sub-total	687,823,644.76	208,095,084.75		12,772.47	48,496,274.33
Liabilities denominated in foreign currency-					
Short-term borrowing	3,841,095,426.52	248,718,551.35			111,382,488.00
Accounts payable	752,809,223.34	11,635,722.04	192,313.35		14,826,333.50
Advance receipts	226,690,726.74	17,407,305.08			233,766.02
Non-current liabilities due within one year	573,108,600.00				
Long-term borrowings	2,085,139,800.00				
Sub-total	7,478,843,776.60	277,761,578.47	192,313.35		126,442,587.52

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XIII. Financial risk management and financial instruments (Cont'd)

1. Market risk (Cont'd)

(1) Foreign currency risk (Cont'd)

31 December 2012

Item	USD	EUR	GBP	HKD	JPY
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		

As at 31 December 2013, for various USD, EUR, GBP, HKD and JPY 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 increased or decreased by approximately RMB346,940,623.98 (31 December 2012: approximately RMB263,183,641.60).

(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 2013, the interest bearing debts of the Group mainly consisted of variable-rate borrowing contract in RMB and USD amounting to RMB14,331,866,545.75 (31 December 2012: RMB18,177,675,131.10), and fixed-rate interest rate contracts in RMB amounting to RMB12.7 billion (31 December 2012: RMB8.5 billion).

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XIII. Financial risk management and financial instruments *(Cont'd)*

1. Market risk *(Cont'd)*

(2) Interest rate risk *(Cont'd)*

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 change in future interest rate will not have significant adverse effect on the operating results of the Group.

On 31 December 2013, 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 increased or decreased by approximately RMB69,367,358.72 (2012: RMB100,696,983.81) mainly due to the increase and decrease of the interest expenses.

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 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 requirement 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 requirement.

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XIII. Financial risk management and financial instruments (Cont'd)

3. Liquidity risk (Cont'd)

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 2013

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	2,547,729,794.24				2,547,729,794.24
Bills receivable	2,870,443,681.49				2,870,443,681.49
Accounts receivable	3,172,267,013.90	50,136,238.22	107,116,385.54		3,329,519,637.66
Other receivables	1,200,466,405.38	100,811,139.72	101,683,787.31		1,402,961,332.41
Prepayments	647,808,677.28	941,212,653.96			1,589,021,331.24
Sub-total	10,438,715,572.29	1,092,160,031.90	208,800,172.85		11,739,675,777.04
Financial liabilities-					
Short-term borrowing	9,818,885,237.85				9,818,885,237.85
Bills payable	290,403,790.59				290,403,790.59
Accounts payable	2,251,158,621.76	240,434,222.13	203,577,083.25		2,695,169,927.14
Advance receipts	425,728,033.93	16,704,227.65			442,432,261.58
Other payables	419,910,089.94	23,967,481.29	42,959,024.66		486,836,595.89
Non-current liabilities due within one year	1,289,115,500.00				1,289,115,500.00
Long-term borrowing		898,143,000.00	1,204,701,900.00	1,621,020,907.90	3,723,865,807.90
Bonds payable			5,800,000,000.00		5,800,000,000.00
Long-term payables				60,000,000.00	60,000,000.00
Medium-term notes			1,100,000,000.00		1,100,000,000.00
Private placing bond			1,500,000,000.00		1,500,000,000.00
Short-term commercial paper	3,800,000,000.00				3,800,000,000.00
Sub-total	18,295,201,274.07	1,179,248,931.07	9,851,238,007.91	1,681,020,907.90	31,006,709,120.95

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XIII. Financial risk management and financial instruments (Cont'd)

3. Liquidity risk (Cont'd)

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

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	12,710,845,637.85	12,700,000,000.00	15,079,271,331.10	8,500,000,000.00
Loans with the last repayment date over five years	1,621,020,907.90		3,098,403,800.00	
Total	14,331,866,545.75	12,700,000,000.00	18,177,675,131.10	8,500,000,000.00

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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	12,697,760,032.33	12,700,000,000.00	8,440,533,343.80	8,500,000,000.00

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 2013, the Group had no financial instruments measured at fair value (31 December 2012: Nil).

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XIV. Notes to major financial statement items of the parent company

1. Accounts receivable

(1) Accounts receivable

Unit: RMB

Category	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable collectively provided for bad debt								
Risk-free portfolio	3,810,425,562.91	99.77%			335,827,030.39	96.73%		
General-risk portfolio	8,776,614.79	0.23%	4,547,645.65	51.82%	11,346,123.83	3.27%	4,675,772.65	41.21%
Portfolio sub-total	3,819,202,177.70	100%	4,547,645.65	0.12%	347,173,154.22	100%	4,675,772.65	1.35%
Total	3,819,202,177.70	—	4,547,645.65	—	347,173,154.22	—	4,675,772.65	—

Accounts receivable stated according to ageing

Unit: RMB

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	3,814,870,507.13	99.89%	342,848,452.68	98.75%
1 to 2 years	6,969.03			
2 to 3 years				
Over 3 years	4,324,701.54	0.11%	4,324,701.54	1.25%
Total	3,819,202,177.70	100.00%	347,173,154.22	100.00%

Accounts receivable individually significant and separately provided for bad debt as at the 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

Unit: RMB

Ageing	Closing balance		Book balance	Opening balance		
	Book balance			Bad debt provision		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year						
Of which:	—	—	—	—	—	—
Within 1 year	4,444,944.22	50.65%	222,247.21	7,021,422.29	61.88%	351,071.11
Sub-total of within 1 year	4,444,944.22	50.65%	222,247.21	7,021,422.29	61.88%	351,071.11
1 to 2 years	6,969.03	0.08%	696.90			
Over 3 years	4,324,701.54	49.27%	4,324,701.54	4,324,701.54	38.12%	4,324,701.54
Total	8,776,614.79	—	4,547,645.65	11,346,123.83	—	4,675,772.65

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XIV. Notes to major financial statement items of the parent company (Cont'd)

1. Accounts receivable (Cont'd)

(1) Accounts receivable (Cont'd)

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

Portfolio	Book balance	Bad debt provision
Risk-free portfolio	3,810,425,562.91	0.00
Total	3,810,425,562.91	0.00

Accounts receivable not individually significant but separately provided for bad debts as at the end of the period.

☐Applicable ☒Not applicable

(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 or bad debts before reversal or recovery	Amounts reversed or recovered
Open credit	Recovery of open credit	Most of which were open credit for over 3 years and unlikely to be recovered	128,127.00	128,127.00
Total	—	—	128,127.00	—

(3) 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% inclusive) in the voting shares of the Company during the reporting period

XI Financial Report

XIV. Notes to major financial statement items of the parent company (Cont'd)

1. Accounts receivable (Cont'd)

(5) 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 (%)
Shandong Chenming Paper Sales Co., Ltd.	Related party within the scope of consolidation	2,078,754,449.86	Within 1 year	54.43%
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	1,626,851,840.56	Within 1 year	42.6%
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Related party within the scope of consolidation	92,000,000.00	Within 1 year	2.41%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	7,931,070.49	Within 1 year	0.21%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	4,888,202.00	Within 1 year	0.13%
Total	—	3,810,425,562.91	—	99.78%

(6) 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 (%)
Shandong Chenming Paper Sales Co., Ltd.	Related party within the scope of consolidation	2,078,754,449.86	54.43%
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	1,626,851,840.56	42.6%
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Related party within the scope of consolidation	92,000,000.00	2.41%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	7,931,070.49	0.21%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	4,888,202.00	0.13%
Total	—	3,810,425,562.91	99.78%

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XIV. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables

(1) Other receivables

Unit: RMB

Category	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables which are individually significant and are separately provided for bad debt	8,918,424.06	0.08%	8,918,424.06	100%	8,918,424.06	0.1%	8,918,424.06	100%
Other receivables collectively provided for bad debt								
Risk-free portfolio	10,991,002,770.81	99%			9,181,123,808.55	99%		
General-risk portfolio	89,083,928.68	0.8%	28,464,521.53	31.95%	70,216,527.05	0.76%	18,561,336.28	26.43%
Portfolio sub-total	11,080,086,699.49	99.8%	28,464,521.53	0.26%	9,251,340,335.60	99.76%	18,561,336.28	0.2%
Other receivables which are not individually significant but are separately provided for bad debt	13,717,509.43	0.12%	13,717,509.43	100%	13,771,354.38	0.14%	13,771,354.38	100%
Total	11,102,722,632.98	—	51,100,455.02	—	9,274,030,114.04	—	41,251,114.72	—

Other receivable stated according to ageing

Unit: RMB

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	10,479,494,850.60	94.39%	8,748,242,463.91	94.33%
1 to 2 years	542,640,693.82	4.89%	476,756,180.58	5.14%
2 to 3 years	38,955,846.94	0.35%	12,693,819.63	0.14%
Over 3 years	41,631,241.62	0.37%	36,337,649.92	0.39%
Total	11,102,722,632.98	100.00%	9,274,030,114.04	100.00%

Other receivables individually significant and separately provided for bad debt as at the end of the period

☒ Applicable ☐ Not applicable

Unit: RMB

Other receivables	Book balance	Amount of bad debts	Percentage of provision (%)	Reason
Open credit	8,918,424.06	8,918,424.06	100%	Most of which were open credit for over 3 years and unlikely to be recovered
Total	8,918,424.06	8,918,424.06	—	—

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XIV. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(1) Other receivables (Cont'd)

In respect of portfolio, the measurement of bad debt provision for other receivables is based on the ageing method

☒Applicable ☐Not applicable

Unit: RMB

Ageing	Closing balance		Bad debt provision	Opening balance		Book balance
	Book balance Amount	Percentage (%)		Bad debt provision Amount	Percentage (%)	
Within 1 year						
Of which:	—	—	—	—	—	—
Within 1 year	26,419,111.28	29.66%	1,320,955.56	35,120,692.33	50.02%	1,756,034.63
Sub-total of						
within 1 year	26,419,111.28	29.66%	1,320,955.56	35,120,692.33	50.02%	1,756,034.63
1 to 2 years	5,856,440.10	6.57%	585,644.01	11,321,624.73	16.12%	1,132,162.48
2 to 3 years	37,813,069.17	42.45%	7,562,613.83	10,126,338.52	14.42%	2,025,267.70
Over 3 years	18,995,308.13	21.32%	18,995,308.13	13,647,871.47	19.44%	13,647,871.47
Total	89,083,928.68	—	28,464,521.53	70,216,527.05	—	18,561,336.28

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

XI Financial Report

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

Portfolio	Book balance	Bad debt provision
Risk-free portfolio	10,991,002,770.81	0.00
Total	10,991,002,770.81	0.00

Other receivables not individually significant but separately provided for bad debt as at the end of the period

☒Applicable ☐Not applicable

Unit: RMB

Other receivables	Book balance	Bad debt provision	Percentage of provision (%)	Reason
Open credit	13,717,509.43	13,717,509.43	100%	Most of which were open credit for over 3 years and unlikely to be recovered
Total	13,717,509.43	13,717,509.43	—	—

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XIV. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

- (2) No reversal or recovery during the year.
- (3) No other receivables actually written-off during the reporting period.
- (4) Outstanding amount within the other receivables due from shareholders holding 5% or more (5% inclusive) in the voting shares of the Company during the reporting period.
- (5) Top five other receivables are as follows

Unit: RMB

Entity name	Relationship with the Company	Amount	Term	As a percentage of the total other receivable (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	5,429,394,926.60	Within 1 year	58.42%
Shandong Chenming Paper Sales Co., Ltd.	Related party within the scope of consolidation	2,227,137,124.40	Within 1 year	23.96%
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	615,847,164.89	Within 1 year	6.63%
Shandong Jianghe Paper Co., Ltd.	Non-related party	587,776,068.96	Within 1 year	6.32%
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	434,046,658.51	Within 1 year	4.67%
Total	—	9,294,201,943.36	—	100%

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XIV. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(6) Overview of other receivables of the related parties

Unit: RMB

Entity name	Relationship with the Company	Amount	As a percentage of the total other receivable (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	5,429,394,926.60	48.90%
Shandong Chenming Paper Sales Co., Ltd.	Related party within the scope of consolidation	2,227,137,124.40	20.06%
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	615,847,164.89	5.55%
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	434,046,658.51	3.91%
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	357,743,572.80	3.22%
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	339,934,233.11	3.06%
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	194,723,941.49	1.75%
Haicheng Haiming Mining Co., Ltd.	Related party within the scope of consolidation	186,467,033.33	1.68%
Zhanjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	166,808,715.34	1.50%
Huanggang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	159,542,057.24	1.44%
Huanggang Chenming Pulp & Paper Co., Ltd.	Related party within the scope of consolidation	116,742,213.13	1.05%
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Related party within the scope of consolidation	65,563,939.48	0.59%
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Related party within the scope of consolidation	64,328,165.05	0.58%
Jiangxi Chenming Paper Co., Ltd.	Related party within the scope of consolidation	22,887,456.65	0.21%
Shouguang Chenming Industrial Logistics Co., Ltd.	Related party within the scope of consolidation	6,665,040.00	0.06%
Yangjiang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	3,015,000.00	0.03%
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Related party within the scope of consolidation	2,427,092.83	0.02%
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Related party out of the scope of consolidation	1,290,901.12	0.01%
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Related party out of the scope of consolidation	1,142,777.77	0.01%
Hailaer Chenming Paper Co., Ltd.	Related party within the scope of consolidation	198,660.63	0%
Total	—	10,395,906,674.37	93.63%

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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
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%				30,213,771.35
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%				
Haier Chenming Paper Co., Ltd.	Cost method	12,000,000.00	12,000,000.00		12,000,000.00	75%	75%				
Yanbian Chenming Paper Co., Ltd.	Cost method	96,789,333.01	96,725,533.01	-6,725,533.01		100%					
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	125,319,240.00	822,867,646.40	51%	51%				11,300,102.21
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%				
Zhejiang Chenming Pulp & Paper Co., Ltd.	Cost method	2,500,000,000.00	3,000,000,000.00		3,000,000,000.00	100%	100%				180,000,000.00
Chenming (HK) Limited	Cost method	783,310.00	783,310.00	61,800,000.00	62,583,310.00	100%	100%				
Shouguang Chenming Modern Logistic Co., Ltd.	Cost method	10,000,000.00	10,000,000.00		10,000,000.00	100%	100%				63,500,000.00
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%				
Huanggang Chenming Arboriculture Co., Ltd.	Cost method	10,000,000.00	70,000,000.00		70,000,000.00	100%	100%				
Huanggang Chenming Pulp & Paper 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 Co., Ltd.	Cost method	100,000,000.00	100,000,000.00		100,000,000.00	100%	100%				
Shouguang Hengsheng 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%				8,000,000.00
Shouguang Chenming Jiatai 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%				15,000,000.00
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		98.96%					19,313,686.50
Japan Chenming Paper Co., Ltd.	Cost method	9,465,450.00	9,306,351.20		9,306,351.20	100%	100%				
Haicheng Haiming Mining Co., Ltd.	Cost method	70,000,000.00	70,000,000.00	74,000,000.00	144,000,000.00	70%	60%				
Chenming GmbH	Cost method	4,083,235.00		4,083,235.00	4,083,235.00	100%	100%				
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Cost method	2,730,000.00		2,730,000.00	2,730,000.00	100%	100%				
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Cost method	1,000,000.00		1,000,000.00	1,000,000.00	100%	100%				
Qingzhou Chenming Deraturation Anylum Co., Ltd.	Equity method	900,000.00	900,000.00		900,000.00	30%	30%		900,000.00		
Ajo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00				30%	30%				
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	Equity method	6,000,000.00	4,792,675.12	-47,492.37	4,745,182.75	21.15%	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 Co., Ltd.	Cost method	350,000.00	350,000.00		350,000.00	5%	5%			350,000.00	
Zhejiang Province Guangyu Media Printing Co., Ltd.	Cost method	2,000,000.00	2,000,000.00		2,000,000.00	9.96%	9.96%				
Shouguang Milne Water Co., Ltd.	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 Shidai Resources Holdings Co., Ltd.	Cost method	1,000,000.00	1,000,000.00		1,000,000.00	10%	10%				
Weitang 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	50,000,000.00		50,000,000.00	16.67%	16.67%				
Total	-	8,523,511,586.98	8,994,168,128.30	-127,840,550.38	8,866,327,577.92	-	-	-	2,589,574.47		327,327,560.06

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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

(1) Category of long-term equity investments

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Investments in subsidiaries	8,903,525,453.18	268,932,475.00	396,725,533.01	8,775,732,395.17
Investments in associates	5,692,675.12		47,492.37	5,645,182.75
Other equity investments	84,950,000.00			84,950,000.00
Less: Long-term equity investments less impairment provision	2,589,574.47			2,589,574.47
Total	8,991,578,553.83	268,932,475.00	396,773,025.38	8,863,738,003.45

(2) 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

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XIV. Notes to major financial statement items of the parent company (Cont'd)

4. Revenue and operating costs

(1) Revenue

Unit: RMB

Item	Amounts during the period	Amounts during the prior period
Revenue from principal activities	8,581,184,184.97	7,725,612,244.79
Revenue from other activities	1,208,914,521.45	915,596,697.75
Total	9,790,098,706.42	8,641,208,942.54
Operating costs	7,831,543,846.50	7,177,585,076.21

(2) Principal activities (by industries)

Unit: RMB

Industry name	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Machine-made paper	6,381,206,521.11	5,004,862,835.94	6,517,417,558.81	5,371,654,396.22
Electricity and heat	2,199,977,663.86	1,665,925,576.42	1,208,194,685.98	936,846,647.26
Total	8,581,184,184.97	6,670,788,412.36	7,725,612,244.79	6,308,501,043.48

(3) Principal activities (by products)

Unit: RMB

Product name	Amounts during the period		Amounts during the prior period	
	Revenue	Operating costs	Revenue	Operating costs
Machine-made paper	6,381,206,521.11	5,004,862,835.94	6,517,417,558.81	5,371,654,396.22
Electricity and steam	2,199,977,663.86	1,665,925,576.42	1,208,194,685.98	936,846,647.26
Total	8,581,184,184.97	6,670,788,412.36	7,725,612,244.79	6,308,501,043.48

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XIV. Notes to major financial statement items of the parent company (Cont'd)

4. Revenue and operating costs (Cont'd)

(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	8,209,025,421.21	6,359,495,311.78	7,276,157,262.26	5,934,723,083.20
Other countries and regions	372,158,763.76	311,293,100.58	449,454,982.53	373,777,960.28
Total	8,581,184,184.97	6,670,788,412.36	7,725,612,244.79	6,308,501,043.48

(5) Revenue from top 5 customers of the Company

Period	Total revenue from top 5 customers	Percentage of the revenue for the period (%)
2013	6,373,240,074.26	65%
2012	6,492,496,014.66	75%

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	327,327,560.06	540,703,203.89
Income from long-term equity investments accounted for using the equity method	-47,492.37	-19,380,904.84
Investment gain on disposal of long-term equity investments	14,190,483.70	-4,350,000.00
Interest income from entrusted loans	12,211,717.01	33,926,275.36
Merger and acquisition of wholly-owned subsidiaries		50,273,012.00
Total	353,682,268.40	601,171,586.41

Note: There is no significant restriction on investment income repatriation of the Company.

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XIV. Notes to major financial statement items of the parent company (Cont'd)

5. Investment income (Cont'd)

(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 of this period compared to prior period
Shandong Chenming Power Supply Holdings Co., Ltd.	30,213,771.35	28,487,270.13	
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.		412,453,350.99	
Yanbian Chenming Paper Co., Ltd.		99,762,582.77	
Jiangxi Chenming Paper Co., Ltd.	11,300,102.21		
Zhanjiang Chenming Pulp & Paper Co., Ltd.	180,000,000.00		
Shouguang Chenming Papermaking Machine Co., Ltd.	15,000,000.00		
Shouguang Chenming Import and Export Trade Co., Ltd.	8,000,000.00		
Shouguang Chenming Modern Logistic Co., Ltd.	63,500,000.00		
Shanghai Runchen Equity Investment Fund Co., Ltd.	19,313,686.50		
Total	327,327,560.06	540,703,203.89	—

(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 of this period compared to prior period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.		-19,385,301.17	
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	-47,492.37	4,396.33	
Shouguang Liben Paper Making Co., Ltd.			
Total	-47,492.37	-19,380,904.84	—

(4) Merger and acquisition of wholly-owned subsidiaries

Item	Amounts during the year	Amounts during the prior year
Net assets as at merger date		66,123,366.16
Less: investment costs		15,850,354.16
Investment gains		50,273,012.00

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XIV. Notes to major financial statement items of the parent company (Cont'd)

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	837,816,166.29	816,640,510.85
Plus: Provision for impairment of assets	9,721,213.30	-8,963,763.50
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	496,354,243.03	547,076,293.15
Amortisation of intangible assets	9,458,835.52	9,268,344.48
Loss on disposal of fixed assets, intangible assets and other long-term asset ("—" denotes gain)	30,220,440.63	-22,464,472.24
Finance expenses ("—" denotes gain)	1,081,677,851.91	856,109,701.51
Investment loss ("—" denotes gain)	-353,682,268.40	-601,171,586.41
Decrease in deferred income tax assets ("—" denotes increase)	4,435,292.92	19,870,870.48
Decrease in inventory ("—" denotes increase)	80,077,116.48	236,731,919.18
Decrease in operating receivables ("—" denotes increase)	-4,081,899,803.22	-1,793,247,193.24
Increase in operating payables ("—" denotes decrease)	-841,543,685.65	76,765,601.15
Net cash flows from operating activities	-2,727,364,597.19	136,616,225.41
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	64,392,029.09	1,786,622,854.08
Less: cash balance at the beginning of the period	1,786,622,854.08	1,290,039,078.57
Net increase in cash and cash equivalents	-1,722,230,824.99	496,583,775.51

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XV. Supplementary information

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

Unit: RMB

Item	Amount	Description
Profit or loss from disposal of non-current assets (included offset amount of provision for assets impairment)	-6,367,477.99	
Government grants included in profit and loss for the current period (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)	174,947,619.19	
Profit 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	2,408,368.37	
Gains and losses from debt restructuring	268,577.19	
Profit or loss from changes in fair value of consumable biological assets	11,221,828.76	
Non-operating gains and losses other than the above items	299,225,913.46	
Less: Effect of income tax	98,299,197.38	
Effect of minority interests (after tax)	78,920,448.13	
Total	304,485,183.47	—

Government grants included in profit and loss for the current period are operating gains and losses. Explanation on each disclosure should be made.

☐Applicable ☒Not applicable

2. Difference 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 period	Amounts for the prior period	Closing balance	Opening balance
Under China accounting standards	710,655,331.72	221,034,822.54	14,039,888,226.11	13,759,496,179.85
Items and amounts adjusted under international accounting standards				

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XV. Supplementary information (Cont'd)

2. Difference in accounting data under domestic and overseas accounting standards (Cont'd)

- (2) Differences between the net profit and net assets disclosed in accordance with overseas 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 period	Amounts for the prior period	Closing balance	Opening balance
Under China accounting standards	710,655,331.72	221,034,822.54	14,039,888,226.11	13,759,496,179.85
Items and amounts adjusted under overseas accounting standards				

3. Return on net assets and earnings per share

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	5.11%	0.35	0.35
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	2.92%	0.20	0.20

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

Items in balance sheet:

- (1) The closing balance of monetary funds as at 31 December 2013 was RMB2,547,729,794.24, down by 42.83% as compared with the opening balance mainly due to monetary funds decreased mainly due to the issue of RMB3.8 billion corporate bonds on 28 December 2012 and some of the funds as at the end of the year not utilised for repayment of borrowings.
- (2) The closing balance of bills receivable as at 31 December 2013 was RMB2,870,443,681.49, up by 54.95% as compared with the opening balance mainly due to the increase in bills for settlement as at the end of the year and the decrease in discount on bills receivable.
- (3) The closing balance of accounts receivable as at 31 December 2013 was RMB3,102,643,083.54, down by 13.89% as compared with the opening balance mainly due to the strengthened control over proceeds collection and the decrease in turnover days for accounts receivable.
- (4) The closing balance of inventories as at 31 December 2013 was RMB3,725,809,877.25, down by 15.56% as compared with the opening balance mainly due to the production of the Company based on orders received, and, in turn, the decrease in goods in stock.
- (5) The closing balance of long-term equity investments as at 31 December 2013 was RMB115,477,214.86, down by 67.64% as compared with the opening balance mainly due to the decrease in long-term equity investments arising from disposal of investment items and to the fact that Wuhan Chenming Wan Xing Real Estate Co., Ltd. was no longer within the scope of consolidation and was accounted for using equity method.

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XV. Supplementary information (Cont'd)

4. Explanation of irregular movements in major accounting statement items of the Company (Cont'd)

- (6) The closing balance of fixed assets as at 31 December 2013 was RMB21,181,647,488.39, up by 7.24% as compared with the opening balance mainly due to the reclassification of the white coated linerboard project as fixed assets as well as depreciation for the year, disposal of subsidiary, Yanbian Chenming, and the decrease of fixed assets as disposed of due to the relocation of Wuhan Chenming Plant I for environmental protection reason.
- (7) The closing balance of disposal of fixed assets as at 31 December 2013 was RMB588,181,647.53, up by 104.72% as compared with the opening balance mainly due to disposal of assets from the relocation of a factory of Wuhan Chenming for environmental protection reason.
- (8) The closing balance of deferred income tax assets as at 31 December 2013 was RMB507,653,388.38, up by 34.68% as compared with the opening balance mainly due to provision made for deferred income tax assets as a result of temporary losses of some companies under the current market conditions.
- (9) The closing balance of short-term loans as at 31 December 2013 was RMB9,818,885,237.85, down by 23.75% as compared with the opening balance mainly due to reduction of financing through short-term loans by the Company in order to lower finance expenses and broadening financing sources.
- (10) The closing balance of bills payable as at 31 December 2013 was RMB290,403,790.59, down by 77.41% as compared with the opening balance mainly due to the decrease in bank acceptance bills issued by the Company for payment of goods.
- (11) The closing balance of accounts payable as at 31 December 2013 was RMB2,695,169,927.14, down by 16.81% as compared with the opening balance mainly due to the increase in payment for goods.
- (12) The closing balance of other current liabilities as at 31 December 2013 was RMB3,878,735,536.52, up by 21864.0% as compared with the opening balance mainly due to the issuance of short-term commercial paper of RMB3.8 billion by the Company.
- (13) The closing balance of bonds payable as at 31 December 2013 was RMB5,768,418,612.73, down by 7.80% as compared with the opening balance mainly due to the transfer of Chenming Hong Kong debt of 500 million to non-current liabilities due within 1 year.
- (14) The closing balance of long-term payables as at 31 December 2013 was RMB60,000,000, mainly due to borrowings from the Management Committee of Nanchang Economic and Technological Development Zone to Jiangxi Chenming Paper Co., Ltd., a subsidiary of the Company, for promotion of the smooth commencement of its phase II project.
- (15) The closing balance of special payables as at 31 December 2013 was RMB971,805,561.39, up by 51.48% as compared with the opening balance mainly due to the special government grants of RMB650 million in relation to relocation due to environmental protection reason received by Jilin Chenming Paper Co., Ltd., a subsidiary of the Company.
- (16) The closing balance of share capital as at 31 December 2013 was RMB1,975,471,967, down by 4.20% as compared with the opening balance mainly due to the repurchase of overseas listed foreign shares (B shares) by the Company and cancellation of repurchased shares.
- (17) The closing balance of capital reserves as at 31 December 2013 was RMB6,204,682,028.94, down by 3.28% as compared with the opening balance mainly due to the decrease in share premium under capital reserves as a result of purchase of B shares by the Company, the transfer of equity interest in Yanbian Chenming Paper Co., Ltd., and transfer of capital reserves attributable to parent company to investment income.
- (18) The closing balance of treasury shares as at 31 December 2013 was RMB30,954,891.40, mainly due to the expenditure on the repurchase of H shares by the Company with the repurchased shares not yet cancelled.

XV. Supplementary information (Cont'd)

4. Explanation of irregular movements in major accounting statement items of the Company (Cont'd)

Items in income statement and cash flow statement:

- (1) Revenue for 2013 was RMB20,388,890,067.41, up by 3.17% from the prior year mainly due to the increase in sales of machine-made paper and the increase in electricity sales.
- (2) Operating costs for 2013 was RMB16,651,886,019.64, down by 0.25% from the prior year mainly due to a decline in raw material costs.
- (3) Finance expenses for 2013 was RMB930,604,174.96, down by 14.84% from the prior year mainly due to the appreciation of RMB, an increase in foreign exchange gains and a decrease in interest expenses.
- (4) Loss on impairment of assets for 2013 was RMB24,104,912.81, down by 65.69% from the prior year mainly due to stepping up efforts to collect proceeds and reduction of bad debt provision.
- (5) Investment income for 2013 was RMB23,705,958.58, up by 166.73% from the prior year mainly due to investment income arising from disposal of subsidiaries.
- (6) Non-operating income for 2013 was RMB504,045,185.99, up by 19.58% from the prior year mainly due to the compensation for the suspension of Wuhan Plant I and transfer of government grants.
- (7) Non-operating expense for 2013 was RMB41,294,461.31, up by 92.60% from the prior year mainly due to the increase in loss on disposal of non-current assets.
- (8) Income tax expenses for 2013 were RMB175,938,431.91, up by 380.04% from the prior year mainly due to better profitability of the Company as compared to the prior year.
- (9) Net cash flows from operating activities in 2013 were RMB1,122,616,800.91, down by 42.63% from the prior year mainly due to the increase of the proportion of cash payment for goods as the Company sought support from upstream suppliers and reduced its costs.
- (10) Net cash flows from investment activities in 2013 were RMB-1,910,948,038.35, up by 27.78% from the prior year mainly due to recovery of investment with lower rate of return in order to improve capital utilisation.
- (11) Net cash flows from financial activities in 2013 were RMB-832,037,106.17, down by 215.05% from the prior year mainly due to better profitability of the Company and enhancement in capital utilisation efficiency so as to lower capital utilisation costs.

XII. Documents Available for Inspection

- I. The financial statements signed and sealed by the legal representative, financial representative and head of the financial department of the Company;
- 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
- IV. The annual report disclosed on the Stock Exchange of Hong Kong Limited;
- V. Other related information.

Shandong Chenming Paper Holdings Limited
20 March 2014



山東晨鳴紙業集團股份有限公司
SHANDONG CHENMING PAPER HOLDINGS LIMITED*