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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)

**DISCLOSEABLE TRANSACTION
CAPITAL INCREASE AGREEMENT**

Capital Increase Agreement

The Board is pleased to announce that, on 28 December 2016 (after the trading hours), the Company and Shanghai Zhongneng entered into the Capital Increase Agreement to increase the share capital of Guangdong Dejun.

After the Capital Increase, the registered capital of Guangdong Dejun will increase to RMB1,850,000,000; and Guangdong Dejun will be owned as to 50% by the Company and as to 50% by Shanghai Zhongneng, and become a joint venture company of the Company, the account of which will not be consolidated into the accounts of the Group.

Implications under the Listing Rules

As one of the applicable percentage ratios under the Listing Rules in respect of the Capital Increase is above 5% but less than 25%, the transaction contemplated under the Capital Increase constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting and announcement requirements.

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Capital Increase Agreement

Date: 28 December 2016

Parties: (1) the Company; and
(2) Shanghai Zhongneng

Having made all reasonable enquiries, the Board confirms that, to the best of its knowledge and belief, Shanghai Zhongneng and its ultimate beneficial owner are Independent Third Parties.

Capital Increase Agreement

Shareholding structure and assets of Guangdong Dejun

As at the date of this announcement, the registered capital of Guangdong Dejun, before the Capital Increase, was RMB500,000,000, and Guangdong Dejun was wholly owned by Shanghai Zhongneng.

Guangdong Dejun holds 40% equity interest in Beijing Huahui Yachen Asset Management Co., Ltd. (“Yachen Asset Management”), which in turn holds the entire equity interest in Beijing Huahui Yachen Investment Co., Ltd (“Yachen Investment”). Moreover, Guangdong Dejun is in the custody of the 40% entrusted interests in favour of Yachen Investment, and owns property at No. 1065 South Zhongshan Road No.1, Shanghai City (with an area of 15,098.65 square meters), No. 653-663 Sichuan Central Road, Shanghai City (with an area of 2,955.90 square meters) and No. 372 Zhengjia Oriental International Plaza, Huanshi Road East, Yuexiu District, Guangzhou City (with an area of 2,230.56 square meters). The above three property assets are hereinafter referred to as the “Three Property Assets”.

The assets of Guangdong Dejun to be acquired by Party B under the Capital Increase as agreed in the Capital Increase Agreement shall only include the 40% equity interest in Yachen Asset Management held by Guangdong Dejun, the entrusted 40% interests in favour of Yachen Investment and the Three Property Assets.

Capital Increase and the shareholding structure of Guangdong Dejun after the Capital Increase

Party A and Party B will participate in the Capital Increase based on the net assets of Guangdong Dejun of RMB1,000,000,000 through friendly negotiations with reference to the registered capital of Guangdong Dejun of RMB500,000,000 and the valuation of its net assets of RMB105,000,000.

Party A has agreed to contribute RMB850,000,000 at a price of RMB2.00 per share, including RMB425,000,000 to be contributed to the register capital and RMB425,000,000 to be credited as the capital reserve, in cash.

Party B has agreed to contribute RMB1,850,000,000 at a price of RMB2.00 per share, including RMB925,000,000 to be contributed to the register capital and RMB925,000,000 to be credited as the capital reserve, in cash, which will be financed by its internal resources.

Upon completion of the Capital Increase, the registered capital of Guangdong Dejun will become RMB1,850,000,000. The contribution made by each of Party A and Party B will represent 50% of the registered capital of Guangdong Dejun, namely RMB92,500,000.

According to a valuation report, the valuation of the entire shareholders' equity of Guangdong Dejun on the valuation date (i.e. 31 May 2016) amounted to RMB1,059,785,600. The valuation in respect of the capital increase is determined based on market price, and an asset-based approach is adopted for the valuation for the entire shareholders' equity of Guangdong Dejun.

Upon receipt of the respective proceeds under the Capital Increase by Guangdong Dejun from each of Party A and Party B, both Party A and Party B agree that, Guangdong Dejun will use the proceeds to repay all of the liabilities of Guangdong Dejun by instalments.

Corporate governance structure of Guangdong Dejun as a legal person

The board of directors of Guangdong Dejun consists of five directors, including three representatives from Party A and two representatives from Party B. The chairman and the financial manager shall be the representatives appointed by Party B while the vice chairman and the general manager shall be the representatives appointed by Party A. Guangdong Dejun does not have a supervisory committee but has a supervisor representative who is a representative appointed by Party B. The legal representative of Guangdong Dejun will be the chairman of Guangdong Dejun.

Agreed income returns for Party B

Party A has undertaken that Party B is entitled to an annualised return on fixed income of not less than 6% per annum for five years from the date when Party B holds 50% equity interest in Guangdong Dejun under the Capital Increase Agreement (subject to the date of completion of industrial and commercial registration) (i.e. the period when Party B is interested in the equity interest). The payment is due within a month after the expiry of every calendar year from the date of industrial and commercial registration.

If the annualised income from Guangdong Dejun is less than 6% during the period when Party B is interested in the equity interest, the shortfall will be made up by Party A to Party B. The payment is due within a month after the expiry of every calendar year from the date of industrial and commercial registration. Party A shall pay 0.05% of the shortfall to Party B as an overdue payment for any payment late by a day.

Repurchase clause and related protective measures

Party B may elect to request Party A to acquire the 50% equity interest in Guangdong Dejun held by Party B at a premium of 4% per annum at the expiry of three or five years from the date of completion of industrial and commercial registration for the Capital Increase. The repurchase consideration for the three-year period is RMB2,072,000,000 and the repurchase consideration for the five-year period is RMB2,220,000,000.

If Party B elects not to withdraw at the expiry of three or five years from the date of completion of industrial and commercial registration for the Capital Increase, Party A will pay Party B the shortfall as mentioned in the second paragraph under “Agreed income returns for Party B”.

Party A agrees that Party B shall give Party A one month’s prior notice in writing and Party A or a third party as designated by Party A shall repurchase the 50% equity interest in Guangdong Dejun held by Party B, as agreed in the first paragraph under “Repurchase clause and related protective measures”.

During the repurchase period, each party shall not transfer its 50% equity interest in Guangdong Dejun to other third parties without written consent from the other party.

During the period when Party B holds 50% equity interest in Guangdong Dejun, if Guangdong Dejun requests to dispose of the “Three Property Assets” at a consideration lower than the initial valuation, Party A shall pay Party B the difference between the asset disposal consideration and the capital contribution based on the initial valuation (with a deduction of the operating income from the “Three Property Assets”) plus an interest of 10% per annum.

Party A agrees to provide unlimited joint guarantee for the above repurchase clause.

If the Company elects to request Shanghai Zhongneng to repurchase the shares of Guangdong Dejun in the future, the Company will make a disclosure in accordance with the requirements of the Listing Rules.

Information on the Company

The principal activities of the Group are manufacture and sales of paper products.

Information on Shanghai Zhongneng

Shanghai Zhongneng is a company established and existing under the laws of the PRC. Its scope of business includes industrial investment, construction works, business consultation, sales of complete sets of equipment for power and power plant, automation facilities, electrical and mechanical equipment, mechanical equipment, environmental protection equipment, building materials, chemical raw materials and products, wire and cable, electronic products, fuel and oil, import and export of goods or technology; and wholesales of pre-packaged food as a commission agent.

Information on Guangdong Dejun

Guangdong Dejun is a company established and existing under the laws of the PRC. Its scope of business includes project investment (except for special approved projects); house leasing; sales of: chemical materials (excluding dangerous chemicals), metallic materials, building materials, paper-making materials and paper, cement, steel and mineral products (excluding tungsten, tin and stibium), electronic appliances and components, mechanical equipment, electronic products, hardware products, labour insurance products, agricultural by-products; and export and import of goods and technology.

The audited financial information of Guangdong Dejun for the two years ended 31 December 2014 and 31 December 2015 is set out in the following table:

	For the year ended 31 December 2014 (RMB)	For the year ended 31 December 2015 (RMB)
Net (loss)/profit before tax and extraordinary items	(3,360,931)	5,065,425
Net (loss)/profit after tax and extraordinary items	(3,360,931)	5,065,425

The unaudited net asset value of Guangdong Dejun as at 30 September 2016 was RMB344,093,916.

Reasons for and benefits of the Capital Increase Agreement

The Board is of the opinion that the Capital Increase Agreement will facilitate the diversified development of the Company, further expand the scope of business of the Company, enhance the Company's overall strength and comprehensive competitiveness, and create new sources for profit growth of the Company.

The Directors (including the independent non-executive Directors) are of the opinion that the Capital Increase in respect of the registered capital of Guangdong Dejun under the Capital Increase Agreement to be undertaken by the Company is on normal commercial terms, and fair and reasonable, and in the interests of the Company and shareholders as a whole.

Implications under the Listing Rules

As one of the applicable percentage ratios under the Listing Rules in respect of the Capital Increase is above 5% but less than 25%, the transaction contemplated under the Capital Increase constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting and announcement requirements.

Definitions

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Board”	the board of Directors of the Company
“Capital Increase”	RMB1,850,000,000 to be contributed by the Company to Guangdong Dejun under the Capital Increase Agreement, including RMB925,000,000 to be contributed to the register capital and RMB925,000,000 to be credited as the capital reserve
“Capital Increase Agreement”	the capital increase agreement entered into by the Company and Shanghai Zhongneng on 28 December 2016
“Company” or “Party B”	Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the main board of the Stock Exchange (stock code: 1812)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangdong Dejun”	Guangdong Dejun Investment Co., Ltd. (廣東德駿投資有限公司), a company incorporated in the PRC with limited liability, which will be owned as to 50% by the Company and as to 50% by Shanghai Zhongneng after the Capital Increase
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a third party independent of the Company and its connected persons, and not a connected person of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“PRC”	the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Zhongneng” or “Party A”	Shanghai Zhongneng Enterprise Development (Group) Co., Ltd. (上海中能企業發展(集團)有限公司), a company incorporated in the PRC with limited liability, and an Independent Third Party as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage

By order of the Board
Shandong Chenming Paper Holdings Limited
CHEN HONGGUO
Chairman

Shandong, the PRC
28 December 2016

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng and Mr. Geng Guanglin; the non-executive Directors are Ms. Yang Guihua and Ms. Zhang Hong; and the independent non-executive Directors are Ms. Pan Ailing, Ms. Wang Fengrong, Mr. Huang Lei and Ms. Liang Fu.

** For identification purposes only*