

# **FOSHAN HUAXIN PACKAGING CO., LTD**

## **ANNUAL REPORT 2010**

28 Feb. 2011

## **I. Important notes and contents**

Important notes:

The Board of Directors, the Supervisory Committee as well as directors, supervisors and senior executives of Foshan Huaxin Packaging Co., Ltd (hereinafter referred to as “the Company”) hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the authenticity, accuracy and completeness of the whole contents. This Report is prepared in both Chinese and English versions. Should there be difference in understanding the two versions, the Chinese version shall prevail.

Chairman of the Board Mr. Tong Laiming, General Manager Mr. Wang Qi and Chief Financial Officer Mr. Ji Xiangdong hereby declare that the financial report enclosed in this Annual Report 2010 is authentic and complete.

BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd issued Audit Report for the Company with unqualified opinion.

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## II. Company Profile

1. Legal Name in Chinese: 佛山华新包装股份有限公司  
Legal Name in English: Foshan Huaxin Packaging Co., Ltd
2. Legal Representative: Tong Laiming
3. Secretary of the Board: Zhou Qihong  
Address: the 18<sup>th</sup> Floor, Jinghua Bldg., Jihua Rd., Foshan  
Tel: 0757-83981729, 83992076  
Fax: 0757-83992026  
E-mail: hf\_zhouqh@fshxp.com
4. Securities Affairs Representative: He Jianfeng  
Address: the 18<sup>th</sup> Floor, Jinghua Bldg., Jihua Rd., Foshan  
Tel: 0757-83992076  
Fax: 0757-83992026  
E-mail: hejf@fshxp.com
5. Registered Address: No. 18, the 5<sup>th</sup> Jihua Road, Foshan  
Office Address: the 18<sup>th</sup> Floor, Jinghua Building, the 5<sup>th</sup> Jihua Road, Foshan  
Post Code: 528000  
Website: <http://www.fshxp.com>  
E-mail: [hejf@fshxp.com](mailto:hejf@fshxp.com)
6. Newspapers Designated for Disclosing the Information:  
Securities Times and Ta Kung Pao (HK)  
Internet Website Designated by China Securities Regulatory Commission:  
<http://www.cninfo.com.cn>  
Place Where the Annual Report is Prepared and Placed: Office of the Board
7. Stock Exchange Listed with: Shenzhen Stock Exchange  
Short Form of the Stock: Foshan Huaxin Packaging B  
Code of the Stock: 200986
8. Other Relevant Information
  - (1) Date of first registration: Jun. 21, 1999  
Registration with: Guangdong Municipal Administration for Industry and Commerce
  - (2) Business License No.: 19035257-5
  - (3) Taxation Registration No.: NTZi No. 440601707682279
  - (4) Certified public accountants engaged:  
Domestic certified public accountants: BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd  
Address: the 12<sup>th</sup> Floor, No. 7 Bldg, No. 16 Courtyard, Fourth Ring Middle Road, Haidian District West, Beijing, China  
Tel.: 86-10-5835 0011  
Fax: 86-10-5835 0006

### III. Abstract of Accounting Data and Business Data

#### I. Main accounting data and business data of fiscal year of 2010

Index	Business data (Unit: RMB Yuan)
Operating profit	242,227,937.47
Total profit	239,552,484.47
Total net profit attributable to shareholders of listed company	120,311,877.76
Total net profit after deducting non-recurring gains and losses attributable to shareholders of listed company	119,315,416.87
Net cash flow from operating activities	195,214,873.52

#### Items deducting non-recurring gains and losses and its amount

Index	Business data (Unit: RMB Yuan)
Gains and losses on disposal of non-current assets	-6,396,244.91
Government grants recorded into gains and losses of current period	2,701,099.37
The impairment provision reversal for account receivables carried the impairment test individually	1,049,293.57
Net other non-operation income/expense	1,019,692.54
Less: Impact on enterprise income tax	899,764.08
Quotient of shares held by minority shareholders	1,722,856.24
Net amount of non-recurring gains and losses	996,460.89

#### II. Main accounting data and financial indices in the past three years

##### 1. Main accounting data

Unit: RMB Yuan

	2010	2009	Increase/decrease over last year (%)	2008
Total operating income	3,898,538,698.88	2,372,640,435.84	64.31%	1,412,674,165.82
Total profit	239,552,484.47	70,775,260.38	238.47%	40,073,062.15
Net profit attributable to the listed company's shareholders	120,311,877.76	28,872,967.08	316.69%	42,588,844.36
Net profit after deducting non-recurring gains and losses attributable to shareholders of the listed company	119,315,416.87	10,017,404.95	1,091.08%	36,900,782.27
Net cash flow from operating activities	195,214,873.52	-120,980,695.83	261.36%	-27,817,792.61
	As at the end of 2010	As at the end of 2009	YoY increase/decrease (%)	As at the end of 2008
Total assets	6,160,497,078.63	5,755,441,114.36	7.04%	3,425,460,446.52
Owner's equity attributable to	1,427,254,656.19	1,295,107,009.94	10.20%	1,269,218,639.42

shareholders of the listed company				
Share capital	505,425,000.00	505,425,000.00	0.00%	505,425,000.00

## 2. Major financial index

Unit: RMB Yuan

	2010	2009	Increase/decrease over last year (%)	2008
Basic earnings per share (Yuan/share)	0.24	0.06	300%	0.08
Diluted earnings per share (Yuan/share)	0.24	0.06	300%	0.08
Basic earnings per share after deducting non-recurring gains and losses (Yuan/share)	0.24	0.0198	1,112.12%	0.073
Weighted average return on net assets (%)	8.81%	2.25%	6.56%	3.41%
Weighted average return on net assets after deducting non-recurring gains and losses (%)	8.74%	0.78%	7.96%	2.96%
Net cash flow per share arising from operating activities (Yuan/share)	0.39	-0.24	262.50%	-0.06
	As at the end of 2010	As at the end of 2009	YoY increase/decrease (%)	As at the end of 2008
Net assets per share attributable to shareholders of the listed company (Yuan/share)	2.82	2.56	10.16%	2.51

## IV. Changes in Share Capital and Particulars about the Shareholders

### I. Changes in share capital

#### (I) Statement of changes in share capital of the Company

Unit: Share

	Before the change		Increase/decrease in the change (+,-)					After the change	
	Number	Proportion	Issuance of new shares	Bonus shares	Capitalization of public reserve fund	Other	Subtotal	Number	Proportion
I. Unlisted shares	333,500,000	65.98%						333,500,000	65.98%
1. Sponsor's shares	333,500,000	65.98%						333,500,000	65.98%
Including: State-owned shares									
Shares held by domestic corporations	333,500,000	65.98%						333,500,000	65.98%
Shares held by foreign corporations									
Others									
2. Shares placed by corporations									
3. Employee shares									
4. Preference shares or others									
II. Listed shares	171,925,000	34.02%						171,925,000	34.02%
1. RMB ordinary shares									
2. Domestically listed foreign shares	171,925,000	34.02%						171,925,000	34.02%
3. Overseas listed foreign shares									
4. Others									
III. Total shares	505,425,000	100.00%						505,425,000	100.00%

#### (II) Issuance and listing of stocks

1. The Company hasn't issued or listed any new shares in the past three years.

2. The Company has no employees' shares

#### II. Introduction to shareholders

1. Particulars about shares held by the top ten shareholders and the top ten shareholders holding tradable shares

Unit: Share

Total shareholders						17,177
Shares held by the top ten shareholders						
Name of shareholder	Nature of shareholder	Proportion of shares held	Total shares held	Non-tradable shares held	Shares pledged or frozen	

Foshan Huaxin Development Co., Ltd	State-owned corporation	65.20%	329,512,030	329,512,030	0
Zhan Changcheng	Domestic natural person	0.47%	2,372,195	0	0
Wu Haoyuan	Foreign natural person	0.34%	1,702,541	0	0
Zhu Shijie	Domestic natural person	0.27%	1,355,200	0	0
NORGES BANK	Foreign corporation	0.23%	1,178,308	0	0
Liu Bin	Domestic natural person	0.19%	950,000	0	0
Chen Cirou	Domestic natural person	0.17%	870,805	0	0
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign corporation	0.16%	789,474	0	0
KGI ASIA LIMITED	Foreign corporation	0.16%	785,889	0	0
Wang Zhiyong	Domestic natural person	0.15%	759,700	0	0
Shares held by the top ten shareholders holding tradable share					
Name of shareholder		Tradable shares held		Variety of shares	
Zhan Changcheng		2,372,195		Domestically listed foreign shares	
Wu Haoyuan		1,702,541		Domestically listed foreign shares	
Zhu Shijie		1,355,200		Domestically listed foreign shares	
NORGES BANK		1,178,308		Domestically listed foreign shares	
Liu Bin		950,000		Domestically listed foreign shares	
Chen Cirou		870,805		Domestically listed foreign shares	
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED		789,474		Domestically listed foreign shares	
KGI ASIA LIMITED		785,889		Domestically listed foreign shares	
Wang Zhiyong		759,700		Domestically listed foreign shares	
PANG KWOK SHI (Peng Guoshi in Chinese Pinyin)		696,405		Domestically listed foreign shares	
Explanation on associated relationship among the above-mentioned shareholders or acting-in-concert		① It is unknown to the Company whether there exists associated relationship among the shareholders above or they are acting-in-concert entities as stipulated in the Administrative Measures on Information Disclosure of Changes in Shareholding of Listed Companies. ② In the report period, the shares held by those shareholders of the Company holding over 5% (including 5%) were not pledged or frozen.			

## 2. Details of the controlling shareholder of the Company:

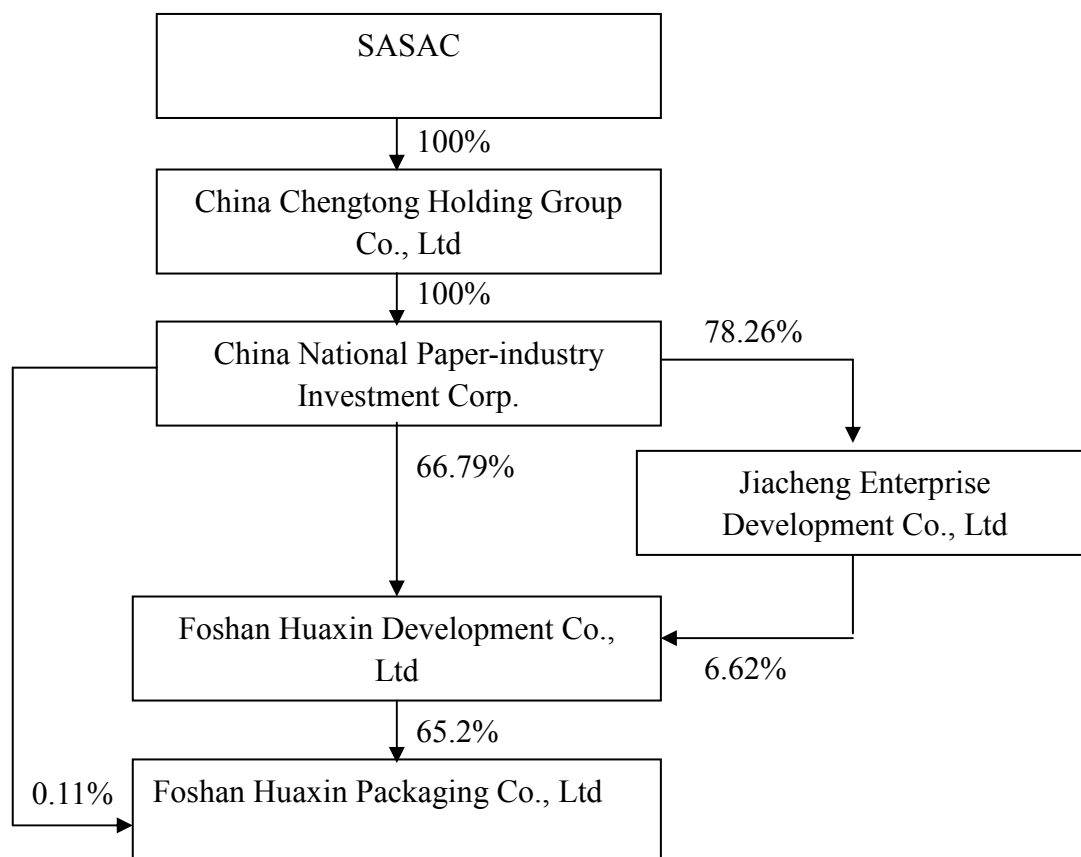
Foshan Huaxin Development Co., Ltd. (hereinafter referred to as “FHD”) holds 329,512,030 of the Company’s state-owned corporate shares (non-tradable), taking 65.2% of the total share capital. FHD was incorporated on May 27, 1993; its legal representative is Tong Laiming; its registered capital is RMB 457.93 million; its business scope: production, manufacture and distribution of packing materials, papermaking, cable, wire, new materials; distribution of packing machinery and



repairing services, amplifiers and fittings, decoration materials, and drinks; information consulting, etc. Foshan Huaxin Development Co., Ltd. has 4 corporate shareholders, of which China National Paper-industry Investment Corp. holds 66.7874% of the registered capital in FHD; China National Paper-industry Investment Corp. registered through State Administrative Bureau in June, 1988 and now is a wholly-owned subsidiary under China Chengtong Holding Group, a large enterprise group under control of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). China National Paper-industry Investment Corp. is a large state-owned enterprise with pulp and paper making, development and utilization as its main business. Its products cover many areas such as paper pulp, paper for printing cultural work, coated white paper boards and special paper, with tens of varieties and leading quality and output among domestic paper makers.

China Chengtong Holding Group (hereinafter refer to as “China Chengtong”) was China Chengtong Group formerly and was set up in accordance with the admission ticket NMHE Zi (1998) Document No.189 issued by State Administration for Domestic Trade on Jan. 22, 1998 as a large scale logistic enterprise group approved by State Administration for Industry and Commerce Bureau and managed by SASAC. China Chengtong owned the largest chain logistic distribution and allotment network and metal distribution network in the mainland and transportation net combining seas, railways, highway and airlines.

**Ownership and control relationship between the Company and its actual controller:**



## V. Directors, Supervisors and Senior Executives and Employees

### I. Directors, supervisors and senior executives

#### (I) Basic information

Name	Title	Gender	Age	Beginning & ending date of office term	Shares held at year-begin	Shares held at year-end	Total payment received from the Company in the report period (RMB Ten thousand)	Whether receive payment from the shareholding companies or other related parties or not
Tong Laiming	Chairman of the Board	Male	41	From May 2008 to May 2011	0	0		Yes
Wang Qi	Vice Chairman of the Board	Male	57	From May 2008 to May 2011	0	0		No
Tan Shanghui	Director	Male	60	From May 2008 to May 2011	0	0		No
Yan Su	Director	Male	40	From May 2008 to May 2011	0	0		Yes
Huang Xin	Director	Male	48	From May 2008 to May 2011	0	0		No
Yang Weixing	Director	Male	40	From May 2008 to May 2011	0	0		Yes
Zhu Zhengfu	Independent Director	Male	46	From May 2008 to May 2011	0	0	8	No
Zhong Liuhan	Independent Director	Male	57	From May 2008 to May 2011	0	0	8	No
Ge Yun	Independent Director	Female	48	From May 2008 to May 2011	0	0	8	No
Zhou Qihong	Secretary of the Board	Male	43	From May 2008 to May 2011	0	0	54.65	No
Hong Jun	Chairman of the Supervisory Committee	Male	51	From May 2008 to May 2011	0	0		Yes
Huang Jianrong	Supervisor	Male	54	From May 2008 to May 2011	0	0	16.15	No
Peng Danhong	Supervisor	Female	39	From May 2008 to May 2011	0	0	34.74	No
Wang Qi	General Manager	Male	57	From May 2008 to May 2011	0	0	72.75	No
Tan Shanghui	Executive Deputy General Manager	Male	60	From May 2008 to Jan. 2011	0	0	51	No
Huang Xin	Deputy General Manager	Male	48	From Jul. 2009 to May 2011	0	0	102.45	No

Chen Haiyan	Deputy General Manager	Male	45	From May 2008 to Jan. 2011	0	0	55	No
Chen Jiali	Deputy General Manager	Male	53	From May 2008 to Jan. 2011	0	0		Yes
Lu Liang	Deputy General Manager	Male	38	From May 2008 to May 2011	0	0	45	No
Ji Xiangdong	Deputy General Manager	Male	37	From Jul. 2009 to May 2011	0	0	67.6	No
Total	-	-	-	-			523.34	

Note: The Company hasn't carried out Equity Incentive Plan till now. None of directors, supervisors, or senior executives held the stock option or shares subject to trading moratorium in the report period.

Post or concurrent post held by directors, supervisors and senior executives of the Company in Shareholders' Companies

Name	Company	Position	Engagement duration
Tong Laiming	China National Paper-industry Investment Corp.	General Manager	From Apr. 2005 up to now
Hong Jun	China National Paper-industry Investment Corp.	Secretary and Vice Secretary of the CPC	From Sep. 2007 up to now
Wang Qi	Foshan Huaxin Development Co., Ltd	Vice Chairman of the Board	From Feb. 2000 up to now
Yan Su	China National Paper-industry Investment Corp.	Chief Accountant	From 2006 up to now
Yang Weixing	Foshan Chan Ben De Development Co., Ltd	General Manager	From Jun. 2007 up to now

Posts or concurrent posts held by directors, supervisors and senior executives of the Company in other units except Shareholders' Companies

Name	Company	Position	Engagement duration
Zhu Zhengfu	Kunlun Law Firm	Director	From 1998 up to now
Zhong Liuhan	Foshan Dongjian Group Co., Ltd	Chairman of the Board	From Jul. 2001 up to now
Ge Yun	Guangdong Institute of Certified Public Accountant	Deputy Secretary-General	From Sep. 2004 up to now

## (II) The main work experience of current directors, supervisors and senior executives and the posts or concurrent posts held by them at the units other than corporate shareholders

Chairman of the Board: Tong Laiming, born in 1969, is a master of economics and certified public accountant. He has served as General Manager as well as Legal Representative in China National Paper-industry Investment Corp. from Apr. 2005 up to now; from Feb. 2006 up to now, he has been acting as Chairman of the Board in Foshan Huaxin Development Co., Ltd; from May 2008 up to now, he has been acting as Chairman of the Board in Foshan Huaxin Packaging Co., Ltd. From Jun. 2009 up to now, he has been acting as Chairman of the Board of Zhuhai Hongta Renheng Paper Co., Ltd.

Vice Chairman of the Board & General Manager: Wang Qi, born in 1953, was a MBA degree holder and economist. From Jan. 1995 to May 2008, he held posts in Foshan Huaxin Development Co., Ltd as the Chairman of the Board, Vice Chairman of the Board and General Manager; from Jun. 1999 to May 2008, he served in Foshan Huaxin Packaging Co., Ltd as Chairman of the Board. From May 2008 up to now, he has been taking the posts of Vice Chairman and General Manager of China National Materials Development & Investment Corporation. From Jul. 2008 up to now, he has been taking the post of Foshan Huaxin Packaging Co., Ltd as Vice Secretary of the CPC.

Director & Executive Deputy General Manager: Tan Shanghui, born in 1950, is an MBA degree holder and senior engineer. He once served as General Manager in Foshan Huafeng Paper Co., Ltd from 1999 to May 2008; from 2004 to Jun. 2006, he held a concurrent post as General Manager in Foshan Huafeng Paper Co., Ltd. From May 2008 to Jan. 2011, he served as Executive Deputy General Manager in Foshan Huaxin Packaging Co., Ltd.

Director: Yan Su, born in 1970, is an MBA degree holder, senior accountant, CPA and CTA. From Aug. 2000 to Apr. 2006, successively held posts in Huaxing Import & Export Co., Ltd as Manager of Financing Department, Chief Economist and Deputy General Manager; From Apr. 2006 up to now, he has been serving in China National Paper-industry Investment Corp. as Assistant of General Manager, Chief Financial Officer, now as Chief Accountant. He acted as Vice Secretary of Party Committee of Foshan Huaxin Development Co., Ltd from Jun. 2007 to Jul. 2008. From Feb. to Jun. 2009, he was Chairman of the Board of Foshan Huafeng Paper Co., Ltd. From Jun. 2009 up to now, he has been Chairman of the Board of Foshan Chengtong Paper Co., Ltd.

Director & Deputy General Manager: Huang Xin, born in 1962, master degree holder. From 1993 to Mar. 2006, he successively served as Deputy General Manager, Manager of Operation Dept. II, Manager of Industrial Dept, Deputy Manager of Stratagem Investment Dept. and Manager of Asset Management Dept. in China Material Development Investment Corporation. He held a post in Foshan Huaxin Packaging Co., Ltd as a Deputy General Manager from Mar. 2006 to May 2008. He worked as Deputy General Manager in Foshan Huaxin Development Co., Ltd from May 2008 to Jul. 2009; he has been acting as General Manager in Zhuhai Hongta Renheng Paper Co., Ltd since Jun. 2008, and is also Deputy General Manager in Foshan Huaxin Packaging Co., Ltd since Jul. 2009.

Director: Yang Weixing, born in 1970, is a bachelor degree holder and economist. From Dec. 1999 to Aug. 2006, he successively took posts as Vice Director of Assets Operation Department in Foshan Industry Investment Holding Co., Ltd, Manager of Property Management Department, Assistant of General Manager and Deputy General Manager in Foshan Chan Ben De Development Co., Ltd and Deputy General Manager in Foshan Taiji Wine Co., Ltd; He has been acting as General Manager in Foshan Chan Ben De Development Co., Ltd since Jun. 2007.

Independent Director: Zhu Zhengfu, born in 1964, is a doctoral degree holder and lawyer. Since 1993, he had successively worked as Director of Finance & Property

Department in Guangdong Economic and Trade Law Firms, partner of Guangdong Dalu Law Firm; Deputy Director of Land Law Advisory Services Center of Guangdong, which belongs to Guangdong Provincial Department of Land and Resources. He has been acting as director and practice partner of Guangdong Kunlun Law Firm since 1998.

Independent Director: Zhong Liuhan, born in 1953, is an economist. He has been holding a post in Foshan Dongjian Group Co., Ltd as the Chairman of the Board and concurrently Secretary of the Party Committee since Jul. 2001.

Independent Director: Ge Yun, born in 1962, is a master in economics and CPA. She served as director of Operation Regulations Department and director of Training Department in Association of Public Accountants Guangdong Province from Feb. 1997 to Sep. 2004. She has been holding a post in Association of Public Accountants Guangdong Province as Deputy Secretary-General since Sep. 2004.

Chairman of the Supervisory Committee: Hong Jun, born in 1959, is a postgraduate degree holder and senior economist. From 1991 to Sep. 2007, he successively took posts as Vice Chief of Appointment & Dismissal Office, Personnel Division in Materials Department, Vice Chief of Cadre Office of Personnel Organ in Domestic Trade Department and General Manager of Human Resource Department in China Chengtong Holding Group Co., Ltd; he has been successively holding a post as Vice Secretary and Secretary of the CPC, Deputy General Manager in China National Paper-industry Investment Corp. since Sep. 2007; Concurrently he has been acting as Secretary of the CPC in Foshan Huaxin Packaging Co., Ltd since Jul. 2008 as well as Chairman of the Supervisory Committee of Foshan Huaxin Packaging Co., Ltd since May 2008.

Supervisor: Huang Jianrong, born in 1956, is a MBA degree holder and Senior Political Worker. From May 1990 to Mar. 2008, he successively acted as Deputy Director General of Foshan Secrecy Bureau, Vice Secretary of the CPC and Deputy General Manager in Foshan Petroleum Chemical Industry Co., Ltd, Director of Enterprise Management Department as well as Secretary of Discipline Inspection Committee in Foshan Zhongli Management Co., Ltd, Director of Administration Office, Director of the Party Committee Office and Vice Secretary of Discipline Inspection Committee in Foshan Huaxin Development Co., Ltd; he has been holding posts as the Chairman of the Supervisory Committee in Foshan Huaxin Development Co., Ltd since May 2008; Concurrently, he has been holding posts as Manager of Human Resource Department since Mar. 2008 and Vice Secretary of Discipline Inspection Committee and Director of Communist Party Office in Foshan Huaxin Packaging Co., Ltd.

Supervisor: Peng Danhong, born in 1971, postgraduate degree holder, is industrial economist and Human Resource Specialist. From Jun. 1999 to Mar. 2008, she successively worked as clerk of Development Planning Department and Human Resource Department as well as Deputy Manager and Manager in Foshan Huaxin Packaging Co., Ltd; from Aug. 2006 to Jul. 2008, acted as Manager of Human Resource Department, Director of General Manager Office and Assistant of General Manager in Foshan Huafeng Paper Co., Ltd; She held a post in Foshan Huafeng Paper

Co., Ltd as Deputy General Manager from Jul. 2008 to Jun. 2009 and Vice Secretary of the CPC from Dec. 2008 to Jun. 2009. She has been acting as Deputy General Manager and Vice Secretary of the CPC in Foshan Chengtong Paper Co., Ltd since Jun. 2009.

Secretary of the Board: Zhou Qihong, was born in 1967, master degree, engineer. He served as Deputy General Manger in Foshan Huaxin Development Co., Ltd from Aug. 2004 to Jul. 2006. He has been serving as Secretary of the Board in Foshan Huaxin Packaging Co., Ltd since Sep. 2006. From Feb. to Jun. 2009, he held posts of Secretary of the CPC as well as Executive Deputy General Manager in Foshan Huafeng Paper Co., Ltd. He has been serving as Executive Deputy General Manager since Jun. 2009. He has been acting as Deputy General Manager in Zhuhai Hongta Renheng Paper Co., Ltd since Dec. 2009.

Deputy General Manager: Chen Haiyan, born in 1965, is a MBA degree holder, and engineer. She once took the post of Secretary of the Board in Foshan Huaxin Packaging Co., Ltd from Jul. 1999 to Sep. 2006. She has been holding post in Foshan Huaxin Packaging Co., Ltd as Deputy General Manger since Jul. 2002. She ever took the post of Chairman of the Board and concurrently General Manager in Huaxin (Foshan) Color Printing Co., Ltd from Nov. 2003 to Jul. 2006. She worked as General Manger in Foshan Huafeng Paper Co., Ltd from Jul. 2006 to Jun. 2009. She worked as General Manager in Foshan Chengtong Paper Co., Ltd. from Jun. 2009 to Jan. 2011.

Deputy General Manager: Chen Jiali, born in 1957, is a junior college graduate and engineer. He has been serving as Deputy General Manager in Huaxin Tetra (Foshan) Packaging Co., Ltd since Feb. 1997; He has been acting as Deputy General Manager in Foshan Huaxin Packaging Co., Ltd since July 1999. He now concurrently serves as Chairman of the Board in Huaxin (Foshan) Color Printing Co., Ltd.

Deputy General Manager: Lu Liang, born in 1972, MBA and economist. He has been serving as Deputy General Manager in Foshan Huaxin Packaging Co., Ltd since Jan. 2004. He concurrently took the Secretary of CPC in Foshan Huafeng Paper Co., Ltd from Jul. 2006 to Jun. 2008. He now serves as Vice Secretary of CPC in Foshan Huaxin Packaging Co., Ltd since Jul. 2008. He is Chairman of the Labor Union of Foshan Huaxin Packaging Co., Ltd since Jun. 2009.

Deputy General Manager: Ji Xiangdong, born in 1974, MBA holder and CPA. He held the posts in China Materials Development Investment Corporation as Deputy Manger and Manager of Financial Dept from Aug. 2004 to May 2007; from May 2007 to May 2009, he acted as Chief Financial Officer in Foshan Huaxin Packaging Co., Ltd. He has been acting as Deputy General Manager in Zhuhai Hongta Renheng Paper Co., Ltd since Jan. 2009. He acted as the Assistant General Manager in China Materials Development Investment Corporation from May to Jul. 2009. He has been acting as Deputy General Manager in Foshan Huaxin Packaging Co., Ltd since Jul. 2009.

### **(III) Annual remuneration**

1. Remuneration of directors, supervisors and senior executives of the Company was fixed on according to the plan determined by shareholders' General Meeting and the Board of Directors and implemented annual salary system according to the operating results of the Company. The total annual remuneration of the current directors,

supervisors and senior executives of the Company is RMB 5,243,400.

2. In the report period, allowance for an independent director was RMB 80,000 per year. The expenses of performance of their duties were borne by the Company.

3. Current Chairman of Board Tong Laiming, directors Yan Su and Yang Weixing didn't draw remuneration from the Company; supervisors Hong Jun did not draw remuneration from the Company; Deputy General Manager Chen Jiali didn't draw remuneration from the Company. The above personnel drew remuneration from the units they served.

#### **(IV) Directors, supervisors and senior executives leaving their posts in the report period**

In the report period, there were no resignation or change of directors, supervisors, senior executives

## **II. Employees of the Company**

Employees of the Company and professional structure: The Company has 2,779 in-service employees, including 1,380 production staff, 170 sales staff, 198 technical staff, 60 financial staff, 115 administrative staff and 856 other staff. Classified according to education background, 304 employees hold bachelor degree or above, 409 employees have college diploma and 2066 employees are of or under degree of secondary technological school, senior middle school or technical school.

There are 6 retired employees whom the Company will bear the expenses while 14 retired staff the Company won't bear. The staff above included staff from subsidiary holding company.

## VI Corporate Governance

### I. Particulars about corporate governance of the Company

During the report period, the Company continuously perfected its corporate governance structure, built up a modern enterprise system, and regulated its operation in accordance to Company Law, Securities Law and Code of Corporate Governance of Listed Companies as well as requirements of other relevant laws and statutes. In view of this, the Board of Directors believes that the actual situation of the Company's corporate governance is basically in line with the requirements of the Code of Corporate Governance for Listed Companies, which is detailed as follows:

(I) About shareholders and Shareholders' General Meeting: according to the Regulatory Opinions of Shareholders' General Meeting of Listed Companies, the Company further standardized the convening of the Shareholders' General Meeting, so as to ensure the full exercise of all shareholders' legal rights and interests, as well as the fair treatment for all shareholders, especially minority shareholders.

(II) About the controlling shareholders and the listed Company: the controlling shareholders acted according to rules, and did not go beyond the Shareholders' General Meeting for direct or indirect interference in the Company's decisions and business activities; the Company was separated from its controlling shareholders in such aspects as personnel, assets, financial affairs, organs and business activities. The Board of Directors, the Board of Supervisors and the Company's other internal organs worked independently; the transactions between the Company and its controlling shareholders, as well as other related parties, were conducted in a fair and just way.

(III) About the directors and the Board of Directors: directors of the Company were elected in strict compliance with the stipulation in the Company Law and the Articles of Association of the Company. And the number of directors and the structure of the Board of Directors were in accordance to the requirements of laws and regulations. In addition, all directors of the Company, according to Rules of Procedures for the Board, attended the Board meetings in a conscientious and responsible manner.

(IV) About supervisors and the Board of Supervisors: the number of supervisors and the structure of the Board of Supervisors were in line with the requirements of laws and regulations. And all the supervisors of the Company conscientiously performed their duties by supervising the legitimacy of duty performance of the directors, managers and other senior management personnel.

(V) About the performance appraisal and incentive & restraining mechanism: the performance appraisal and incentive & restraining mechanism were established in the Company to work impartially and transparently.

(VI) About information disclosure and transparency: the Secretary of the Board of Directors was assigned by the Company to take charge of information disclosure. In strict compliance with relevant laws and regulations, as well as the Information Disclosure Rules, relevant information was disclosed in time with authenticity, accuracy and completeness. And it was made sure that all shareholders were fairly treated in terms of information disclosure.



(VII) About related beneficiaries: the Company fully respected and protected the legal rights and interests of its related beneficiaries, and managed to reach a balance among interests of its shareholders, employees, the society and other related beneficiaries, so as to promote the Company's continuous and healthy development.

(VIII) About management of the relationship with investors: the Company had specially-appointed staff to manage the relationship with investors, and established a platform of communication with investors. And the phones calls and letters from investors were carefully answered and replied in details. Meanwhile, the investors visiting the Company in person were well received.

## II. Particulars about duty performance of independent directors

### (I) Attendance of independent directors at the Board meetings

During the reporting period, the independent directors of the Company, in strict compliance with stipulations in the Working System for Independent Directors, earnestly and honestly performed their duties by attending relevant meetings, understanding in depth the Company's operation status and progress of major issues, providing professionally rational suggestions concerning the Company's operation and development, and expressing their independent opinions regarding the Company's related transactions, external guaranty affairs and fund transfer with associated parties. As independent directors, they played a positive role in promoting a scientific decision-making mechanism in the Board of Directors, stimulating the Company's development and protecting the interests of the Company and the investors.

Names of independent directors	The supposed times of attendance in this period	Attendance in person (times)	Entrusted attendance (times)	Absence (times)	Remarks
Zhu Zhengfu	11	11	0	0	
Zhong Liuhan	11	11	0	0	
Ge Yun	11	11	0	0	

### (II) Objection made by independent directors

During the report period, independent directors of the Company earnestly performed obligations in accordance with Working Rules on Annual Report for Independent Directors made by the Company, entirely paid attention to disclosure of annual report, carefully communicated with management team and auditors for financial report, and examined procedures of holding the Board Meeting for approval of annual report and necessary documents.

The independent directors of the Company did not make any objection to the proposals of the Board of Directors or other important issues of the Company.

## III. Relationship between the Company and its controlling shareholder

Foshan Huaxin Development Co., Ltd. was the largest shareholder of the Company, from which the Company was completely separated in such aspects as business, personnel, assets, organs and financial affairs. The Company was fully capable of running its independent and complete business.

(I) In terms of business, the Company was completely independent from its controlling shareholder and was fully capable of running its completely independent

business.

(II) In terms of personnel, the Company was also independent from its controlling shareholder. General Manager, Deputy General Manager, Secretary of the Board of Directors and financial personnel of the Company all drew remuneration from the Company, and they did not hold any important position in the controlling shareholder entity.

(III) In terms of assets, the assets invested by the controlling shareholder in the Company were independent and complete with a clear indication of ownership. The controlling shareholder did not misappropriate or control the Company's assets, or interfere with the Company's management of such assets.

(IV) In terms of organs, the Company's organizational structure was completely independent from its controlling shareholder. The Company's Board of Directors, Board of Supervisors and other internal organs worked independently according to the Company Law, Securities Law and other relevant laws and regulations. The largest shareholder behaved according to rules, and did not go beyond the Company's Shareholders' General Meeting for direct or indirect interference in the Company's decision-making and business activities.

(V) In terms of financial affairs, the Company maintained its own accounts. Its controlling shareholder did not interfere with the Company's accounting activities. And the Company operated, carried out accounting and paid taxes in an independent manner.

#### **IV. Implementation of appraisal and incentive mechanisms for senior executives in the reporting period**

During the report period, according to the Principles Concerning Remuneration and Equity Incentive Mechanism formulated at the Shareholders' General Meeting, as well as other relevant rules approved by the Board of Directors and the Remuneration Committee, the Company conducted a performance appraisal of its senior executives and set the range of incentive remuneration for senior executives based on the appraisal results.

#### **V. Self-evaluation on the Company's internal control**

(I) Overview of the Company's internal control during the report period

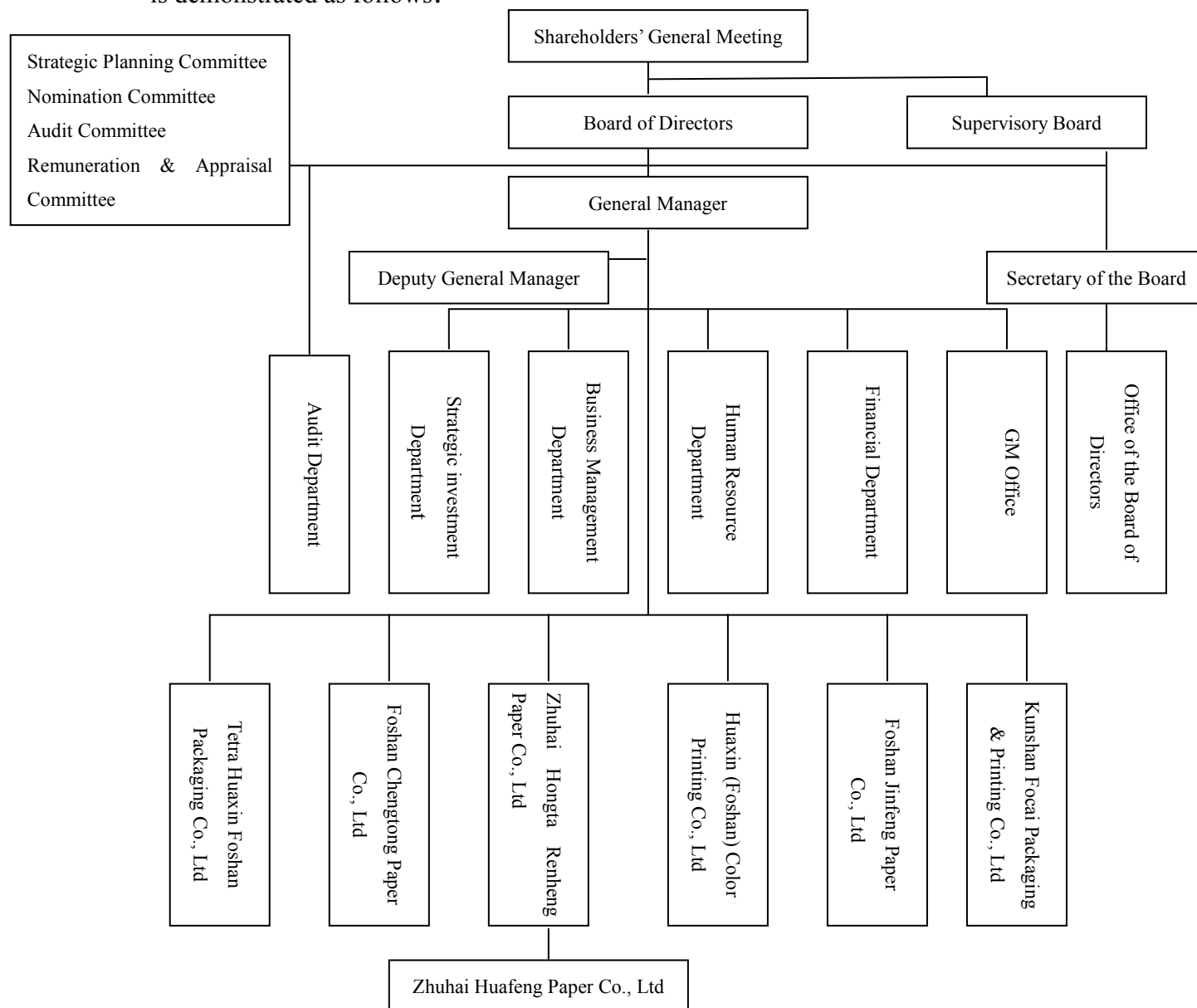
During the report period, in accordance with the Company Law, Securities Law, Code of Corporate Governance for Listed Companies, Internal Control Guide for Listed Companies and other relevant laws and regulations, the Company continuously perfected its corporate governance, standardized the relationship with its controlling shareholder, and enhanced its control of routine associated transactions. Meanwhile, the Company also endeavored to improve the documents concerning the internal control system, and promote standardized operation, which basically guaranteed the effective execution of the internal control of the Company as a listed company, and laid a solid foundation for the Company's long-term development.

The Board of Directors believed that the Company's existing internal control system and its relevant systems were basically established and effectively executed, that they were able to meet the requirements of the Company's management and development, that they could reasonably guarantee true and fair financial statements, and that they

could ensure the healthiness of the Company's business activities and the Company's control of operational risks.

## (II) Major activities of internal control

The organizational structure of internal control of Foshan Huaxin Packaging Co., Ltd is demonstrated as follows:



The internal auditing division was specially established by the Company to independently conduct the internal audit and supervision according to laws and the Company's relevant regulations, under the direct leadership of the Audit Committee of the Board. Specifically speaking, the division was mainly responsible for irregularly auditing the income and expenditure of all departments, supervising production and operation, providing reasonable assessment on the authenticity, legitimacy and rationality of the Company's economic performance, and supervising the Company's internal control as well as its execution.

1. The control and management of the Company's shareholding subsidiaries: ① the Company appointed the directors, supervisors and other senior executives to its

shareholding subsidiaries with their responsibilities and power clearly stated. ② the Company convened regularly to analyze the business performance of its shareholding subsidiaries, and examined their monthly, quarterly and annual financial reports. ③ the Company, through budget management, carried out an effective performance assessment of its subsidiaries.

2. The internal control over related transactions: According to the Management Rules for Related Transactions, the Company made specific stipulation in terms of the principles of related transactions, related parties, association relationship, decision-making procedures of associated transactions as well as the procedure of disclosing information concerned. Besides, the Company annually submitted to the Board and the Shareholders' General Meeting the "Proposal on Routine Related Transactions" according to its need of operation and development. The Company's related transactions every year was strictly in line with the Management Rules for Related Transactions.

3. The internal control on providing external guaranty: The Company's internal control over the provision of external guaranty was in line with the principles of legality, prudence, mutual benefit and safety. And the independent directors adequately performed their duties through expressing their independent opinions concerning the Company's provision of guaranty to any other party.

4. The internal control on the use of raised capital: In the reporting period, the Company did not raise and use capital. The Management Rules for the Use of Raised Capital was established to further regulate the use and management of the raised capital.

5. The internal control over major investments: The Company established the Management Rules for External Investment, in which specific rules were made on the basic principles of external investment, and the procedure of examination, approval and management for external investment. All investment decisions of the Company followed the procedure of examination and approval in strict compliance with relevant laws, regulations, Articles of Association and other relevant rules of the Company.

6. The internal control over information disclosure: The Management Rules for Information Disclosure was established in the Company. According to the Rules, the Secretary of the Board of Directors was the person in charge of information disclosure. And the Office of the Board served as the department in charge of information disclosure, which was under the direct leadership of the Board Secretary. With a thorough and deep knowledge of the Company's operation, performance and development strategies, the Board Secretary was responsible for managing the relationship with investors.

### (III) Overall self-evaluation of the Company's internal control

Integrated with its operating characteristics, the Company built up a sound Internal Control System which covers every segment of the Company, and actually implemented it so as to ensure the normal running of the operating activities, furtherly protected the safety and completeness of the Company's assets. The Company's Internal Control System generally reflected the completeness, rationality and effectiveness. Referring to the Internal Control Guideline promulgated by Shenzhen

Stock Exchange, the Company's internal control generally met the relevant requirements of CSRC and Shenzhen Stock Exchange.

The packaging and paper-making industry is currently experiencing a rising competition, which has a direct impact on the Company's internal control environment. Along with the growth of the Company, as well as its expansion of market, scale and business, new challenges are posed on the Company's internal control. In view of that, the Company is to, through innovation in systems, management, working methods and ideas, and according to the requirements of regulatory authorities and the actual needs of the Company's development, continue to promote all the work concerning internal control, and constantly increase the efficiency and effectiveness of the Company's internal control.

(IV) Opinions from the Supervisory Board on the Company's self-evaluation of its internal control

For details, please refer to Section IX Report of the Supervisory Board of this annual report.

(V) Independent opinions from independent directors on self-evaluation on internal control of the Company

According to the requirements of the Circular of the Shenzhen Stock Exchange on 2009 Annual Reports of Listed Companies, Foshan Huaxin Packaging Co., Ltd. conducted a self-evaluation concerning the Company's internal control. As independent directors of the Company, we hereby expressed our opinion on the Company's self-evaluation of its internal control as follows:

The Company's internal control and management system had been established, basically covering every link of its operation. In compliance with relevant laws and regulations, as well as the requirements of supervisory authorities, the Company adequately and effectively controlled and managed its major activities such as related transactions, provision of external guaranty, major investments and information disclosure, which guaranteed the Company's normal operation and management. To sum up, we were of the opinion that the report on the Company's self-evaluation of its internal control was a true and objective reflection of the actual situation of the Company's internal control.

## **VII Brief Introduction to Shareholders' General Meeting**

### **I. Annual Shareholders' General Meeting**

The Shareholders' General Meeting 2009 was held at the meeting room of the Company on 16 Apr. 2010, of which the resolutions were published on Securities Times and Hong Kong Ta Kung Pao dated 17 Apr. 2010.

### **II. Special Shareholders' General Meetings**

The 1<sup>st</sup> Special Shareholders' General Meeting 2010 was held at the meeting room of the Company on 29 Jan. 2010, of which the resolutions were published in Securities Times and Hong Kong Ta Kung Pao dated 30 Jan. 2010.

## VIII Work Report of the Board of Directors

### I. Review of the Company's operating status during the reporting period

#### (I) Overview of the Company's performance during the reporting period

2010 saw the markets start to grow again after the economic crisis. And the combination of various economic stimulus measures and the zigzagging recovery of overseas demand resulted in a rapid growth of China's economy. Under effective leadership of the Board of Directors, the Company seized opportunities and achieved enormous business results after making a correct assessment of the overall situation and working for positive changes. For the report period, the Company achieved an operating income of RMB 3,898,538,700, up 64.31% from a year earlier; an operating profit reaching RMB 242,227,900, a sharp increase of 532.33% on the year-on-year basis; a net profit attributable to shareholders of the Company as the parent company amounting to RMB 120,311,900, also a marked increase of 316.69% over last year; and a net profit after deducting non-recurring gains and losses of RMB 119,315,400, soaring 1,091.08% year on year.

#### (II) Main business and its operating status

##### 1. Scope of main business

The Company is engaged in the paper-making, printing and packaging industry. It mainly produces and sells high-class and high-quality packaging materials and packaging products including high-class white coated cardboards, white coated paperboards, soft packaging boxes for liquid food (tetra pack), color-printed packaging products, etc.. Among them, the main products of the Company are high-quality white coated cardboards, whiter coated paperboards and color-printed packaging products.

##### 2. Income and profit of main business

###### (1) According to products

Industry	Income from main operation (Unit: Yuan)	Cost of main operation (Unit: Yuan)	Profit ratio of main operation (%)	Increase/decrease of operation income over last year (%)	Increase / decrease of main operation cost over last year(%)	Increase/decrease of profit ratio of main operation over last year (%)
White card paper	2,340,602,084.26	1,880,364,322.39	19.66%	154.29%	153.24%	0.33%
White paper board	1,296,481,194.55	1,132,099,809.86	12.68%	10.81%	1.56%	7.95%
Printing products	164,571,351.29	130,221,192.11	20.87%	21.34%	24.31%	-1.89%
Logistics	4,660,247.56	3,685,789.80	20.91%	-13.18%	52.44%	-34.04%

## (2) According to regions

Regions	Main business income (Unit: Yuan)	Increase/decrease of main business income over last year (%)
Domestic	3,401,128,861.39	72.27%
Foreign	405,186,016.27	57.60%

**(III) Main suppliers and customers**

During the reporting period, the combined amount of sales to the top five customers reached RMB 783,377,236.38, taking up 20.09% of the Company's total sales. And the combined purchase from the top five suppliers amounted to RMB 451,382,939.24, accounting for 23.32% of the Company's total purchase.

**(IV) Assets composition of the Company and its changes during the reporting period**

Unit: RMB Yuan

Items	At the end of 2010		At the end of 2009		Increase/decrease year-on-year
	Amount	Proportion in total assets	Amount	Proportion in total assets	
Notes receivable	261,728,377.81	4.25%	118,884,296.65	2.07%	120.15%
Accounts prepaid	388,689,501.67	6.31%	60,917,921.94	1.06%	538.05%
Financial assets available for sale	4,869,332.31	0.08%	3,647,180.02	0.06%	33.51%
Investment real estate	15,502,218.60	0.25%	3,957,603.83	0.07%	291.71%
Construction in progress	17,900,881.67	0.29%	4,255,538.69	0.07%	320.65%
Long-term deferred expenses	-	-	6,314,456.55	0.11%	-100.00%
Deferred income tax assets	34,736,555.77	0.56%	24,858,134.16	0.43%	39.74%
Short-term borrowings	1,082,228,627.46	17.57%	1,784,893,906.80	31.01%	-39.37%
Notes payable	213,272,240.32	3.46%	5,540,630.87	0.10%	3,749.24%
Accrued payroll	37,665,386.25	0.61%	26,514,681.75	0.46%	42.05%
Taxes payable	11,182,141.42	0.18%	-7,508,042.74	-	248.94%



Interest payable	22,809,545.70	0.37%	1,577,529.58	0.03%	1,345.90%
Other payables	91,152,227.51	1.48%	204,221,346.17	3.55%	-55.37%
Non-current liabilities due within 1 year	360,000,000.00	5.84%	140,000,000.00	2.43%	157.14%
Long-term payables	500,000,000.00	8.12%	83,482,757.86	1.45%	498.93%
Projected liabilities	8,632,000.00	0.14%	20,496,692.50	0.36%	-57.89%
Deferred income tax liabilities	452,209.84	0.01%	268,887.00	0.005%	68.18%
Other non-current liabilities	3,888,000.00	0.06%	1,320,000.00	0.02%	194.55%

## Notes to changes:

- Notes payable at the period-end increased by 120.15% than the period-begin, mainly due to the increase of sales;
- Accounts prepaid at the period-end, mainly used for large prepayment of raw materials, increased by 538.05% than the period-begin;
- Financial assets at the period-end increased by 33.51% than the period-begin, mainly due to the increase of fair value of financial assets available for sale held by the Company;
- Investment real estate at the period-end increased by 291.71% than the period-begin, mainly because changes of consolidated scope resulted in no more consolidated offset for houses & buildings rented to Guangdong Cheng Tong Logistics Co, Ltd., which had been included into the original consolidated scope;
- Construction in progress at the period-end increased by 320.65% than the period-begin, mainly due to the increase of input to reconstruction project of production line;
- Long-term deferred expenses at the period-end decreased by 100.00% than the period-begin, mainly due to the finish and write-off of amortization of Y2010;
- Deferred income tax assets at the period-end increased by 39.74% than the period-begin, mainly due to the increase of asset impairment provisions;
- Short-term borrowings at the period-end decreased by 39.37% than the period-begin, mainly because the Company returned short-term bank loans;
- Notes payable at the period-end increased by 3,749.24% than the period-begin, mainly due to the expansion of production and operation, as well as the increase of purchase of raw materials;
- Taxes payable at the period-end increased by 248.94% than the period-begin, mainly due to the increase of income taxed payable, VAT and additional taxes resulted from sales increase of Y2010;
- Interest payable at the period-end increased by 1,345.90% than the period-begin, mainly due to the increase of withdrawn interest resulted from the increase of medium term notes;
- Other payables at the period-end decreased by 55.37% than the period-begin,

- mainly because the Company returned accounts payable of affiliated companies;
13. Non-current liabilities due with 1 year at the period-end increased by 157.14%, mainly because some of the long-term bank loans would be due with 1 year;
14. Long-term payables at the period-end increased by 498.93% than the period-begin, mainly due to the acquirement of capital of medium term notes;
15. Projected liabilities at the period-end decreased by 57.89% than the period-begin, mainly due to the decrease of projected accounts dealing with complaints and claims in commodity sales;
16. Deferred income tax liabilities at the period-end increased by 68.18% than the period-begin, mainly due to changes of fair value of financial assets available for sale held by the Company;
17. Other non-current liabilities at the period-end increased by 194.55% than the period-begin, mainly due to the increase of deferred income.

**(V) Explanation on significant changes in major financial data year-on-year**

Unit: RMB Yuan

Items	Y2010	Y2009	Increase/decrease over last year (%)
Operating income	3,898,538,698.88	2,372,640,435.84	64.31%
Operating cost	3,235,658,359.05	2,066,476,159.46	56.58%
Business taxes and surcharges	5,297,151.02	3,912,376.99	35.39%
Sales expenses	153,626,589.04	105,276,564.17	45.93%
Administrative expenses	150,526,901.14	112,372,078.31	33.95%
Asset impairment losses	43,790,763.53	4,962,743.79	782.39%
Non-operating income	5,623,282.62	35,331,778.70	-84.08%
Non-operating expenses	8,298,735.62	2,863,770.46	189.78%

Notes to changes:

1. Operating income and cost increased respectively by 64.31% and 56.58% over last year, mainly because production, sales, as well as product price of the Company increased over last year as a result of market recovery, and the Company has included Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. into the consolidated statements since 30 Jun. 2009;
2. Business taxes and surcharges increased by 35.39% over last year, mainly due to the increase of VAT payable and surcharges resulted from the increase of sales;
3. Sales expenses and administration expenses respectively increased by 45.93% and 33.95%, mainly because sales of Y2010 increased, and the Company has included Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. into the consolidated statements since

30 Jun. 2009;

4. Asset impairment losses increased by 782.39% over last year, mainly due to there being no write-off of inventory falling price reserves, which were included in last year's statements, in 2010, as well as the increase of bad debt provisions and inventory falling price reserves of Y2010;

5. Non-operating income decreased by 84.08% over last year, mainly due to there being no assignment profits of land & houses, which were included in last year's statements, in 2010;

6. Non-operating expenses increased by 189.78% over last year, mainly due to the increase of losses from disposal of fixed assets.

#### (VI) Cash flow structure of the Company in the report period

Unit: (RMB) Yuan

Items	Y2010	Y2009	Increase/decrease (%)
Net cash flows from operating activities	195,214,873.52	-120,980,695.83	261.36%
Net cash flows from investing activities	-25,225,048.41	262,705,850.64	-109.60%
Net cash flows from financing activities	-223,768,042.91	-20,781,887.32	-976.75%

Notes to changes:

1. Net cash flows from operating activities of Y2010 increased by 261.36% over last year, mainly due to sales increase of Y2010;

2. Net cash flows from investing activities of Y2010 decreased by 109.60% over last year, mainly because the Company has included Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. into the consolidated statements in 2009;

3. Net cash flows financing activities of Y2010 decreased by 976.75% over last year, mainly because the Company returned matured borrowings.

#### (VII) Operation and Performance Analysis on Major Holding Subsidiaries and Joint Stock Subsidiaries of the Company

1. Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.: The registered capital of this subsidiary is USD 243,609,909, with the Company holding 41.9653% of its equity. It is mainly engaged in producing and selling white paperboards and white cardboards. As at 31 Dec. 2010, its total assets stood at RMB 5,040,622,000.

Hongta Renheng performed ideally in 2010 and made good contribution to company profits. Hongta Renheng's market strategy was to position in high-end market and improve market competitiveness of its products through great enhancement of customer service quality and promotion of differentiation strategy, as well as development of anti-counterfeiting paper, directional paper and new products. In addition, as the enterprise technology center was honored as the key enterprise technology center in Zhuhai and applied for provincial technology center, together with the enterprise's successful acquirement of high-tech technology enterprise certificate and the patent of anti-counterfeiting paper with identification code, Hongta

Renheng went through a rewarding year in terms of technology R&D innovation in 2010. In respect of internal integration, both enterprises, Hongta Renheng and Zhuhai Huafeng, trained sessions between enterprises and achieved positive results in production and technology integration by means of communication and support among staffs, culture transmission, unified administration styles, unified office places, as well as unified leaders team in production and sales segments.

2. Foshan Chengtong Paper Co., Ltd.: The registered capital of this subsidiary is RMB 300,000,000, with the Company holding 75% of its equity. It is mainly engaged in producing and selling high-class coated white paperboards. As at 31 Dec. 2010, its total assets stood at RMB 74,791.59.

Compared with 2009, Chengtong Paper showed greater business performance in 2010 with its great efforts in marketing and product innovation. The enterprise, on one hand, promoted product mixes of different grades by using differentiated product mixes as weapons and strengthening marketing management, and obtained remarkable economic profits by flexibly adjusting sales strategy in accordance with the market rhythm, as well as grasping two peak sales seasons. On the other hand, it made breakthroughs in a wide range of product innovation items and enriched product structure by successful promotion of high-end brand Runfeng, along with successive development of paper suitable for low-end clients. Besides, the enterprise reduced production consumption by technological renovation, potential power exploration, energy-saving and pursuance of differentiated quality and cost structure.

3. Huaxin (Foshan) Color Printing Co., Ltd: The registered capital of this subsidiary is USD 12,800,000, with the Company holding 75% of its equity. It is mainly engaged in producing and selling presswork. As at 31 Dec. 2010, its total assets stood at RMB 243,387,900.

Huaxin Color Printing operated in good condition in 2010. The enterprise simultaneously realized the increase of prices and orders by adopting consultations and bargaining with clients as price-raising strategy, as well as the significant year-on-year increase of orders from big key clients. Furthermore, the enterprise took full advantage of its certified qualification through QS authentication and policy of medicine supervision code to actively develop new clients. As a result, orders from new clients achieved a year-on-year increase of 20% in 2010, which finally made the full-year amount of finished orders of Huaxin Printing hit the record.

4. Tetra Pak Huaxin (Foshan) Packaging Co., Ltd.: The registered capital of this subsidiary is USD 67,000,000, with the Company holding 25% of its equity. It is mainly engaged in producing and selling Tetra packaging materials. As at 31 Dec. 2010, its total assets stood at RMB 1,162,575,000.

## **II. Development and Future Outlook**

### **(I) Industrial development trend and market competition faced by the Company**

#### **1. Industrial development trend**

The paper-making industry as a whole shows an upward trend, but market competition will become incredibly fierce due to structural over-capacity and imbalance between sale and production. As a result, efficient paper makers will

prosper and those inefficient ones will be eliminated. Combination, acquisition, reorganization and industrial upgrade will promote an enterprise fundamentally, which will become the mainstream in the paper-making industry.

## **2. Market competition faced by the Company**

In terms of paper industry, as the economy is on the up, market demand will maintain certain amplification. However, in respect of supply, there will be a host of launches of new production capacity from 2011 to 2012. The new production capacity constructed by white paperboards and cardboards produced by numerous tycoons in paper industry, amounting to over 2,000,000 tons, will be gradually released into the market especially after the 3<sup>rd</sup> quarter of 2011. The release of new production capacity, on one hand, will expand market demand for raw materials such as wood pulp and waste paper and push higher prices of raw materials as a result. On the other hand, the product price may be knocked down, intensifying competition between enterprises.

## **(II) Opportunities and Strategies for Future Development of the Company**

### **1. Opportunities for Future Development**

(1) With paper-making production capacity of the Company reaching 750,000 tons, together with its production line of single paper expanding to diverse series of paper such as high-class white cardboards, grey shading white paperboards, liquid packaging base boards, and coated craft cardboards, the industry status and market influence of the Company have been hiked, evidently strengthening the reserve power of enterprise development;

(2) To upgrade packaging of export commodities, develop new packaging materials and environment-protected packaging are future development trends in the paper-making and packaging sector;

(3) Fiercer competition in the market will accelerate the reshuffle progress, which provides excellent opportunities for integration in the paper-making sector.

### **2. Strategies for Future Development**

The Company adheres to the philosophy of enlarging and strengthening the main business. In order to further expand the Company's capability for sustainable development, on one hand, the Company actively makes industry acquisitions, enlarges industrial scope, concentrates on developing high-end paper, expands market segment of cigarette packets, enters into the market area of liquid packaging base boards, and fills the gap of highly strengthen coated craft boards in blank domestic industry, so as to take diversified paper-making industrial lines featured by green environmental protection and high value-added. On the other hand, the Company looks for an opportunity to enter upstream industrial field of forestation and pulping by resource integration of paper-making, packaging and printing, along with vertical industrial expansion, so as to become a green environmentally friendly packaging solution provider integrated with design, development, manufacture and service, as well as the leader in green environmentally friendly packaging industry.

## **(III) Business Plan for 2011**

In 2011, the Company focuses on opportunity-seizing, scientific decision-making,

refined management and innovation as work ideas. The following works are to be principally promoted:

1. To carry out marketing innovation with full efforts, exploit high-end market, maintain and develop current quality clients, and gain higher market share of new products by differentiated strategies of new product, new technology, new technique, and new orientation;
2. To enhance the implementation of paper packaging industry strategy, paying special attention to speed up the promotion of liquor packaging paper project;
3. To expand financing channels, conduct capital operation actively, and ensure that the investment projects of the Company are implemented as scheduled;
4. To seek for development opportunity by taking advantage of Color Printing Kunshan Production Base, achieve low-cost outspread by acquisition or construction, and expand market share of Color Printing Production Base.
5. To continually strengthen operation analysis and risk management of the Company, improve the level of operation analysis and exception management, further the progress of enterprise management concept and method, upgrade fine level of management, and avoid operating risks, so as to establish an effective and systematic operating management system.
6. To increase research for price movement of raw materials and enhance internal potential power exploration, strengthen cost control and finely deploy all works to cope with high cost.

#### **(IV) Future Fund Requirement and Application Plan**

The Company belongs to capital intensive industry and resource-constrained industry. Along with further expansion of business scale and productivity of the Company, the fund need has also been strengthened. According to fund need for future development strategy, the Company will adopt measures as follow to ensure sufficient funding:

1. To make reasonable use of self-own capital, expand sales channel actively, so as to speed up the recovery of funds, and improve asset liquidity of the Company;
2. To actively establish favorable communication and cooperation relationships with local financial institutes and seek loan support from commercial banks;
3. To enhance the track and study of capital market policies as well as monetary market policies, try to realize refinancing in capital market to raise fund, by issuing corporate bond, medium term notes and increasing issues in stocks.

#### **(V) Major Risks and Countermeasures**

Along with gradual stabilization of international economy, as well as local overheating of domestic economy, China's macro-control will be back to normal, and all incentive policies will gradually exit. In Dec. 2010, the economic growth rate of about 8% of Y2011 was set at the National Economic Work Conference. At the same time, the main key of regulation of Y2011 was oriented as prices adjustment, execution of robust and flexible currency policy and so on. Meanwhile, macro economy of Y2010 was predicted to be less powerful than Y2010. Under that background, for Y2011, it is anticipated that credit policy will be continually

tightened, industry structure adjustment will be strengthened, and China will hike interest rate under the circumstance of higher inflation rate and rampant liquidity. Meanwhile, fund-raising and financing charges of enterprises, as well as financial expenses, will go up, and capital pressure will arise. Besides, gradual release of new production capacity in paper industry will intensify market competitions, and at the same time pop up market demand for raw materials such as wood pulp and waste paper and push higher raw material prices.

Considering the aforesaid risk elements, the Company is to adopt the following countermeasures:

The Company will, on one hand, expand production scale, enrich product structure, improve product quality, ensure competitive advantage of the enterprise in cigarette package market, and at the same time focus on developing high-class packaging boards for liquid food with high technological contents and high added value, so as to further strengthen its status in the green packaging market and protect company profitability. On the other hand, the Company will make full use of purchasing center, seize opportunities by deep situation analysis, closely pay attention to market information and price movements of bulk materials such as wood pulp, coal and waste paper, timely arrange integrated strategical purchase, and cut down production cost of the enterprise.

### **III. Investments**

#### **(I) Utilization of Raised Proceeds**

In the report period, the Company did not raise any funds. And the previously raised proceeds had been used up according to the promised usage before the report period.

#### **(II) Important Investment Projects with Non-Raised Proceeds**

The Company did not invest in any important project with non-raised proceeds in the report period.

### **VI. Routine Work of the Board of Directors**

#### **(I) Board Sessions and Resolutions in the report period**

In the report period, the Board of Directors convened 15 meetings.

1. The 1<sup>st</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 13 Jan. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 14 Jan. 2010;
2. The 2<sup>nd</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of on-site voting on 25 Mar. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 27 Mar. 2010;
3. The 3<sup>rd</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 22 Apr. 2010, and resolutions made at the Meeting were disclosed on Securities Times and Ta Kung Pao on 23 Apr. 2010;
4. The 4<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of on-site voting on 29 Apr. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 30 Apr. 2010;
5. The 5<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of

telecommunication voting on 4 Jun. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 5 Jun. 2010;

6. The 6<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 6 Aug. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 7 Aug. 2010;

7. The 7<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of on-site voting on 9 Aug. 2010, at which the 2010 Semi-annual Report and its Summary was reviewed and approved;

8. The 8<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 6 Sep. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 7 Sep. 2010;

9. The 9<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 12 Oct. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 13 Oct. 2010;

10. The 10<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 20 Oct. 2010, at which the 3<sup>rd</sup> Quarterly Report 2010 was reviewed and approved;

11. The 11<sup>th</sup> Session of the 4<sup>th</sup> Board of Directors was convened by means of telecommunication voting on 4 Nov. 2010, and resolutions made at the Session were disclosed on Securities Times and Ta Kung Pao on 5 Nov. 2010.

## **(II) Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors**

In 2010, the Board of Directors implemented resolutions made by the Shareholders' General Meeting in a serious manner according to its duties stipulated in the Articles of Association of the Company. It also determined the auditing fee with authorization from the Shareholders' General Meeting.

## **V. Summary Report on the Performance of the Remuneration Committee under the Board of Directors**

The Remuneration Committee's Opinions on the remuneration of Directors and Senior Executives of the Company in the report period:

The disclosed annual remuneration of Directors and Senior Executives of the Company in the reporting period was checked and approved by the Remuneration and Appraisal Committee. All members of the Committee agree that in 2010, the Company executed the previously formulated Remuneration Rules for Directors and Senior Executives as well as relevant Appraisal and Incentive Rules strictly, and the procedures of formulating mechanism as well as Appraisal and Incentive Rules, and the procedure of compensation management were in accordance with the provisions of related laws, regulations and the Articles of Association.

## **VI. Performance of the Audit Committee under the Board of Directors**

Tremendous work has been done on auditing by the Audit Committee in 2010, with the formation of Execution of the Audit Committee Plus/and Annual Summary Report



on Audit Work of BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd in 2010:

According to relevant requirements in Notice of the China Securities Regulatory Commission on Properly Handling the 2010 Annual Reports of Listed Companies and the Related Work as well as Notice on Promulgating the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Contents and Formats of Annual Reports (Revised in 2007), the annual auditing of the Company in 2010 by BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd (hereinafter referred to as “the Certified Public Accountants”) was concluded as follows:

(1) Determination of the General Auditing Plan

Before the Certified Public Accountants conducted auditing, through consultation with the Certified Public Accountants, the Audit Committee drew out a plan for auditing of the Company in 2010, and submitted the relevant materials about the plan for auditing of the Company in 2010 to Independent Directors, via Chief Financial Officer of the Company.

(2) Check and Approval of the Financial Statements Prepared by the Company

On 15 Jan. 2011, the 1st meeting of the Audit Committee in 2011 was held in the Company Boardroom, on which the Financial Statements in 2010 prepared by the Company was examined and approved. After comparing such financial data as total assets, prime operating revenues, net profits, operating expenses, administrative expenses, and financial expenses etc. with that in 2009 Annual Report, the meeting agreed that the relevant data in the financial statements prepared by the Company reflected the assets and liabilities of the Company by Dec. 31, 2010 as well as the production and operation achievement in 2010, and that the 2010 annual financial auditing of the Company should be carried out, based on the financial statements prepared by the Company, providing relevant written approval opinions.

(3) The Certified Public Accountants provided the preliminary audit opinions, and the Audit Committee examined and approved the financial statements, as well as provided opinions in written form.

On 24 Feb. 2011, the Certified Public Accountants issued the preliminary audit opinion on the Financial Statements as scheduled in the general auditing plan. The 2nd meeting of the Audit Committee in 2011 was held on 25 Feb. 2011, on which the financial statements with the preliminary audit opinion was examined and approved again. The meeting agreed that the relevant data in the 2010 financial statements of the Company reflected the assets and liabilities of the Company by Dec. 31, 2010 as well as the production and operation achievement in 2010, and that the 2010 annual report and annual report summary of the Company should be prepared, based on the financial statements. Meanwhile, the Audit Committee required the Certified Public Accountants should finish auditing as soon as possible, according to the general auditing plan, so as to ensure the Company discloses the 2010 annual report as scheduled.

(4) The final version of the auditors’ report on the 2010 annual financial statements of the Company was finished, and other relevant documents about the 2010 annual audit

were issued by the Certified Public Accountants, drawing a successful conclusion to the 2010 annual audit of the Company.

On 27 Feb. 2011, the Certified Public Accountants accomplished the final version of the auditors' report as scheduled in the general audit plan, and issued the Special Statement on Fund Appropriation and Fund Transfer among the Affiliated Parties of Foshan Huaxin Packing Co., Ltd, based on Notice on Promulgating the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 — Contents and Formats of Annual Reports (Revised in 2007) as well as relevant requirements of the Company.

(5) General Comments on Annual Audit Conducted by the Certified Public Accountants

In the Audit Committee's opinion, BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd designated by the Company strictly followed the Practice Guideline of independent, objective and fair in conducting audit of the Company, scrupulously fulfill its duty and favorably accomplished the auditing about the 2010 annual report.

(6) Review of proposals related with the Financial Final Report of the Company 2010 by the Audit Committee

The 3rd meeting of the Audit Committee for the year 2011 was held on 27 Feb. 2011, at which the following proposals were examined and approved with 4 votes in favor, 0 against and 0 abstention:

- ① Financial Final Report of the Company 2010;
- ② Summary Report of Duty Performance of the Audit Committee and Audit Work 2010 by Li Xin Da Hua Certified Public Accountants Co., Ltd

## **VII. Profit distribution preplan**

As audited by BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd., the parent company of the Company achieves a net profit of RMB 39,619,975.50 for the year 2010. According to the Detailed Rules for Regulations of the State Council on Domestically-listed Shares for Overseas Investors, as well as the Articles of Association of the Company, the Company needs to withdraw statutory surplus public reserves of RMB 3,961,997.55 for the year 2010. The opening retained profit of RMB 378,406,658.95 of the parent company, to plus the profit of RMB 39,619,975.50 of the parent company in 2010 and thereafter minus statutory surplus public reserves of RMB 3,961,997.55 is to be the profit distributable to shareholders for 2010, which stands at RMB 414,064,636.90.

Considering that the Company's operation scale and production capacity will be further expanded, and that funds demand will increase as a result, the Company needs to finance by loans and other ways. In order for stable, healthy and rapid development of the Company, it is not proposed to distribute the profit of 2010. And the retained profit will be used for supplementing operation capital and distribution in coming years.

**The status of distribution of the recent 3 years**

Year	Amount of distribution (pre-tax)	Net profit	Rate of the net profit	Retained profits
2009 年	0.00	28,872,967.08	0.00%	378,406,658.95
2008 年	0.00	42,588,844.36	0.00%	384,755,182.00
2007 年	0.00	110,720,644.39	0.00%	348,870,277.23
Rate of the Accumulated distribution amount in annual average net profit of recent 3-years (%)				0.00%

**VIII. Other matters that should be disclosed**

Securities Times and Hong Kong Ta Kung Pao are respectively designated as the domestic and overseas newspapers by the Company for information disclosure.

## **IX Report of the Supervisory Board**

### **I. Work of the Supervisory Board in the report period:**

In the report period, the Company's Supervisory Board performed their responsibilities of supervision in accordance with the Company Law, Securities Law and Articles of Association of the Company and on behalf of all shareholders. The supervisors sat in on all Board Meetings and Shareholders' General Meeting held by the Company, conducted efficient supervision on the holding procedure of meeting, decision-making procedure, resolution, information disclosure and status of implementation of the resolutions of the Shareholders' General Meeting by the Board of Directors as well as the lawfulness and legal compliance of the duty performance of the Company's directors, managers and other senior executives. They have played their due role to supervise the standard operation and healthy development of the Company and protected legal rights of the Company and the shareholders.

The Company's Supervisory Board held all together four sessions in 2010, with the details as follows:

( I ) The 1<sup>st</sup> Session of the 4<sup>th</sup> Supervisory Board in 2010 was convened on 25 Mar. 2010. 3 supervisors were supposed to attend the session and all 3 of them were actually present. Relevant resolutions were disclosed on Securities Times and Ta Kung Pao on 26 Mar. 2010.

(II) The 2<sup>nd</sup> Session of the 4<sup>th</sup> Supervisory Board in 2010 was convened by telecommunication voting on 22 Apr. 2010. 3 supervisors were supposed to attend the session and all 3 of them were actually present. At the Session, the 1<sup>st</sup> Quarterly Report 2010 was reviewed and approved.

(III) The 3<sup>rd</sup> Session of the 4<sup>th</sup> Supervisory Board in 2010 was convened by telecommunication voting on 9 Aug. 2010. 3 supervisors were supposed to attend the session and all 3 of them were actually present. At the Session, the Semi-annual Report 2010 and its Summary were reviewed and approved.

(IV) The 4<sup>th</sup> Session of the 4<sup>th</sup> Supervisory Board in 2010 was convened by telecommunication voting on 20 Oct. 2010. 3 supervisors were supposed to attend the session and all 3 of them were actually present. At the session, the 3<sup>rd</sup> Quarterly Report 2010 was reviewed and approved.

### **II. Independent opinions of the Supervisory Board**

In accordance with the Company Law and Articles of Association, the Company's Supervisory Board expressed the following independent opinions on relevant matters:

( I ) The Company's operation according to laws

According to responsibilities given by the Company Law, the Securities Law and the Articles of Association of the Company, the Supervisory Board has conducted examinations on the Company's operation according to laws. Upon the examinations, it is believed that the Company's decision-making procedure complies with the provisions of the Company Law, the Securities Law and the Articles of Association, and that the Company has established a relatively complete internal control system. The Company's Directors, Independent Directors, managers and other senior

executives has performed their duties honestly and exercised strict self discipline and made persistent efforts to promote the development of the Company. When performing their duties, there were no such behaviors as violating laws, regulations and the Articles of Association, or harming the interests of the Company and its shareholders.

(II) Opinions on the inspection of the financial status of the Company

The Supervisory Board believed that the Company had sound financial system and standardized financial management. The standard unqualified auditor's report on the Company's financial status for 2010 and the statements on relevant matters respectively issued by BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd., the Company's auditing agency, objectively, fairly and truly reflected the Company's financial status and operating results.

(III) Opinions on the capital raised and its utilization

The Company has not raised funds from the stock market since its listing and investments of non-raised capital complied with the interests of the Company's shareholders and its long-term development.

(IV) Opinions on related transactions

In the report period, the related transactions between the Company and the related parties were fair and reasonable with fair pricing. Independent directors expressed their independent opinions on all related transactions and related directors avoided relevant voting. Related transactions did not harm the interests of the Company and its shareholders.

(V) Opinions on purchase and sale of assets

In the report period, the Company's transactions of asset purchase or sale were all priced according to the market-oriented, fair, open and just principles. There existed no insider dealings, harm done to shareholder interests, or behaviors that caused asset loss of the Company. Nor did the Company provide guarantees in any way for the controlling shareholder, its related parties or any natural person.

(VI) Independent opinion from Supervisory Board on self-evaluation of the Company on internal control

1. The Company established and perfected the internal control system for all departments in the Company in accordance to the related regulations from CSRC and Shenzhen Stock Exchange, the basic principle of the internal control and its real condition, assuring the normal business operation and the safety and integrity of the Company's assets;
2. The integrity of the organization structure of the internal control, the internal audit department and the staffing of the Company assured the implementation and supervision of the key campaign for the internal control of the Company to be sufficient and effective.
3. In the report period, the Company did not violate the Basic Standards for Enterprise Internal Control jointly issued by the Ministry of Finance, CSRC and other authorities, the Guidelines of Shenzhen Stock Exchange for Internal Control and relevant internal control rules of the Company.

To sum up, the Supervisory Board believed that the self-evaluation on internal control

of the Company reflected the actual status of the Company's internal control all-sidedly, truly and accurately.

## X Significant Events

### I. Significant lawsuits and arbitrations

Basic detail on the dispute case of transfer agreement, in which the Company's holding subsidiary Foshan Huafeng Paper Co., Ltd (hereinafter refer to as Huafeng Paper) appeals Stora Enso Packing Boards Asia Oy (hereinafter refer to as Stora Enso), has already been fully disclosed in the previous periodical report. By this report the case moves as follows:

In Jul. 2010, the Company received the Civil Ruling Paper (2007 ZZFMSC Zi No.52) from the Guangdong Zhuhai Intermediate People's Court, and the verdict are mainly as follows:

(1) The defendant Stora Enso shall pay for increased cost due to project reconstruction and claims for compensation totaling RMB 1,711,000 to the accuser Foshan Huafeng Paper Co., Ltd within 10 days since this verdict is legally effective; as for the amount that has not occurred in reality, the Court shall not decide for this case and the accuser may claim it by other legal means;

(2) The defendant Stora Enso shall pay for engineering management expense and wage for staff as well as other salary and engineering interest due to project reconstruction and claims for compensation totaling RMB 21,486,695.04 to the accuser Foshan Huafeng Paper Co., Ltd within 10 days since this verdict is legally effective;

(3) As for the court acceptance fee of RMB 331,291 and auditing expense of RMB 67,500, Foshan Huafeng Paper Co., Ltd shall pay RMB 206,743 and Stora Enso Packing Boards Asia Oy shall pay RMB 191,848.

Both the accuser Foshan Huafeng Paper Co., Ltd and the defendant Stora Enso Packing Boards Asia Oy appealed to the Guangdong Higher People's Court. In Dec. 2010, the Company received the Notice of Judging Appeal from the Guangdong Higher People's Court, informing that the Court would form a collegiate bench to try the case.

The above verdict has not been executed yet. Therefore, the verdict has caused no influence on profits of the Company for the report period. The Company will disclose new progress on the case, if any.

### II. Other investments of the Company

#### (1) Shares of other listed companies held by the Company

Name of party in which the Company holds shares	Initial investment	Number of shares held	Proportion in the party's total shares	Closing book value	Gain/loss in report period	Changes of owners' equity in report period	Accounting item	Source of shares
Zhuhai Port Co., Ltd.	1,854,600.00	385,537.00	0.11%	4,869,332.31	--	1,038,829.45	Financial assets available for sale	By purchase
Total	1,854,600.00	385,537.00		4,869,332.31	--	1,038,829.45		

#### (2) Equities of non-listed financial enterprises and companies to be listed held by

**the Company**

Name of party in which the Company holds shares	Initial investment	Number of shares held	Proportion in the party's total shares	Closing book value	Gain/loss in report period	Changes of owners' equity in report period	Accounting item	Source of shares
Guangdong Development Bank	113,558.00	0	0.0004%	113,558.00	0.00	0.00	Long-term equity investment	Investment contribution
Total	113,558.00	0		113,558.00	0	0		

**III. Significant events on asset purchase and sales and the reorganization of assets**

(I) There weren't any significant events on asset purchase and sales and the reorganization of assets during the report period.

(II) About assets sales and affiliated transaction:

Reviewed and approved by the Board of Directors of the transfer company, Zhuhai Hongta Renheng Paper Co., Ltd. (hereinafter refer to as "Hongta Renheng"), the holding subsidiary of the Company signed Equity Transfer Agreement with China Logistics Company, the wholly-owned subsidiary of China Chengtong Holding Group Co., Ltd which is the ultimate controller of the Company. Hongta Renheng transferred 51% equities of its subsidiary Zhuhai Hengshun Supply Chain Logistical Service Co., Ltd to China Logistics Company based on the assessment value of Hongta Renheng on the base date of 30 Nov. 2009 at RMB 145,310,220,000 yuan. The above transaction was related transaction. Since then, Hongta still holds 24% equities of Zhuhai Hengshun Supply Chain Logistical Service Co., Ltd. On 29 Oct. 2010, Hongta Renheng finished equity transfer and registration alteration while then Zhuhai Hengshun Supply Chain Logistical Service Co., Ltd changed into Guangdong Chengtong Logistics Co., Ltd.

Hengshun Logistics Company was the affiliated industry of Hongta Renheng that wasn't able to make big profit due to its small scale. The equity transfer aimed at adjustment of the main business structure, so as to focus on advantageous resources of the Hengshun Logistic Company and stressed on development of paper-making industry which acted as the leading business.

**IV. Implementation of stock incentive plan in report period**

The Company did not implement a stock incentive plan in the report period.

**V. Significant related-party transactions in report period**

In the report period, there existed related-party transactions concerning daily operation between the Company's controlling subsidiaries and related parties, which were specified in the Notes to Financial Statements.

Type of related-party transaction	Related party	Transaction amount (RMB Ten thousand)	Proportion in same kind of transactions (%)	Pricing principle	Mode of settlement
Purchasing raw materials	China National Paper-Industry Investment Corp.	28,160.76	16.21	Negotiation based on the market value	Bank bills and cable transfers



Purchasing raw materials	Foshan Huaxin Import&Export Co., Ltd.	5,500.09	27.66	Negotiation based on the market value	Bank bills and transfers
Purchasing paper	Foshan Huaxin Import&Export Co., Ltd.	297.89	3.28	Negotiation based on the market value	Bank bills and transfers
Selling product	Foshan Huaxin Import&Export Co., Ltd.	15.79	0.01	Negotiation based on the market value	Bank bills and transfers
Selling materials	Foshan Huaxin Import&Export Co., Ltd.	505.21	5.48	Negotiation based on the market value	Bank bills and transfers
Selling materials	Zhanjiang Guanlong Paper Industry Co., Ltd.	1179.47	12.79	Negotiation based on the market value	Bank bills and cable transfers
Providing labor service	Tetra Pak (Foshan) Packaging Co., Ltd.	42.74	--	Negotiation based on the market value	Transfers
Logistics and transportation	Guangdong Chengtong Logistics Co., Ltd	306.66	0.16	Negotiation based on the market value	Transfers

## VI. Exchanges of non-operational creditors' rights and debt

1. According to Borrowing Contact signed by Foshan Huaxin Development Co., Ltd and the Company, balance of borrowings from Foshan Huaxin Development Co., Ltd was RMB 5,302.99 up to 31 Dec. 2010.

2. According to Contract of Chengtong Group on Internal Use of Medium-term Notes signed by the Company and China Chengtong Holding Group, China Chengtong Holding Group financed and provided RMB 500 billion medium-term notes at issuance rate of 4.23% in an underwriting rate of 3‰ to the Company so as to repay bank loan and supply current capital of the Company up to 31 Dec. 2010.

## VII. Significant contracts and execution thereof

( I ) In the report period, there existed no such events as significant trust financing, entrustment, contracting, or lease of other companies' assets by the Company or vice versa.

( II ) Significant guarantees in report period

As at 31 Dec. 2010, balance of external guarantees for which the Company still had guarantee liability stood at RMB 678.21 million with all of them being guarantees for controlling subsidiaries, including guarantee balance of RMB 431.21 million for Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd., guarantee balance of RMB 152 million for Zhuhai Huafeng Paper Co., Ltd., guarantee balance of RMB 45 million for Foshan Chengtong Paper Co., Ltd., and guarantee balance of RMB 50 million for Huaxin (Foshan) Color Printing Co., Ltd.. All of the said guarantees were with several and joint liability. None of the guarantees were overdue.

Unit: '0000 Yuan

External guarantees of the Company (excluding those for subsidiaries)								
Guaranteed party	Disclosure date and number of the public notice in relation to the guarantee amount	Amount of guarantee	Date of occurrence (date of signing agreement)	Actual amount of guarantee	Type of guarantee	Term of guarantee	Execution completed or not	Guarantee for a related party or not (Yes or No)
Total external guarantee amount approved in the report period (A1)				0.00	Total actual external guarantee amount in the report period (A2)		0.00	
Total external guarantee amount approved by the period-end (A3)				0.00	Total actual external guarantee balance at the period-end (A4)		0.00	
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date and number of the public notice in relation to the guarantee amount	Amount of guarantee	Date of occurrence (date of signing agreement)	Actual amount of guarantee	Type of guarantee	Term of guarantee	Execution completed or not	Guarantee for a related party or not (Yes or No)
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	5 Nov. 2010/2010-02-8	23,000.00	2010.10.08	8,000.00	Warrantdice	29 Sept. 2010-29 Mar. 2012	No	Yes
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	5 Jun. 2010/2010-01-9	10,000.00	2010.5.17	5,777.00	Warrantdice	17 May 2010-29 Dec. 2010	No	Yes
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	7 Aug. 2010/2010-02-2	10,000.00	2010.07.30	5,000.00	Warrantdice	2 Aug. 2010-2 Aug. 2011	No	Yes
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	7 Aug. 2010/2010-02-2	20,000.00	2010.07.01	19,344.00	Warrantdice	15 Jul. 2010-15 Jul. 2012	No	Yes
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	13 Oct. 2010/2010-02-6	15,000.00	2010.10.11	5,000.00	Warrantdice	25 Aug. 2010-31 Dec. 2011	No	Yes
Zhuhai Huafeng Paper Co., Ltd.	6 Sept. 2010/2010-02-4	42,000.00	2010.07.30	15,200.00	Warrantdice	30 Jul. 2010-30 Jul. 2011	No	Yes
Huaxin (Foshan)	7 Aug.	6,000.00	2010.07.29	5,000.00	Warrantdice	1 Jan.	No	Yes

Color Printing Co., Ltd.	2010/2010-02 2					2010-31 Dec. 2013		
Foshan Chengtong Paper Co., Ltd.	7 Sept. 2010/2010-02 4	6,000.00	2010.10.26	2500.00	Warrant	28 Jun. 2010-28 Jun. 2011	No	Yes
Foshan Chengtong Paper Co., Ltd.	7 Aug. 2010/2010-02 2	14,000.00	2010.07.27	1000.00	Warrant	27 Jul. 2010-26 Jul. 2011	No	Yes
Foshan Chengtong Paper Co., Ltd.	7 Aug. 2010/2010-02 2	4,000.00	2010.08.27	1000.00	Warrant	1 Jan. 2010-31 Dec. 2013	No	Yes
Total amount of guarantees for subsidiaries approved in the report period (B1)		150,000.00			Total actual amount of guarantees for subsidiaries in the report period (B2)		150,000.00	
Total amount of guarantees for subsidiaries approved by the period-end (B3)		150,000.00			Total actual balance of guarantees for subsidiaries at the period-end (B4)		67,821.00	
Total guarantee amount of the Company (combination of the two kinds of guarantees above)								
Total guarantee amount approved in the report period (A1+B1)		150,000.00			Total actual guarantee amount in the report period (A2+B2)		150,000.00	
Total guarantee amount approved by the period-end (A3+B3)		150,000.00			Total actual guarantee balance at the period-end (A4+B4)		67,821.00	
Proportion of the total actual guarantee balance (A4+B4) in the Company's net assets					47.52%			
Of which:								
Guarantee amount offered to shareholders, actual controller and related parties (C)					0.00			
Debt guarantee amount directly or indirectly provided for guaranteed parties with an asset-liability ratio over 70% (D)					0.00			
Amount of total guarantee over 50% of net assets (E)					0.00			
Total of above-mentioned three kinds of guarantees (C+D+E)					0.00			
Explanation on possibility to bear joint liability due to undue guarantees					External guarantees of the Company were all of guarantees for controlling subsidiaries, currently all subsidiaries are under normal operation that there exists no possibility on bear joint liability due to undue guarantees.			

### VIII. Commitments made

In the report period, neither the Company nor shareholders holding over 5% shares of the Company made or had ever made any commitment that would influence the operation results and financial status of the Company.

### IX. Engagement or dismissal of CPAs firm and payment to CPAs firm:

In the report period, as approved by the 2009 Shareholders' General Meeting, the Company engaged BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd. as its accounting agency for 2010.

The Shareholders' Meeting authorized the Board of Directors on the decision-making

procedure concerning the remuneration for the certified public accountants' firm. The Board of Directors determined the limit of remuneration according to relevant charging standards and amount of work. The audit fee paid for BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd. is RMB 850,000 in 2010.

#### **X. Denouncement from CSRC and Stock Exchange in the report period**

In the report period, none of the Company, its Directors, Supervisors, Senior Executives, shareholders' actual controllers as well as the buyers received any inspection from authorities, enforcement measure from judicial discipline inspection departments, transfer to judicial organs, prosecution for criminal liability, inspection from CSRC, or administrative punishment and circulated a notice of criticism from CSRC and be banned from securities market, or cognizance of unsuitable persons, punishment from other administrative and public denouncement from Stock Exchange.

#### **XI. Researches, interviews and visits received in report period**

In the report period, according to the requirement of Guidelines on Fair Information Disclosure of Listed Companies, the Company and related information disclosure obligor strictly obeyed the principle of fair information disclosure without discriminatory behavior or spilling non-public information selectively and privately to specified person in advance. The Company received visitors by two ways, namely phone call and interview with shareholders. Over the year, the Company patiently answered the questions of the shareholders during reception and provided them the relevant public disclosure information.

##### **Particulars about researches, interviews and visits received in report period**

Time	Place	Way of reception	Visitor	Main discussion and materials provided by the Company
29 Jan. 2010	The Company	Field research	Individual investor	Main business operation of the Company
9 Mar. 2010	The Company	By telephone	Individual investor	Main business operation of the Company
16 Apr. 2010	The Company	Field research	Individual investor	Main business operation of the Company
18 May 2010	The Company	By telephone	Individual investor	Main business operation of the Company
15 Jul. 2010	The Company	By telephone	Individual investor	Main business operation of the Company
30 Jul. 2010	The Company	By telephone	Individual investor	Main business operation of the Company
12 Aug. 2010	The Company	By telephone	Individual investor	Main business operation of the Company
20 Oct. 2010	The Company	Field research	Individual investor	Main business operation of the Company
10 Dec. 2010	The Company	Field research	Individual investor	Main business operation of the Company

## XI Financial Report

- ( I ) Auditor's Report (attached behind)
- ( II ) Financial statements (attached behind)
- ( III ) Notes to financial statements (attached behind)

## XII Documents Available for Reference

Investors and relevant departments have access to the following documents in the Office of Board of Directors of the Company:

1. Financial statements carrying the signatures and stamps of the Company's legal representative, the Chief Financial Officer and the person in charge of accounting.
2. Auditor's Report stamped by the CPAs firm and signed and stamped by registered accountants.
3. Original copies of all documents and the announcements thereof disclosed in the report period on newspapers designated by CSRC for information disclosure.
4. Original copy of the Annual Report 2010 signed by the Chairman.

**Chairman of the Board: Tong Laiming**  
**Board of Directors of Foshan Huaxin Packaging Co., Ltd.**

28 Feb. 2011

## **Auditor's Report**

LXDHS Zi [2011] No.079

To all shareholders of Foshan Huaxin Packaging Co., Ltd.:

We have audited the attached financial statements of Foshan Huaxin Packaging Co., Ltd. (hereinafter referred to as "the Company") which comprise the balance sheet and the consolidated balance sheet as at 31 Dec. 2010, the income statement and consolidated income statement, the cash flow statement and consolidated cash flow statement, the statement of changes in shareholders' equity and consolidated statement of changes in shareholders' equity as of the year then ended, as well as the notes to the financial statements.

### **I . Management's responsibility for the financial statements**

The management of the Company is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. Such a responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

### **II . Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Audit Standards for Chinese Registered Accountants, which require that we comply with ethical requirements and plan and perform the audit to obtain 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers the internal control related to the preparation of the financial statements so as to design proper audit procedures but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate,

which provides a basis for us to express auditing opinion.

### **III. Audit opinion**

In our opinion, the financial statements of the Company have been prepared according to the Enterprise Accounting Standards, which give a fair view of the Company's financial position as at 31 Dec. 2010 and the Company's operating results and cash flows for the year then ended in all material aspects.

BDO China Li Xin Da Hua Certified  
Public Accountants Co., Ltd.

Chinese CPA: Yu Donghong

Beijing • China

Chinese CPA: Chen Zhicong

28 February 2011

**Balance Sheet**

31 Dec. 2010

Unit: RMB Yuan

Assets	Note	Closing balance	Opening balance
Current assets:			
Monetary funds		17,008,759.12	76,393,266.55
Transactional financial assets		-	-
Notes receivable		-	-
Accounts receivable		-	-
Accounts paid in advance		73,114.00	139,114.00
Interest receivable		-	-
Dividend receivable		-	-
Other receivable	XI(1)	1,227,005,774.13	985,419,468.76
Inventories		-	-
Non-current assets due within a year		-	-
Other current assets		-	-
Total current assets		1,244,087,647.25	1,061,951,849.31
Non-current assets:			
Available for sale financial assets		-	-
Held to maturity investments		-	-
Long-term receivable		-	-
Long-term equity investment		1,439,259,408.86	1,319,023,888.27
Investing property		-	-
Fixed assets		1,843,255.84	2,132,576.72
Construction in progress		-	-
Engineering materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets		606,420.00	673,800.00
Development expense		-	-
Goodwill		-	-
Long-term deferred expense		-	-
Deferred income tax assets		-	-
Other non-current assets		-	-
Total non-current assets		1,441,709,084.70	1,321,830,264.99
Total assets		2,685,796,731.95	2,383,782,114.30

Legal representative:

CFO:

Person in charge of accounting:



**Balance Sheet (Continued.)**

31 Dec. 2010

Unit: RMB Yuan

Liabilities and owners' equity (or shareholders' equity)	Note	Closing balance	Opening balance
Current liabilities:			
Short-term borrowing		318,000,000.00	528,000,000.00
Transactional financial liabilities		-	-
Notes payable		-	-
Accounts payable		-	-
Account received in advance		-	-
Employee's compensation payable		2,068,006.86	182,001.55
Tax payable		29,122.48	84,103.77
Interest payable		19,877,263.23	-
Dividend payable		133,758.00	133,758.00
Other account payable		56,430,989.51	155,744,634.61
Non-current liabilities due within 1 year		360,000,000.00	80,000,000.00
Other current liabilities		-	-
Total current liabilities		756,539,140.08	764,144,497.93
Non-current liabilities:			
Long-term borrowings		130,000,000.00	360,000,000.00
Bonds payable		-	-
Long-term payables		500,000,000.00	-
Special payable		-	-
Accrued liabilities		-	-
Deferred income tax liabilities		-	-
Other non-current liabilities		-	-
Total non-current liabilities		630,000,000.00	360,000,000.00
Total liabilities		1,386,539,140.08	1,124,144,497.93
Owners' equity (or shareholders' equity)			
Paid-up capital (or share capital)		505,425,000.00	505,425,000.00
Less: treasury stock		250,531,482.00	250,531,482.00
Special reserves		-	-
Retained profits		-	-
Surplus reserves		129,236,472.97	125,274,475.42
General risk provision		-	-
Retained profits		414,064,636.90	378,406,658.95
Total owner's equity (or shareholder' equity)		1,299,257,591.87	1,259,637,616.37
Total liabilities and owner's equity (or shareholder' equity)		2,685,796,731.95	2,383,782,114.30

Legal representative:

CFO:

Person in charge of accounting:

**Consolidated balance sheet**

31 Dec. 2010

Unit: RMB Yuan

Assets	Note	Closing balance	Opening balance
Current assets:			
Monetary funds	V(1)	391,385,073.02	343,850,553.53
Settlement reserve		-	-
Lending to bank and other financial institutions		-	-
Transactional financial assets		-	-
Notes receivable	V(2)	261,728,377.81	118,884,296.65
Accounts receivable	V(3)	661,137,695.51	854,641,257.43
Accounts paid in advance	V(4)	388,689,501.67	60,917,921.94
Profits receivable		-	-
Dividend receivable		-	-
Other receivables	V(5)	24,167,563.04	28,902,006.60
Purchase of resale financial assets		-	-
inventories	V(6)	883,960,311.00	723,591,647.22
Non-current assets due within a year		-	-
Other current assets	V(7)	-	322,924.57
Total current assets		2,611,068,522.05	2,131,110,607.94
Non-current assets:			
Offering entrusted financing and advances		-	-
Available for sale financial assets	V(8)	4,869,332.31	3,647,180.02
Hold to maturity investment		-	-
Long-term receivables		-	-
Long-term equity investment	V(10)	212,924,170.60	210,014,599.18
Investing property	V(11)	15,502,218.60	3,957,603.83
Fixed assets	V(12)	3,157,454,864.75	3,251,312,634.23
Constructions in progress	V(13)	17,900,881.67	4,255,538.69
Engineering materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Intangible assets	V(14)	96,911,507.87	110,841,334.75
Development expenses		-	-
Goodwill	V(15)	9,129,025.01	9,129,025.01
Long-term deferred expenses	V(16)	-	6,314,456.55
Deferred income tax assets	V(17)	34,736,555.77	24,858,134.16
Other non-current assets		-	-
Total non-current assets		3,549,428,556.58	3,624,330,506.42
Total assets		6,160,497,078.63	5,755,441,114.36

Legal representative:

CFO:

Person in charge of accounting:

**Consolidated balance sheet (Continued.)**

31 Dec. 2010

Unit: RMB Yuan

Liabilities and owners' equity (or shareholders' equity)	Note	Closing balance	Opening balance
Current liabilities:			
Short-term borrowing	V(19)	1,082,228,627.46	1,784,893,906.80
Transactional financial liabilities		-	-
Notes payable	V(20)	213,272,240.32	5,540,630.87
Accounts payable	V(21)	606,982,707.12	482,104,005.76
Account received in advance	V(22)	15,149,722.47	18,240,168.17
Handling charges and commissions payable		-	-
Employee's compensation payable	V(23)	37,665,386.25	26,514,681.75
Tax payable	V(24)	11,182,141.42	-7,508,042.74
Interest payable	V(25)	22,809,545.70	1,577,529.58
Dividend payable	V(26)	133,758.00	133,758.00
Other account payable	V(27)	91,152,227.51	204,221,346.17
Non-current liabilities due within 1 year	V(28)	360,000,000.00	140,000,000.00
Other current liabilities		-	-
Total current liabilities		2,440,576,356.25	2,655,717,984.36
Non-current liabilities:			-
Long-term borrowings	V(29)	255,000,000.00	360,000,000.00
Bonds payable		-	-
Long-term payables	V(30)	500,000,000.00	83,482,757.86
Special payable		-	-
Accrued liabilities	V(31)	8,632,000.00	20,496,692.50
Deferred income tax liabilities	V(17)	452,209.84	268,887.00
Other non-current liabilities	V(32)	3,888,000.00	1,320,000.00
Total non-current liabilities		767,972,209.84	465,568,337.36
Total liabilities		3,208,548,566.09	3,121,286,321.72
Owners' equity (or shareholders' equity)			
Paid-up capital (or share capital)	V(33)	505,425,000.00	505,425,000.00
Less: treasury stock	V(34)	262,615,153.93	250,779,385.44
Special reserves		-	-
Retained profits		-	-
Surplus reserves	V(35)	129,236,472.97	125,274,475.42
General risk provision		-	-
Retained profits	V(36)	529,978,029.29	413,628,149.08
Differences in converted foreign currency statement		-	-
Total owners' equity attributable to parent company		1,427,254,656.19	1,295,107,009.94
Minority interests		1,524,693,856.35	1,339,047,782.70
Total owner's equity (or shareholder' equity)		2,951,948,512.54	2,634,154,792.64

Total liabilities and owner's equity (or shareholder's equity)		6,160,497,078.63	5,755,441,114.36
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Legal representative:

CFO:

Person in charge of accounting:

**Income Statement**

As of year 2010

Unit: RMB Yuan

Item	Note	As of Y2010	As of Y2009
I. Operating income		-	
Less: Operating cost		-	-
Taxes and associate charges		-	-
Sales expenses		-	-
Administrative expenses		12,093,974.77	8,677,170.87
Financial expenses		8,038,223.27	50,852,473.26
Asset impairment loss		-97,434.78	-
Add: Gain/(loss) from change in fair value ("-" means loss)		-	-
Gain/(loss) from investment ("-" means loss)	XI(3)	59,646,563.76	51,748,829.91
Including: share of profits in associates and joint ventures		59,667,374.75	63,533,038.22
II. Business profit ("-" means loss)		39,611,800.50	-7,780,814.22
Add: non-operating income		8,175.00	-
Less: non-operating expense		-	22,406.19
Including: loss from non-current asset disposal		-	-
III. Total profit ("-" means loss)		39,619,975.50	-7,803,220.41
Less: Income tax expense		-	-
IV. Net profit ("-" means loss)		39,619,975.50	-7,803,220.41
V. Earnings per share			
(I) Basic earnings per share		×	×
(II) Diluted earnings per share		×	×
VI. Other comprehensive incomes		-	-
VII. Total comprehensive incomes		39,619,975.50	-7,803,220.41

Legal representative:

CFO:

Person in charge of accounting:

## Consolidated Income Statement

As of year 2010

Unit: RMB Yuan

Items	Note	As of 2010	As of 2009
I. Total operating income		3,898,538,698.88	2,372,640,435.84
Including: Sales income	V(37)	3,898,538,698.88	2,372,640,435.84
Interest income		-	-
Premium income		-	-
Handling charges and commission income		-	-
II. Total operating cost		3,715,872,865.38	2,397,866,221.92
Including: Cost of sales	V(37)	3,235,658,359.05	2,066,476,159.46
Interest expenses		-	-
Handling charges and commission expenses		-	-
Taxes and associate charges	V(38)	5,297,151.02	3,912,376.99
Selling and distribution expenses	V(39)	153,626,589.04	105,276,564.17
Administrative expenses	V(39)	150,526,901.14	112,372,078.31
Financial expenses	V(39)	126,973,101.60	104,866,299.20
Asset impairment loss	V(40)	43,790,763.53	4,962,743.79
Add: Gain/(loss) from change in fair value (“-” means loss)		-	-
Gain/(loss) from investment (“-” means loss)	V(41)	59,562,103.97	63,533,038.22
Including: share of profits in associates and joint ventures		59,646,563.76	63,533,038.22
Foreign exchange gains (“-” means loss)		-	-
III. Business profit (“-” means loss)		242,227,937.47	38,307,252.14
Add: non-operating income	V(42)	5,623,282.62	35,331,778.70
Less: non-operating expense	V(43)	8,298,735.62	2,863,770.46
Including: loss from non-current asset disposal		7,283,000.86	1,324,859.78
IV. Total profit (“-” means loss)		239,552,484.47	70,775,260.38
Less: Income tax expense	V(44)	18,919,092.62	-8,008,725.93
V. Net profit (“-” means loss)		220,633,391.85	78,783,986.31
Including: Net profit the combined party achieved before the combination		-	-
Attributable to owners of parent company		120,311,877.76	28,872,967.08
Minority interests		100,321,514.09	49,911,019.23
VI. Earnings per share			
(I) basic earnings per share	V(45)	0.24	0.06
(II) diluted earnings per share	V(45)	0.24	0.06
VII. Other comprehensive incomes	V(46)	1,038,829.45	617,043.62
VIII. Total comprehensive incomes		221,672,221.30	79,401,029.93
Attributable to owners of parent company		120,747,825.66	29,120,870.52
Attributable to minority shareholders		100,924,395.64	50,280,159.41

Legal representative:

CFO:

Person in charge of accounting:

**Cash Flow Statement**

As of 2010

Unit: RMB Yuan

Item	Note	As of 2010	As of 2009
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of commodities and rendering of service		-	-
Tax refunds received		-	-
Other cash received relating to operating activities		3,214,177.37	576,476,119.71
Sub-total of cash flows form operating activities		3,214,177.37	576,476,119.71
Cash paid for goods and services		-	-
Cash paid to and for employees		7,108,597.89	7,552,479.24
Various taxes paid		50,297.26	283,690.43
Other cash payment relating to operating activities		4,573,913.67	212,912,603.87
Subtotal of cash outflows from operating activities		11,732,808.82	220,748,773.54
Net cash flow form operating activities		-8,518,631.45	355,727,346.17
<b>II. Cash flow from investment activities</b>			
Cash received from disposal of investments		-	-
Cash received from return on investments		63,533,038.22	51,588,973.53
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		14,050.00	-
Other cash received relating to investment activities		-	-
Subtotal of cash inflows from investment activities		63,547,088.22	51,588,973.53
Cash paid to acquire fixed assets, intangible assets and other long-term assets		24,370.00	929,980.00
Cash paid for investment		124,121,995.05	256,746,945.00
Net cash paid to acquire subsidiaries and other business units		-	-
Payment of cash relating to other investment activities		180,118,009.62	2,518,040.00
Subtotal cash outflows from investment activities		304,264,374.67	260,194,965.00
Net cash flow form investment activities		-240,717,286.45	-208,605,991.47
<b>III. Cash Flows from Financing Activities:</b>			
Cash received from capital contributions		-	-
Cash received from borrowings		1,207,715,000.00	1,104,500,000.00
Other cash received relating to financing activities		-	-
Subtotal of cash inflows form financing activities		1,207,715,000.00	1,104,500,000.00
Repayment of borrowings		968,215,000.00	1,124,500,000.00
Cash paid for interest expenses and distribution of dividends or profit		49,648,589.53	81,579,699.46
Other cash payments relating to financing activities		-	-
Sub-total of cash outflows from financing activities		1,017,863,589.53	1,206,079,699.46
Net cash flows from financing activities		189,851,410.47	-101,579,699.46
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		-	-
<b>V. Net increase in cash and cash equivalents</b>			
		-59,384,507.43	45,541,655.24
Add: Cash and cash equivalents at year-begin		76,393,266.55	30,851,611.31
<b>VI. Cash and cash equivalents at the end of the year</b>			
		17,008,759.12	76,393,266.55

Legal representative:

CFO:

Person in charge of accounting:

**Consolidated Cash Flow Statement**

As of 2010

Unit: RMB Yuan

Item	Note	As of 2010	As of 2009
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of commodities and rendering of service		3,159,479,138.92	1,653,020,924.28
Tax refunds received		-	6,649,858.43
Other cash received relating to operating activities	V(47)	70,359,489.95	88,863,906.22
Sub-total of cash flows form operating activities		3,229,838,628.87	1,748,534,688.93
Cash paid for goods and services		2,546,395,935.49	1,528,681,617.51
Cash paid to and for employees		179,852,370.17	115,033,952.78
Various taxes paid		169,855,620.88	81,720,017.23
Other cash payment relating to operating activities	V(47)	138,519,828.81	144,079,797.24
Subtotal of cash outflows from operating activities		3,034,623,755.35	1,869,515,384.76
Net cash flow form operating activities		195,214,873.52	-120,980,695.83
<b>II. Cash flow from investment activities</b>			
Cash received from return on investments		63,533,038.22	51,589,270.29
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,419,552.79	50,251,247.35
Net cash from disposal of subsidiaries and other business units		9,907,211.28	-
Other cash received relating to investment activities		-	204,340,906.88
Subtotal of cash inflows from investment activities		74,859,802.29	306,181,424.52
Cash paid to acquire fixed assets, intangible assets and other long-term assets		100,084,850.70	40,953,266.06
Cash paid for investment		-	2,522,307.82
Subtotal of cash outflows from investment activities		100,084,850.70	43,475,573.88
Net cash flow from investment activities		-25,225,048.41	262,705,850.64
<b>III. Cash Flows from Financing Activities:</b>			
Cash received from capital contributions		103,235,639.96	85,566,660.09
Including: Cash received from minority shareholder investments by subsidiaries		103,235,639.96	85,566,660.09
Cash received from borrowings		2,426,392,283.47	2,492,210,648.78
Other cash received relating to financing activities		-	155,067,857.33
Subtotal of cash inflows form financing activities		2,529,627,923.43	2,732,845,166.20
Repayment of borrowings		2,526,834,889.24	2,633,985,876.28
Cash paid for interest expenses and distribution of dividends or profit		123,846,007.93	119,641,177.24
Including: dividends or profit paid by subsidiaries to minority shareholders		11,205,432.43	-
Other cash payments relating to financing activities	V(47)	102,715,069.17	-
Sub-total of cash outflows from financing activities		2,753,395,966.34	2,753,627,053.52

Net cash flows from financing activities		-223,768,042.91	-20,781,887.32
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-1,402,331.88	-
V. Net increase in cash and cash equivalents		-55,180,549.68	120,943,267.49
Add: Cash and cash equivalents at year-begin		329,035,163.08	208,091,895.59
VI. Cash and cash equivalents at the end of the year		273,854,613.40	329,035,163.08

Legal representative:

CFO:

Person in charge of accounting:



## Statement of Changes in Shareholders' Equity

As of 2010

Unit: RMB Yuan

Item	As of 2010							
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Total owner' equity
I. Balance at the end of the previous year	505,425,000.00	250,531,482.00	-	-	125,274,475.42	-	378,406,658.95	1,259,637,616.37
Add: change of accounting policy	-	-	-	-	-	-	-	-
Correction of errors in previous periods	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	505,425,000.00	250,531,482.00	-	-	125,274,475.42	-	378,406,658.95	1,259,637,616.37
III. Increase/ decrease of amount in this year ("-" means decrease)	-	-	-	-	3,961,997.55	-	35,657,977.95	39,619,975.50
(I) Net profit	-	-	-	-	-	-	39,619,975.50	39,619,975.50
(II) Other comprehensive incomes	-	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	-	-	-	-	-	39,619,975.50	39,619,975.50
(III) Capital paid in and reduced by owners	-	-	-	-	-	-	-	-
1. Capital paid in by owners	-	-	-	-	-	-	-	-
2. Amounts of share-based payments recognized in owners' equity	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-
(IV) Profit distribution	-	-	-	-	3,961,997.55	-	-3,961,997.55	-
1. Appropriations to surplus reserves	-	-	-	-	3,961,997.55	-	-3,961,997.55	-
2. Appropriations to owners (or shareholders)	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-
(V) Internal carry-forward of owners' equity	-	-	-	-	-	-	-	-
1. New increase of capital (or share capital) from capital public reserves	-	-	-	-	-	-	-	-
2. New increase of capital (or share capital) from	-	-	-	-	-	-	-	-

surplus reserves								
3. Others	-	-	-	-	-	-	-	-
IV. Closing balance	505,425,000.00	250,531,482.00	-	-	129,236,472.97	-	414,064,636.90	1,299,257,591.87

Legal representative:

CFO:

Person in charge of accounting:

## Statement of Changes in Shareholders' Equity (Con.)

As of 2010

Unit: RMB Yuan

Item	As of 2009							
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of the previous year	505,425,000.00	250,531,482.00	-	-	125,274,475.42	-	386,209,879.36	1,267,440,836.78
Add: change of accounting policy	-	-	-	-	-	-	-	-
Correction of errors in previous periods	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	505,425,000.00	250,531,482.00	-	-	125,274,475.42	-	386,209,879.36	1,267,440,836.78
III. Increase/ decrease of amount in this year ("-" means decrease)	-	-	-	-	-	-	-7,803,220.41	-7,803,220.41
(I) Net profit	-	-	-	-	-	-	-7,803,220.41	-7,803,220.41
(II) Other comprehensive incomes	-	-	-	-	-	-	-	-
Subtotal of (I) and (II)	-	-	-	-	-	-	-7,803,220.41	-7,803,220.41
(III) Capital paid in and reduced by owners	-	-	-	-	-	-	-	-
(IV) Profit distribution	-	-	-	-	-	-	-	-
1. Appropriations to surplus reserves	-	-	-	-	-	-	-	-
2. Appropriations to general risk provisions	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-
(V) Internal carry-forward of owners' equity	-	-	-	-	-	-	-	-
1. New increase of capital (or share capital) from capital public reserves	-	-	-	-	-	-	-	-
2. New increase of capital (or share capital) from surplus reserves	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-
IV. Closing balance	505,425,000.00	250,531,482.00	-	-	125,274,475.42	-	378,406,658.95	1,259,637,616.37

Legal representative:

CFO:

Person in charge of accounting:

## Consolidated Statement of Changes in Shareholders' Equity

As of the year 2010

Unit: RMB Yuan

Item	As of 2010									
	Owners' equity attributable to shareholders of parent company								Minority interests	Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of the previous year	505,425,000.00	250,779,385.44	-	-	125,274,475.42	-	413,628,149.08	-	1,339,047,782.70	2,634,154,792.64
Add: change of accounting policy	-	-	-	-	-	-	-	-	-	-
Correction of errors in previous periods	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	505,425,000.00	250,779,385.44	-	-	125,274,475.42	-	413,628,149.08	-	1,339,047,782.70	2,634,154,792.64
III. Increase/ decrease of amount in this year ("-" means decrease)	-	11,835,768.49	-	-	3,961,997.55	-	116,349,880.21	-	185,646,073.65	317,793,719.90
(I) Net profit	-	-	-	-	-	-	120,311,877.76	-	100,321,514.09	220,633,391.85
(II) Other comprehensive incomes	-	435,947.90	-	-	-	-	-	-	602,881.55	1,038,829.45
Subtotal of (I) and (II)	-	435,947.90	-	-	-	-	120,311,877.76	-	100,924,395.64	221,672,221.30
(III) Capital paid in and reduced by owners	-	11,399,820.59	-	-	-	-	-	-	103,230,199.29	114,630,019.88
1. Capital paid in by owners	-	-	-	-	-	-	-	-	103,230,199.29	103,230,199.29
2. Others	-	11,399,820.59	-	-	-	-	-	-	-	11,399,820.59
(IV) Profit distribution	-	-	-	-	3,961,997.55	-	-3,961,997.55	-	-	-
1. Appropriations to surplus reserves	-	-	-	-	3,961,997.55	-	-3,961,997.55	-	-	-

(V) Internal carry-forward of owners' equity	-	-	-	-	-	-	-	-	-	-
1. New increase of capital (or share capital) from capital public reserves	-	-	-	-	-	-	-	-	-	-
2. New increase of capital (or share capital) from surplus reserves	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-18,508,521.28	-18,508,521.28
IV. Closing balance	505,425,000.00	262,615,153.93	-	-	129,236,472.97	-	529,978,029.29	-	1,524,693,856.35	2,951,948,512.54

Legal representative:

CFO:

Person in charge of accounting:

**Consolidated Statement of Changes in Shareholders' Equity (Con.)**

As of the year 2010

Unit: RMB Yuan

Item	As of the year 2009									Total owners' equity Paid-up capital (or share capital)
	Owners' equity attributable to shareholders of parent company								Minority interests Less: treasury stock	
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Paid-up capital (or share capital)	Capital reserve		
I. Balance at the end of the previous year	505,425,000.00	253,763,982.00	-	-	125,274,475.42	-	384,755,182.00	-	252,608,737.84	1,521,827,377.26
Add: change of accounting policy	-	-	-	-	-	-	-	-	-	-
Correction of errors in previous periods	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of this year	505,425,000.00	253,763,982.00	-	-	125,274,475.42	-	384,755,182.00	-	252,608,737.84	1,521,827,377.26
III. Increase/ decrease of amount in this year ("-" means decrease)	-	-2,984,596.56	-	-	-	-	28,872,967.08	-	1,086,439,044.86	1,112,327,415.38
(I) Net profit	-	-	-	-	-	-	28,872,967.08	-	49,911,019.23	78,783,986.31

(II) Other comprehensive incomes	-	247,903.44	-	-	-	-	-	-	369,140.18	617,043.62
Subtotal of (I) and (II)	-	247,903.44	-	-	-	-	28,872,967.08	-	50,280,159.41	79,401,029.93
(III) Capital paid in and reduced by owners	-	-	-	-	-	-	-	-	1,036,158,885.45	1,036,158,885.45
1. Capital paid in by owners	-	-	-	-	-	-	-	-	1,036,158,885.45	1,036,158,885.45
(IV) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Appropriations to surplus reserves	-	-	-	-	-	-	-	-	-	-
(V) Internal carry-forward of owners' equity	-	-3,232,500.00	-	-	-	-	-	-	-	-3,232,500.00
1. Others	-	-3,232,500.00	-	-	-	-	-	-	-	-3,232,500.00
(VI) Others	-	-	-	-	-	-	-	-	-	-
V. Closing balance	505,425,000.00	250,779,385.44	-	-	125,274,475.42	-	413,628,149.08	-	1,339,047,782.70	2,634,154,792.64

Legal representative:

CFO:

Person in charge of accounting:

# FOSHAN HUAXIN PACKAGING CO., LTD.

## NOTES TO FINANCIAL STATEMENTS 2010

*(All amounts in RMB Yuan unless otherwise stated)*

*[English version for reference only]*

### ***I. Company profiles***

Foshan Huaxin Packing Co., Ltd. (hereinafter referred to as the Company) was promoted by Foshan Huaxin Development Co., Ltd., as a main sponsor, under approval of People's Government of Guangdong Province with YBH (1999) No. 297 document and Economic System Reform Committee of Guangdong Province with YTG (1999) No. 032 document, and jointly invested by seven shareholders such as Foshan Municipal Investment General Corporation, Foshan Xinhui Industrial Development Co., Ltd., China Packaging General Corporation, China Material Development & Investment General Corporation, Guangdong Technical Reforming & Investment Co., Ltd., China Chemistry & Light Industry General Corporation, and Foshan Light Industry Company by promotion with total share capital of RMB 290,000,000 at par value of RMB 1 per share. The Company is joint-stock company who was registered in Administration Bureau for Commerce & Industry of Guangdong Province on June 21, 1999. (Business License No. 40000000005147). In the year of 2000, the Company successfully placed domestically listed foreign shares (B shares) amounting to 149,500,000 by mean of private placing, which was listed in Shenzhen Stock Exchange for trade. After offering, the Company's total share capital was increased to RMB 439,500,000.00. In June 2007, the Company distributed dividends of 65,925,000 shares, thus, the total share capital was changed into RMB 505,425,000.00. The Company is mainly engaged in the paper making, paper package and printing industry.

As at 31 Dec. 2010, the Company accumulatively issued 505,425,000 shares in number and the registered capital stood at RMB 505,425,000. The Company mainly manufactures (operated by subsidiary companies under the Company) and sells packaging materials, and packaging products, materials for decoration and aluminum and plastic compound materials; sells and maintains package machinery; invests in industry in terms of package and printing. Main products include high-grade coated white paperboard, high-grade coated white board and color packages printing products. The Company is located in No. 18, Jihua 5<sup>th</sup> Road, Foshan, Guangdong.

### ***II. Main accounting policies, accounting estimates and prior period errors***

#### **(I) Preparation basis of financial statement**

With going-concern assumption as the basis, the Company prepares its financial statement in light of the actual transactions and matters, as well as the accounting standard for business enterprise-basic standard and other relevant regulations.

#### **(II) Statement for complying with the accounting standard for business enterprise**

The financial statements for year 2010 prepared by the Company are in compliance with the requirements of the accounting standard for business enterprise, and have reflected the Company's financial status, operating results and cash flows in an accurate and complete way.

#### **(III) Fiscal period**

The fiscal year of the Company is the solar calendar year, which is from January 1 to December 31.

#### **(IV) Standard currency of accounts**

The Company adopts Renminbi as a standard currency of accounts.

#### **(V) Accounting process of business combinations under the same control and not under the same control**

##### 1. Business combination under the same control

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.

The accounting policy adopted by the combined party is different from that adopted by the Company, the Company shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the combined party, and shall, pursuant to the present Standard, recognize them on the basis of such adjustment.

##### 2. Business combination not under the same control

The Company shall, on the acquisition date, measure the assets given and liabilities incurred or assumed by an enterprise for a business combination in light of their fair values, and shall record the balances between them and their carrying amounts into the profits and losses at the current period.

The Company shall distribute the combination costs on the acquisition date.

The Company shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. The Company shall record the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree into the profit and loss of the current period.

As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into the enterprise and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values. As for any intangible asset acquired in a combination, if the fair value can be measured reliably, it shall be separately recognized as an intangible asset and shall be measured in light of its fair value. As for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations is likely to result in any out-flow of economic benefits from the enterprise, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values. As for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall be separately recognized as liabilities and shall be measured in light of their fair values.



**(VI) Preparation methods for consolidated financial statements**

The scope of consolidated financial statements shall be confirmed based on the control. All subsidiaries of the Company shall be included into the consolidated financial statement.

The accounting policies and accounting period adopted by the subsidiaries that are included into the scope of consolidated financial statement consistent with those the Company adopts. If the accounting policies and accounting period adopted by a subsidiary are different from those adopted by the Company, necessary adjustments shall be made to the financial statements under the accounting policies and accounting period adopted by the Company.

The consolidated financial statements shall, on the basis of the financial statements of the Company and its subsidiaries, be prepared by the Company after the long term equity investments in the subsidiaries are adjusted through the equity method.

Consolidated financial statement shall be prepared by the parent company after the effects of the internal transactions between the Company and its subsidiaries and between its subsidiaries themselves on the consolidated balance sheets, consolidated income statement, consolidated cash flow and consolidated statement of change in owners' equity are offset.

For the deficit of current period exceeding the share in the beginning of owner's equity, the balance shall offset against the minority shareholder's equity.

During the reporting period, for the added subsidiary companies for business combination under the same control, shall adjust the beginning balance of the consolidated balance sheet, and shall involve the incomes, expenses and profits of the subsidiary companies incurred from the beginning of the current period to the end of reporting year into consolidated income statement; and shall include the cash flow of the subsidiary companies from the beginning of the current period to the reporting period into the consolidated cash flow.

During the reporting period, for the added subsidiary companies for business combination not under the same control, shall not adjust the beginning balance of the consolidated balance sheet; and shall involve the incomes, expenses and profits of the subsidiary companies incurred from the acquisition date to the end of reporting year into the consolidated income statement; and shall include the cash flow from the acquisition date to the end of reporting period into the consolidated cash flow.

During the reporting period, for the Company settling the subsidiary companies, the incomes, expenses and profits from the beginning to the settlement date shall be involved into the consolidated income statement; the consolidated cash flow statement shall include the cash flow from the beginning of the current period to the settlement date.

**(VII) Recognition standard for cash and cash equivalents**

When preparing the cash flow statement, the term "cash" refers to cash on hand and deposits that are available for payment at any time. The term "cash equivalents" refers to short-term ( within 3 months from the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**(VIII) Business of foreign currencies and the transaction of foreign currency statements****1. Business of foreign currencies**

As for a foreign currency transaction, the amount in the foreign currency shall be translated into the amount in the Renminbi at the spot exchange rate of the transaction date.

The foreign currency monetary items shall be translated as the spot exchange rate on the balance sheet date, the balance occurred thereof shall be recorded into the profits and losses at the current period except that the balance of exchange arising from foreign currency borrowings for the purchase and construction or production of assets eligible for capitalization shall be measured in the light of capitalization principle. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the confirming date of fair value, of which the balance of exchange shall be included into the profit and loss of the current period or capital reserve.

## 2. Translation for foreign currency financial statements

The assets and liabilities items in the balance sheets shall be translated as a spot exchange rate on the balance sheet date. Among the owner's equity items, except the one as "retained profits", others shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date. The balance arisen from the translation of foreign currency financial statement in the compliance with the aforesaid methods shall be presented separately under the owner's equity item of the balance sheet.

When disposing an overseas business, the Company shall shift the balance, which is presented under the items of the owner's equities in the balance sheet and arises from the translation of foreign currency financial statements related to this overseas business, into the disposal profits and losses of the current period. If the overseas business is disposed of partially, the Company shall calculate the balance arising from the translation of foreign currency statements of the part of disposal based on the disposal rate and shall shift them into the profits and losses of the current period.

## **(IX) Financial instruments**

Financial instruments include financial assets and liabilities and equity instruments.

### 1. Categorization of financial instruments

The Management team shall divide the financial instruments pursuant to the purpose to acquire the said financial assets or undertake the financial liabilities: (1) the financial assets and liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, including transactional financial assets and liabilities (and the designated financial assets and liabilities which are measured at their fair values and of which the variation is included in the current profits and losses); (2) the investments which will be held to their maturity; (3) loans and the account receivables; (4) financial assets available for sale; and (5) other financial liabilities.

### 2. Measurement of financial instruments

(1) The financial assets (financial liabilities) which are measured at their fair values and of which the variation is included in the current profits and losses

The initial amount of the financial assets and financial liabilities shall be recognized at fair value (excluding cash dividends that have been declared but not yet distributed or bond interests that have matured but not yet received) when they are acquired. The transaction expense thereof shall be directly recorded into the profits and losses of the current period.

The interests or cash dividends acquired, during the holding period, shall be recognized as investment income, and at the end of reporting period, the change in the fair value shall be recorded into the profits and losses of the current period.

When financial assets and financial liabilities are disposed, the balance between fair value and initial amount shall be recognized as investment income, at the same time, the profits and losses arising from the change in the fair value of financial assets and financial liabilities shall be adjusted.

#### (2) Held-to-maturity investments

When held-to-maturity investments are acquired, its initial amount shall be recognized the sum between the fair value (excluding bond interests that have matured but not yet received) and the transaction expense thereof.

During the holding period, interest income is recognized as investment income based on amortized cost and actual interest rate (where there is very small gap between actual interest rate and nominal rate of which interests income shall be measured at the nominal rate). The actual interest rate is determined upon acquisition and remains unchanged during the expected holding period or a shorter period for applicable.

When held-to-maturity investments are disposed, the difference between the acquired price and investment book value shall be recorded into the investment income.

#### (3) Accounts receivable

The creditor's rights arising from selling goods or providing service by the Company and other creditor's rights to other enterprises held by the company that are not quoted in an active market, including accounts receivable, notes receivable, other receivables, long-term receivables, etc., the contract or agreement price should be taken as the initial recognition amount. If it has the nature of financing, it shall be recognized by present value.

Difference between the amount received and book value of the receivables shall be included into the profit or loss of the current period upon collection or disposal.

#### (4) Available-for-sale financial assets

When available-for-sale financial assets are acquired, its initial amount shall be recognized at the fair value (excluding cash dividends that have been declared but not yet distributed or bond interests that have matured but not yet received) plus transaction expense thereof.

The interests or cash dividends acquired, during the holding period, shall be recognized as investment income. At the end of reporting period, it shall be measured at the fair value and the change in fair value thereof shall be recorded into the capital reserves (Other Capital Reserves).

Difference between the amount received and the book value of the financial assets shall be recognized as investment gain or loss upon disposal. Meanwhile, the accumulated changes in fair value previously recognized in the owners' equity are transferred into investment gain or loss.

#### (5) Other financial liabilities

Other financial liabilities shall be initially recognized at fair value plus transaction costs. The subsequent measurement shall be made by adopting amortized costs.

### 3. Recognition and measurement of transfer of financial assets

Where an enterprise has transferred nearly all of the risks and rewards relating to the ownership of

the financial asset to the transferee, it shall stop recognizing the financial asset. If it retains nearly all of the risks and rewards relating to the ownership of the financial asset, it shall not stop recognizing the financial asset.

Substance over form philosophy should be adopted to determine whether the transfer of a financial asset can satisfy the conditions as described in these Standards for de-recognition of a financial asset. An enterprise shall differentiate the transfer of a financial asset into the entire transfer and the partial transfer of financial assets. If the transfer of an entire financial asset satisfies the conditions for stop recognition, the difference between the amounts of the following 2 items shall recorded in the profits and losses of the current period:

- (1) The carrying amount of the transferred financial asset;
- (2) The aggregate consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).

If the transfer of partial financial asset satisfies the conditions for stopping recognition, the carrying amount of the entire financial asset transferred shall be allocated at their respective relevant fair value, between the portion whose recognition has stopped and the portion whose recognition has not stopped, and the difference between the amounts of the following 2 items:

- (1) The carrying amount of the portion whose recognition has stopped;
- (2) The aggregate consideration of the portion whose recognition has stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale).

The transfer of financial assets does not meet the de-recognition condition, the financial assets shall continue to be recognized, and the consideration received will be recognized as financial liabilities.

#### 4. Termination of recognition of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where the Company (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall terminate the recognition of the existing financial liability, and shall at the same time recognize the new financial liability.

Where the Company makes substantial revisions to some or all of the contractual stipulations of the existing financial liability, it shall terminated the recognition of the existing financial liability or part of it, and at the same time recognize the financial liability after revising the contractual stipulations as a new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the Company concerned shall include into the profits and losses of the current period the gap between the carrying amount which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed).

Where the Company buys back part of its financial liabilities, it shall distribute, on the report day, the carrying amount of the whole financial liabilities in light of the comparatively fair value of the part that continues to be recognized and the part whose recognition has already been terminated.

The gap between the carrying amount which is distributed to the part whose recognition has terminated and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed) shall be recorded into the profits and losses of the current period.

#### 5. Determination of the fair value of financial instruments

As for the Company's financial assets and liabilities measured at their fair values, where there is an active market, the closing quoted prices in the active market shall be used to determine the fair values thereof. Where there is no active market for a financial assets and financial liabilities, the Company concerned shall adopt value appraisal techniques (include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.) to determine its fair value. As for the financial assets initially obtained or produced at source and the financial liabilities assumed, the fair value thereof shall be determined on the basis of the transaction price of the market.

#### 6. Withdrawal of financial assets impairment

##### (1) Provision for impairment of available-for-sale financial assets

If the fair value of financial assets available for sale has greatly dropped at the end of reporting period, or after considering of all the relevant factors and expecting decrease trend is non-temporary, the impairment shall be recognized, accumulated losses due to decreases in fair value previously recognized directly in capital reserve are reversed and charged to impairment loss.

##### (2) Provision for impairment of held-to-maturity investments

Measurement for impairment loss of held-to-maturity investments shall be disposed in accordance with the measurement method for impairment loss of accounts receivable.

### **(X) Accounts receivable**

#### 1. Recognition standards and withdrawal methods for bad debt provisions for accounts receivable with a significant single amount

Where an account receivable exceeds 10 million, or an other account receivable exceeds five million, it is recognized as a significant single amount.

How a bad debt provision is withdrawn for an account receivable with a significant single amount: An impairment test shall be conducted on the account receivable, and the difference of the expected future cash flow's present value less than its book value shall be withdrawn as the bad debt provision and recorded into current gains/losses. Where an impairment test is conducted on an account receivable and no impairment occurs, the account receivable shall be included in an account receivable group with similar credit risk and tested again.

#### 2. Account receivables with an insignificant single amount but for which a single bad debt provision is withdrawn

When a single bad debt provision can be withdrawn for an account receivable: There is objective evidence proving that the account receivable may have been impaired. For instance, the debtor is cancelled, bankrupt or dead and the account receivable still cannot be recovered or the generated cash flow is seriously inadequate after the bankrupt's estates or heritages are used for the debt repayment.

How to withdraw a bad debt provision for an account receivable: Where there is objective evidence proving that an account receivable may have been impaired, the account receivable shall be separated from the relevant group and an independent impairment test shall be conducted on the account receivable so as to recognize the impairment loss.

### 3. Withdrawal of bad debt provisions for accounts receivable on the group basis

Account receivable groups are defined by their ages.

The aging approach is adopted in the withdrawal of bad debt provisions for accounts receivable on the group basis.

For account receivable groups where the aging approach is adopted in the withdrawal of bad debt provisions for them

Account age	Withdrawal rate for accounts receivable (%)	Withdrawal rate for other accounts receivable (%)
1-3 months	---	---
4-12 months	5	5
1—2 years	10	10
2—3 years	20	20
Over 3 years	50	50

## (XI) Inventory

### 1. Category

Inventory are classified as materials in transit, raw materials, revolving materials, merchandise inventory, goods in process, goods sent out, goods in outside processing and etc.

### 2. Pricing method for outgoing inventories

The inventory shall be measured in the light of the weighted average method when outgoing inventory.

### 3. Recognition of net realizable value and withdrawal of provision for falling price of inventory

At the end of every year, the Company shall make an overall checking to inventory, thereafter, the provision for falling price of inventory shall be measured according to its cost or its net realizable value, whichever is lower.

Finished goods, merchandise inventories, and available for sale materials which are applied directly for sales of stock inventory, under normal producing process, to the amount after deducting the estimated sale expense and relevant taxes from the estimated sell price of the inventory, the net realizable value has been recognized. Material inventories which need to be processed, under normal producing process, to the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of produced finished goods, the net realizable value has been recognized. The net realizable value of inventories held for the execution of a sales contract or labor contract shall be calculated on the basis of the contract price. If an enterprise holds more inventories than the quantities subscribed in the sales contract, the net realizable value of the excessive inventories shall be calculated on the

basis of the general sales price.

Ordinarily the Company shall make provision for falling price of inventories on the ground of each item of inventories. For inventories with large quantity and relatively low unit prices, the provision for falling price of inventories shall be made on the ground of the categories of inventories. For the inventories related to the series of products manufactured and sold in the same area, and of which the final use or purpose is identical or similar thereto, and if it is difficult to measure them by separating them from other items, the provision for falling price of inventories shall be made on a combination basis.

If the factors causing any write-down of the inventories have disappeared, the amount of write-down shall be resumed and be reversed from the provision for the loss on decline in value of inventories that has been made. The reversed amount shall be included in the current profits and losses.

4. Inventory system for inventories: Perpetual inventory system.

5. Amortization methods for low-value consumption goods and packings

(1) The one-off write-off approach is adopted for low-value consumption goods;

(2) The one-off write-off approach is adopted for packings.

## **(XII) Long-term equity investment**

1. Recognition of investment cost

(1) Long-term equity investment under business combination

For the merger of enterprises under the same control, if the consideration of the Company is that it makes payment in cash, transfers non-cash assets, bear its debts or issuance of equity securities, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the consideration paid by the Company shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

For the merger of enterprises not under the same control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree and all relevant direct costs incurred to the Company for the business combination, including intermediary fees paid for auditing, legal, evaluating and consulting services for the business combination, as well as other relevant administrative expenses (the expense on trading equity or debt securities issued as the combination consideration and recorded into current gains/losses when incurred, the initially recognized amount recorded into equity or debt securities). For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs

of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the Company shall record the said amount into the combination costs.

## (2) Long-term equity investment by other methods

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value (excluding cash dividends that have been declared but not yet distributed) stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

As for a non-monetary assets transaction, under the premise that the transaction is commercial in nature and the fair value of the assets received or surrendered can be measured reliably, the initial cost of the fair value of the long-term equity investment received shall be recognized based on the fair value of the assets surrendered, unless there is any exact evidence showing that the fair value of the assets received is more reliable. Where any non-monetary assets transaction does not meet the conditions as prescribed in the above premises at the same time, the book value and relevant payable taxes of the assets surrendered shall be the initial cost of the long-term equity investment received.

The initial cost of a long-term equity investment obtained by debts restructuring shall be recognized based on the fair value.

## 2. Subsequent measurement and gain/loss recognition

### (1) Subsequent measurement

The long-term equity investment that the Company carries out to its subsidiary companies shall be measured based on cost method, and adjust based on the equity method when preparing the consolidated financial statements.

The long-term equity investment that does not do joint control or does not have significant influences on the invested entity, and entity, and has no offer in the active market and its fair value cannot be reliably measured shall be measured at the cost method.

The long-term equity investment that does joint control or significant influences over the Company shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the



investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses.

Disposal for any change is made to the owner's equity other than the net profits and losses of the invested entity: in case the shareholding proportion remained unchanged, the Company shall, in accordance with the shareholding proportion, calculate the proportion it shall enjoy or undertake, and adjust book value of long-term equity investment, and increase or decrease capital reserve (other capital reserve) simultaneously.

## (2) Recognition of profits and losses

Under the cost method, the Company shall recognize investment income in the light of the attributable share of the profits or cash dividends declared to distribute by the invested entity except for money paid actually or cash dividends or profit that have been declared but not yet distributed included in consideration when obtaining investment.

Under the equity method, the Company shall handle to the net losses of the invested enterprise recognized by it: (1) offset book value of long-term equity investment; (2) if the book value of long-term equity investment is insufficient to dilute, investment loss shall be recognized based on the book value of other long-term rights and interests which substantially form the net investment made to the invested entity, to offset book value of long-term receivables items; and (3) through the above treatment, where the Company still has the obligation to undertake extra losses as per investment contracts or agreements, the obligation that is expected to undertake shall be recognized the project liabilities, and recorded into losses on investment of the current period.

If the invested entity realizes any profits later, the Company shall, after the amount of its attributable share of the un-recognized losses, treat based on reverse order, and write down the book balance of projected liabilities recognized, resume the book value of other long-term rights and interests which substantially form the net investment made to the invested entity and long-term equity investment, and recognize investment income simultaneously.

## 3. Recognition basis of joint control and significant influences of invested enterprises

The term "joint control" means control over an economic activity as specified by contract, which exists only when the investing parties that need to share the power of control in important financial and operating decision-making agree unanimously. The term "significant influence" means having the power to participate in the formulation of financial and operating policies of an enterprise, but not the power to control or jointly control the formulation of these policies together with other parties.

## 4. Impairment reserve of long-term equity investment

Under the significant influence, for the long-term equity investment that there is no offer in the active market and of which the fair value cannot be reliably measured, of which impairment loss shall be confirmed at the balance between the book value and the present value recognized as the

discount rate of market income rate to the future cash flow of the assets.

Other long-term equity investment with the sign of impairment except for the goodwill formed by merger of enterprises, where the recoverable amount of single item long-term equity investment is lower than its carrying value, the difference shall be recognized as impairment loss.

The goodwill formed by merger of enterprises shall be subject to an impairment test at least at the end of each year no matter whether there is sign of impairment.

Once any loss of impairment of the long-term equity investment is recognized, it shall not be switched back in the future accounting periods.

### **(XIII) Investment real estates**

The term "investment real estates" refers to the real estates held for generating rent and/or capital appreciation, including (1) the right to use any land which has already been rented; (2) The right to use any land which is held and prepared for transfer after appreciation; and (3) The right to use any building which has already been rented.

The Company shall make a measurement to the investment real estate through the cost pattern. As for investment real estates measured by employing the cost pattern, i.e. building used for rental, its depreciation policy consistent with that for fixed assets; while for land use right used for rental, its amortization policy consistent with that for intangible assets.

Where there is sign of impairment, the Company shall estimate the recoverable amount of the investment real estates. Where the recoverable amount of single item investment real estates is lower than its carrying value, of which the balance shall be recognized as impairment loss.

Once any loss of impairment of the investment real estates is recognized, it shall not be switched back in the future accounting periods.

### **(XIV) Fixed assets**

#### **1. Recognized standard of fixed assets**

The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: they are held for the sake of producing commodities, rendering labor service, renting or business management; and their useful life is in excess of one fiscal year. No fixed asset may be recognized unless it simultaneously meets the conditions as follows:

- (1) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and
- (2) The cost of the fixed asset can be measured reliably.

## 2. Category of fixed assets and depreciation

The Company shall withdraw the depreciation of fixed assets by adopting the straight-line method, and recognized depreciation rate in the light of the category of fixed assets, expected useful life, and expected net salvage value.

If it is reasonable to be certain that the Company will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the Company will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

Depreciation life and annual depreciation rate of each fixed assets are as below:

Category	Depreciation life (Y)	Rate of salvage value (%)	Annual depreciation rate (%)
Housing and building	40	10	2.25
Machinery equipments	20-30	10	3-4.50
Transportation vehicle	8	10	11.25
Other	5-10	10	9-18

## 3. Impairment test and impairment reserve withdrawal method for fixed assets

The Company shall, at the end of every report period, make a judgment on whether there is any sign of possible fixed assets impairment.

Where there is sign of impairment, the Company shall estimate the recoverable amount of the fixed assets. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the expected future cash flow of the fixed assets.

Where the recoverable amount of the fixed assets is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as impairment loss on fixed assets and recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the fixed assets shall be made.

After the loss of fixed asset impairment has been recognized, the depreciation of the impaired fixed asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the fixed asset systematically (deducting the expected net salvage value) within the residual service life of the fixed asset.

Once any loss of impairment of the fixed assets is recognized, it shall not be switched back in the

future accounting periods.

Where there is any evidence indicating a possible impairment of fixed assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the single fixed asset belongs.

#### 4. Recognition standards and pricing method for fixed assets acquired under finance leases

Where one of the following provisions is regulated in the rental agreement signed between the Company and the leaser, is shall be recognized as an asset acquired under finance leases:

- (1) The ownership of the leased asset is transferred to the Company after the term of lease expires;
- (2) The Company has the option to buy the asset at a price which is far lower than the fair value of the asset at the date when the option becomes exercisable.
- (3) The lease term covers the major part of the use life of the leased asset; and
- (4) In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value of the leased asset.

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

### **(XV) Constructions in progress**

#### 1. Category

Construction in progress shall be measured by the established projects.

#### 2. Standard and time point of construction in progress transferring into fixed assets

All expenditure occurred before the assets are brought to the expected conditions for use shall be recognized as the entering value of fixed assets. The construction in progress of fixed assets has been reached to the expected conditions for use but has not yet has handle completion and settlement procedures, the construction in progress shall be transferred into the fixed assets at the appraisal value in accordance with construction budget, cost or actual cost since the date that the construction in progress reaches to the expected conditions for use, and the depreciation of the fixed assets shall withdrawn in the light of the depreciation policy of fixed assets. After completion and settlement procedures, the Company shall adjust the original provisional estimate

price at the actual cost, but not adjust original depreciation withdrawn.

### 3. Withdrawal method of provision for impairment of construction in progress

The Company shall, at the end of every year, make a judgment on whether there is any sign of possible impairment of construction in progress.

Where there is sign of impairment, the Company shall estimate the recoverable amount of the construction in progress. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the construction in progress minus the disposal expenses and the current value of the expected future cash flow of the construction in progress.

Where the recoverable amount of the construction in progress is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as impairment loss on construction in progress and recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the construction in progress shall be made.

Once any loss of impairment of the construction in progress is recognized, it shall not be switched back in the future accounting periods.

Where there is any evidence indicating a possible impairment of construction in progress, the Company shall, on the basis of single item construction in progress, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the asset group on the basis of the asset group to which the construction in progress belongs.

## **(XVI) Borrowing costs**

### 1. Recognition principle of capitalization of borrowing costs

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(1) The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production

activities for preparing assets eligible for capitalization;

(2) The borrowing costs has already incurred; and

(3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

## 2. Capitalization period

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

When the part of projects in the qualified asset under acquisition and construction or production are completed separately and is ready for use alone, the capitalization of the borrowing costs of such part of assets shall be ceased.

Where each part of an asset under acquisition and construction or production is completed separately and is ready for use or sale during the continuing construction of other parts, but it can not be used or sold until the asset is entirely completed, the capitalization of the borrowing costs shall be ceased when the asset is completed entirely.

## 3. The period of suspension of capitalization of the borrowing costs

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts.

## 4. Measurement of capitalization amount

The interest expense of specially borrowing (minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment) and ancillary expenses shall be capitalized before the qualified asset under acquisition and construction or production is ready for the intended use or sale.

The Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the

general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

## **(XVII) Intangible assets**

### **1. Pricing method**

#### **(1) Initial measurement**

The intangible assets shall be initially measured according to its cost.

The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, the cost of intangible assets shall be determined on the basis of the current value of the purchase price.

For intangible assets obtained through debt restructuring, which are pay a debt by the debtor, its entering value shall be recognized based on the fair value of such intangible assets. The balance between book value for debt restructuring and the fair value of the intangible assets shall be recorded into the profits and losses of the current period.

As for a non-monetary assets transaction, under the premise that the transaction is commercial in nature and the fair value of the assets received or surrendered can be measured reliably, the initial cost of the fair value of the intangible assets received shall be recognized based on the fair value of the assets surrendered, unless there is any exact evidence showing that the fair value of the assets received is more reliable. Where any non-monetary assets transaction does not meet the conditions as prescribed in the above premises at the same time, the book value and relevant payable taxes of the assets surrendered shall be the initial cost of the intangible assets received.

As for intangible assets through business combination under the same control, its entering value shall be recognized based on the book value of combined party. As for intangible assets through business combination not under the same control, its entering value shall be recognized at its fair value.

The cost of self-developed intangible assets shall include: materials used, service cost, registration fee when developing such intangible assets, and amortization expenses of other patent right used in the course of development and interest expense eligible for capitalization, as well as other direct cost incurred before the expected purposes of use of such intangible assets are realized.

#### **(2) Subsequent measurement**

The Company shall analyze and judge the service life of intangible assets, when it obtains intangible assets.

With regard to intangible assets with limited service life, shall be amortized by the straight-line method within the period when the intangible asset can bring economic benefits to the Company; If it is unable to forecast the period when the intangible asset can bring economic benefits to the Company, it shall be regarded as an intangible asset with uncertain service life and not be

amortized.

## 2. Evaluation of useful life of intangible assets with limited useful life

With regard to intangible assets with limited useful life, the following factors shall be considered when the useful life is estimated: (1) general life cycle of products manufactured with the said assets, information of useful life of similar assets obtained; (2) estimation over the present phase and future development tendency in the respect of technology and technics; (3) market demand of products manufactured with the said assets and of labor service provided by the said assets; (4) action taken by present or potential competitor; (5) expected maintain expenditure for which it keeps economic benefit capacity brought by the said assets, and expenditure capacity paid in advance by the Company; (6) such laws, regulations or the similar restriction related with control period of the said assets, i.e. concession period and tenancy duration; and (7) relevance of useful life of other assets held by the Company.

With regard to intangible assets with limited service life shall be amortized reasonably in accordance with the expected realization pattern of the economic benefits which relevant to the intangible assets within the service life, if it is unable to determine the expected realization pattern reliably, intangible assets shall be amortized by the straight-line method.

The Company shall, at the end of every year, check the useful life of the said intangible assets and amortization method.

## 3. Judgment of intangible assets with uncertain service life

In accordance with composite factors such as contractual right or other statutory rights of intangible assets, situation of same industry, historical experiences and proof of professional, if it is unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

The Company shall, at the end of every year, check the useful life of the said intangible assets with uncertain service life.

## 4. Withdrawal of impairment reserve of intangible assets

As for intangible assets with certain service life, where there is sign of impairment, the Company shall make an impairment test at the end of year.

As for intangible assets with uncertain service life, the Company shall make an impairment test at the end of every year.

The Company shall make impairment test to the intangible assets and estimate its recoverable amount. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the intangible assets minus the disposal expenses and the current value of the expected future cash flow of the intangible assets.

Where the recoverable amount of the intangible assets is lower than its carrying value, its carrying value shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as impairment loss on intangible assets and recorded as the profit or loss for the current period. Simultaneously, a provision for the impairment of the intangible assets shall be made.

After the loss of intangible asset impairment has been recognized, the depreciation of the impaired intangible asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the intangible asset systematically (deducting the expected net



salvage value) within the residual service life of the intangible asset.

Once any loss of impairment of the intangible assets is recognized, it shall not be switched back in the future accounting periods.

Where there is any evidence indicating a possible impairment of intangible assets, the Company shall, on the basis of single item intangible assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the asset group on the basis of the asset group to which the intangible assets belongs.

#### 5. Standard for classifying research and development to the Company's R&D projects

The term "research" refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge.

The term "development" refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product.

The research expenditures for its internal research and development projects of the Company shall be recorded into the profit or loss for the current period.

#### 6. Standard for capitalization of development expenditures

The development expenditures for its internal research and development projects of the Company may be capitalized when they satisfy the following conditions simultaneously:

- a. It is feasible technically to finish intangible assets for use or sale;
- b. It is intended to finish and use or sell the intangible assets;
- c. The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- d. It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- e. The development expenditures of the intangible assets can be reliably measured.

### **(XVIII) Long-term deferred expenses**

#### 1. Amortization method

Long-term deferred expense shall be amortized on an average within the period of benefit.

#### 2. Amortization Period

Amortization period of long-term deferred expenses shall be recognized at benefit period.

### **(XIX) Assets transfer with a repurchase agreement**

A repurchase agreement for selling product or transferring assets shall be signed between the Company and the purchaser when the Company sells its products and transfers other assets, thereafter, the Company shall judge that sale of product meets the recognition conditions of revenue or not in accordance with the clauses of the agreement. If after-sales repurchase belongs to financing transaction, the Company fails to recognize sales revenue when delivering products and assets. The positive balance between the repurchase price and sales price shall be withdrawn interests on schedule during the repurchase period, and included into financial expense.

**(XX) Estimated debts**

Such matters as lawsuits, guarantee for a debt, loss contract, restructuring involved by the Company, which are likely to need to deliver assets or provide labor service in the future, and their amount can be measured in a reliable way, shall be recognized as estimated debts.

## 1. Recognition standard of estimate debts

The obligation pertinent to a Contingencies shall be recognized as an estimated debts when the following conditions are satisfied simultaneously:(1) that obligation is a current obligation of the company; (2) It is likely to cause any economic benefit to flow out of the Company as a result of performance of the obligation; and (3) The amount of the obligation can be measured in a reliable way.

## 2. Measurement

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

To determine the best estimate, an enterprise shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash.

The best estimate shall be conducted in the light of the following situations:

If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate (average number of bound) within the range.

If there is not a sequent range for the necessary expenses, or although there is a sequent range for the necessary expenses but all possible outcomes are not the same within the scope, i.e. If the Contingencies concern a single item, best estimate shall be determined in the light of the most likely outcome; If the Contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

**(XXI) Revenue**

## 1. Recognition of revenue from selling goods

The significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise; The enterprise retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; The relevant amount of revenue can be measured in a reliable way; The relevant economic benefits may flow into the enterprise; and the relevant costs incurred or to be incurred can be measured in a reliable way.

## 2. Recognition method of revenue from abalienating the right to use assets

The relevant economic benefits are likely to flow into the enterprise; and the amount of revenues can be measured in a reliable way. The revenue from abalienating the right to use assets shall be recognized in the light of the following methods:

- A. The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate; or
- B. The amount of royalty revenue should be measured and confirmed in accordance with the

period and method of charging as stipulated in the relevant contract or agreement.

3. Thereunder and methods for the schedule of completion of contract when recognizing revenue from providing labor services and construction contracts by employing the percentage-of-completion method

If the Company can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method. Schedule of completion under the transaction concerning the providing of labor services shall be recognized in the light of the measurement of the work completed.

The Company shall ascertain the total revenue from the providing of labor services in accordance with the received or to-be-received price of the party that receives the labor services as stipulated in the contract or agreement, unless the received or to-be-received price as stipulated in the contract or agreement is unfair. The Company shall, on the date of the balance sheet, ascertain the current revenue from providing labor services in accordance with the amount of multiplying the total amount of revenues from providing labor services by the schedule of completion then deducting the accumulative revenues from the providing of labor services that have been recognized in the previous accounting periods. At the same time, the enterprise shall carry forward the current cost of labor services in accordance with the sum of multiplying the total amount of revenues arising from the providing of labor services by the schedule of completion and then deducting the accumulative revenues from the providing of labor services.

If the Company can not, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be conducted in accordance with the following circumstances, respectively: (1) If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; or (2) If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

## **(XXII) Government subsidies**

### 1. Category

A Government grant means the monetary or non-monetary assets obtained free by the Company from the government consist of the Government grants pertinent to assets and Government grants pertinent to income.

### 2. Accounting treatments

The Government grants related to long-term assets such as purchase and construction of fixed assets and intangible assets, shall be recognized as deferred income, and recorded into non-operating income by installment in the light of the useful life of assets constructed and purchased.

For the Government grants pertinent to incomes: (1) Those subsidies used for compensating the related future expenses or losses of the Company shall be recognized as deferred income and shall included in the non-operating income during the period when the relevant expenses are recognized; or (2) Those subsidies used for compensating the related expenses or losses incurred to the

Company shall be directly recognized as the current profits and losses into non-operating income.

**(XXIII) Deferred income tax assets and deferred income tax expenses**

1. Recognition of deferred income tax assets

The Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference.

2. Recognition of deferred income tax liabilities

The Company shall recognize the accrued taxable temporary difference of the current period and prior periods as the deferred income tax liabilities. But except for goodwill, the transaction is no business combination and taxable temporary difference at the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

**(XXIV) Accounting treatment of operating lease and finance lease**

1. Accounting treatment of operating lease

(1) Rent charge paid for leasing assets shall be apportioned at the straight-line method and recorded into the current expense within the overall rent period including rent-free period. The initial direct expense paid by the Company related to lease transaction shall be included into the current expense.

Where the lessor undertakes the expenses related to the lease that should be undertaken by the Company, the Company shall deduct such expense from total rental, and such deducted rental fee shall be apportioned within the rent period and included into the current expense.

(2) Rent charge received for renting out assets shall be apportioned at the straight-line method and recognized as rental income within the overall rent period including rent-free period. The initial direct expense paid by the Company related to lease transaction shall be included into the current expense. In the event of the larger amount, it shall be capitalized and recoded into the current income by installment within the overall lease period.

Where the Company undertakes the expenses related to the lease that should be undertaken by the lessor, the Company shall deduct such expense from total rental income, and such deducted rental fee shall be apportioned within the rent period.

2. Accounting treatment of finance lease

(1) Assets acquired under finance leases: On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

The Company shall adopt the effective interest rate method to calculate and recognize the unrecognized financing charge in the current period, which shall be amortized within the lease period of assets and recorded into the financial expenses.

(2) Assets rented under finance leases: On the beginning date of the lease term, the balance between the sums of the finance lease receipts, the initial direct costs and the unguaranteed

residual value, and the sum of their present values shall be recognized as unrealized financing income, which shall be recognized as lease income during each period of lease receipt thereafter. The initial direct costs incurred related to rent transaction shall be measured into initial measurement of financial lease receipts; accordingly, the income recognized in the lease period shall be reduced.

### **(XXV) Change in major accounting policies and accounting estimates**

#### 1. Change in major accounting policies

Consolidated financial statements were formerly prepared under the accounting policy, i.e. “Where the balance occurs when the loss in the period shared by minority shareholders in a subsidiary exceeds the shares enjoyed by minority shareholders in the opening owners’ equity in the subsidiary, the balance shall charge off the Company’s owner’ equity if minority shareholders are not obliged by the subsidiary’s Articles of Association or any agreement to undertake the said loss; and the balance shall charge off the Company’s minority interests if minority shareholders are obliged by the subsidiary’s Articles of Association or any agreement to undertake the said loss”. Since 2010, the said policy has been changed into “Where the loss in the period shared by minority shareholders in a subsidiary exceeds the shares enjoyed by minority shareholders in the opening owners’ equity in the subsidiary, the balance incurred shall still charge off the Company’s minority interests”. The change of the accounting policy is retrospective but it has no influence on the Company’s consolidated financial statements.

All direct expenses incurred in business combination not under common control, including intermediary fees such as auditing, legal, evaluating and consulting services paid for business combination and other relevant administrative expenses, which were formerly recorded into combination costs, are recorded into current gains/losses when incurred since 1 Jan. 2010.

#### 2. Change in major accounting estimates

During the report period, major accounting estimates remained unchanged.

### **(XXVI) Corrections of previous accounting errors**

#### 1. Retrospective restatement method

During the report period, there is no previous accounting errors need to be corrected by the retrospective restatement method

#### 2. Prospective application method

During the report period, there is no previous accounting errors need to be corrected by the prospective application method.

## **III. Taxation**

### **(I) Main taxes and tax rate**

Category of taxes	Tax base	Tax rate
VAT	Taxable income or labor service	17%
Business tax	Taxable operating income	5%
Tax for maintaining and building cities	Circulating tax	7%
Extra charges of education funds	Circulating tax	3%
Enterprise income tax	Amount of taxable income	25%

### **(II) Tax preference and official documents**

1. As approved by the State Tax Bureau of Foshan Chancheng District, Huaxin (Foshan) Color Printing Co., Ltd., a shareholding subsidiary of the Company, enjoyed preferential taxation policies of “two-year CIT exemption and three-year 50% CIT reduction” since year 2006, that is to say, the CIT was exempted between 2006 and 2007, and CIT should be half reduced from 2008 to 2010.

2. According to the Circular on issuing the Second Name List of Hi-tech Enterprise in Guangdong Province for Y2009(YKGZi(2010) Document No. 42) jointly issued by Science & Technology Department of Guangdong Province, Finance Department of Guangdong Province, National Tax Bureau of Guangdong Province and Local Tax Bureau of Guangdong Province, the Company’s shareholding subsidiary company Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd. was recognized as Second Batch of Hi-tech Enterprise in Guangdong Province for Y2009, and gained Certificate for Hi-tech Enterprise (Certificate No. : GR200944000873, with three years of validity). So the subsidiary can enjoy the relevant tax preference for Hi-tech enterprise since Y2009(include Y2009) for three years, whose CIT rate was 15%.

**VI. Business combination and consolidated financial statement**

The following amount is expressed in RMB ten thousand unless otherwise special explanation

**(I) Major Subsidiaries**

1. Subsidiaries gained through establish or investment ways, etc.

Subsidiaries	Categories	Registered place	Business nature	Registered capital	Business scope	Paid-in capital	Other essential investment	The proportion of holding shares (%)	The proportion of voting rights (%)	Included in consolidated statements	Minority Interests	Deductible minority interests	Balance of parent company's equity after deducting the difference that loss of minority interests exceeding equity obtained by minority shareholders
Foshan Huazhi Waste Paper Recycling Co., Ltd.	Subordinated company of Shareholding subsidiary	Foshan	Service industry	500	Purchase and sale of waste paper and waste newspaper	500	---	100 (indirectly)	100 (indirectly)	Yes	---	---	---
Pearl River Color Printing Co., Ltd. of Chancheng District, Foshan	Subordinated company of Shareholding subsidiary	Foshan	Manufacturing	150	Printing other printed materials, design & production and release of advertising	150	---	100 (indirectly)	100 (indirectly)	Yes	---	---	---
Foshan Huaxin Jinfeng Industrial Co., Ltd	Wholly-owned subsidiary	Foshan	Manufacturing	300	Investing in industry	300	---	100	100	Yes	---	---	---
Foshan Chengtong Paper Co., Ltd	Shareholding subsidiary	Foshan	Manufacturing	30,000	Manufacturing and selling of high-class paper and paper board; export & import	22,500	---	75	75	Yes	7,526.33	---	---
Kunshan Focai Packaging Printing Co., Ltd.	Shareholding & subsidiary	Suzhou	Manufacturing	500	Sale packaging & printing materials	500	---	100	100	Yes	---	---	---

## 2. Subsidiaries through business combination under the same control

Subsidiaries	Categories	Registered place	Business nature	Registered capital	Business scope	Paid-in capital	Other essential investment	The proportion of holding shares (%)	The proportion of voting rights (%)	Included in consolidated statements	Minority Interests	Deductible minority interests	Balance of parent company's equity after deducting the difference that loss of minority interests exceeding equity obtained by minority shareholders
Huaxin (Foshan) Color Printing Co., Ltd	Shareholding subsidiary	Foshan	Manufacturing	USD1,280	Process and printing of packaging or decorating printing products, domestic and export sales of products	7,267.41	---	75	75	Yes	3,726.35	---	---
Zhuhai Huafeng Paper Co., Ltd	Subordinated company of Shareholding subsidiary	Zhuhai	Manufacturing	98,456	Manufacturing and selling of high-class paper and paper board	106,897.15	---	100 (indirectly)	100 (indirectly)	Yes	---	---	---

## 3. Subsidiaries obtained through enterprise combinations not under the same control

Subsidiaries	Categories	Registered place	Business nature	Registered capital	Business scope	Paid-in capital	Other essential investment	The proportion of holding shares (%)	The proportion of voting rights (%)	Included in consolidated statements	Minority Interests	Deductible minority interests	Balance of parent company's equity after deducting the difference that loss of minority interests exceeding equity obtained by minority shareholders
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Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	Shareholding subsidiary	Zhuhai	Manufacturing	USD24,360.9909	Manufacturing and selling of high-class packaging paper board	92,757.07	---	41.9653	41.9653	Yes	141,216.71	---	---
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**(II) Explanation on change in consolidation scope in the report period**

1. Compared with last year, there is one company consolidated into the financial statements, because Kunshan Focai Packaging & Printing Co., Ltd was newly established in Aug. 2010, whose shares is 100% held by the Company and thus included in the consolidated scope of the Company during the report period.

2. Compared with last year, there is one company deducted from the financial statements, because on 10 May 2010, under the approval of the superior shareholding company of both parties named China Chengtong Holding Group Co., Ltd, the Company's shareholding subsidiary Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd (hereinafter referred to "Hongta Renheng") signed Shares Transferring Agreement with China Logistics Services Co., Ltd ( wholly-owned subsidiary of the Company's ultimate controlling company named China Chengtong Holding Group Co., Ltd.), Hongta Renheng transferred 59% shares of its subsidiary named Zhuhai Hengshun Supply Chain Logistics Services Co., Ltd. at the estimated value on the base day of 30 Nov. 2009 to China Logistics Services Co., Ltd., after which Hongta Renheng still held 24% shares of Zhuhai Hengshun Supply Chain Logistics Services Co., Ltd., and finished the procedures of shares transferring and company's name change in Industrial & Commerce Administration (changed as Guangdong Chengtong Logistics Services Co., Ltd.) on 29 Oct. 2010. Hongta Renheng changed the accounting method of Guangdong Chengtong Logistics Co., Ltd. as Equity Method since Nov. 2010 and no longer brought it in consolidated scope.

3. Subsidiary that are included into the consolidated scope but the Parent Company holds half or below of equities and reason for bringing into the consolidated scope

On acquisition date as 30 Jun. 2009, the Company gained 40.176% shares of Hongta Renheng by the ways of capital and share increase, there were five directors in the Board of Directors of Hongta Renheng, of which the Company sent three directors, Yunnan Hongta Group Co., Ltd and Renheng Industrial Co., Ltd. sent one director respectively.

The Chairman of the Board (Legal representative) was sent by the Company, General Manager and Chief Financial Officer were also sent by the Company, so as to control the routine producing and operating activities of Hongta Renheng, and thus consolidated into the consolidated statement of the Company since Jul. 2009. On 1 Feb. 2010, Hongta Renheng finished the changes procedures for capital increase in industry and commerce, so shares of Hongta Renheng held by the Company increased to 41.9653%, meanwhile, revised the contract and Articles of Association of Hongta Renheng according to the resolutions of the Board of Directors of Hongta Renheng on 25 Feb. 2010, after which the directors of the Board of Directors changed from five to seven, as the Company sent four directors (originally three), Yunnan Hongta Group Co., Ltd. sent two directors (originally one), Renheng Industrial Co., Ltd. sent one, Dragon State International Limited didn't send any directors. The Company still can decide the financial and operating policies of Hongta Renheng, so continued to consolidated it to the consolidated scope.

**(III) Bodies newly included into the consolidated scope and bodies no longer included into the consolidated scope**

1. Subsidiaries that the Company newly included into the consolidated scope, bodies with special purpose and business entities that the Company obtained the control right through operating fiduciary or accepting leases

Name	Closing net assets	Net profit in 2010
Kunshan Focai Packaging & Printing Co., Ltd.	488.25	-11.75

2. Subsidiaries that the Company no longer included into the consolidated scope, bodies with special purpose and business entities that the Company obtained the control right through operating fiduciary or accepting leases

Name	Net assets on disposal date	Net Profit from period-begin to disposal date
Guangdong Chengtong Logistics Services Co., Ltd. (original name as Zhuhai Hengshun Supply Chain Logistics Service Co., Ltd.)	2,858.48	35.47

**(IV) The reduced subsidiaries for selling the shares of companies losing controlling rights**

Name	Date of disposal	Recognition method of gains and losses
Guangdong Chengtong Logistics services Co., Ltd.	29 Oct. 2010	Equity method

**V. Notes to the consolidated financial statements**

The following amount is expressed in RMB unless otherwise special explanation

**(I) Monetary funds**

Items	Closing amount			Opening amount		
	Foreign currency	Exchange rate	Translated to RMB	Foreign currency	Exchange rate	Translated to RMB
Cash:						
-RMB			279,818.91			336,419.90
-HKD	73,869.39	0.8509	62,855.46	47,430.79	0.8804	41,772.83
-USD	11,537.59	6.6227	76,410.00	15,860.70	6.8282	108,300.03
Subtotal			419,084.37			486,492.76
Bank deposit:						
-RMB			229,076,267.61			296,265,516.41
-HKD	4,354,339.97	0.8509	3,702,615.54	3,399,875.09	0.8804	2,993,401.45
-USD	6,007,343.01	6.6227	39,780,055.00	4,217,355.51	6.8282	28,797,119.60
-EURO	3.98	8.8065	35.05	2,573.98	9.7971	25,217.54
Subtotal			272,558,973.20			328,081,255.00
Other monetary fund						
-RMB			118,404,984.33			15,280,714.36
-USD	306.69	6.6227	2,031.12	306.29	6.8282	2,091.41
Subtotal			118,407,015.45			15,282,805.77
Total			391,385,073.02			343,850,553.53

Of which: Breakdown of restricted monetary fund

Items	Closing amount	Opening amount
Margin for bank acceptance bill	117,530,459.62	11,108,126.17
Margin for LC	---	3,707,264.28
Total	117,530,459.62	14,815,390.45

**(II) Notes receivable****1. Types of notes receivable**

Type	Closing amount	Opening amount
Bank acceptance bill	261,728,377.81	118,884,296.65
Total	261,728,377.81	118,884,296.65

2. There was no pledged notes receivable at the end of period

3. The bank acceptance bills that the Company has discounted but not yet due at the end of period totaling RMB 8,958,024.00, and the due dates are from Jan. 2011 to Feb. 2011 respectively.

4. The bank acceptance bills that the Company has made indorsement but not yet due at the end of period totaling RMB 582,313,185.67, and the due dates are from Jan. 2011 to Jun. 2011 respectively. Of which, the top five are as followed:

Note receivable issuing unit	Issuing date	Due date	Amount	Remarks
Fujian Xin Ye Investment Management Group Co., Ltd.	29 Nov. 2010	29 May 2011	8,602,680.00	
Shantou Yuedong Printing Materials Co., Ltd.	1 Dec. 2010	1 Jun. 2011	7,000,000.00	
Fujian Xin Ye Investment Management Group Co., Ltd.	12 Oct. 2010	12 Apr. 2011	6,092,688.00	
Shantou Jinshi Printing Co., Ltd	22 Jul. 2010	22 Jan. 2011	5,000,000.00	
Shantou Xinrui Paper Product Co., Ltd.	20 Sep. 2010	20 Mar. 2011	5,000,000.00	
Total			31,695,368.00	

5.. There was no notes receivable changed to accounts receivable for the incapable cashing of the issuers at the end of period.

### (III) Accounts receivable

#### 1. Composing of accounts receivable

Categories	Closing amount				Opening amount			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)
Accounts receivable which are individually significant and individually withdrawn the provision for bad debts	10,047,398.58	1.41	10,047,398.58	100	10,047,398.58	1.12	10,047,398.58	100
Accounts receivable which are not individually significant and individually withdrawn the provision for bad debts	38,866,789.61	5.45	33,713,460.51	86.74	19,198,648.88	2.15	18,554,482.80	96.64
Accounts receivable withdrawn the provision for bad debts under combination								
Combination—Aging analysis method	664,313,057.57	93.14	8,328,691.16	1.25	865,426,644.61	96.73	11,429,553.26	1.32
Subtotal of combination	664,313,057.57	93.14	8,328,691.16	1.25	865,426,644.61	96.73	11,429,553.26	1.32
Total	713,227,245.76	100	52,089,550.25	7.30	894,672,692.07	100	40,031,434.64	4.47

Explanation on the categories of accounts receivable

(1) Among the combination, accounts receivable withdrawn the provision for bad debts by aging

## analysis method

Aging	Closing amount			Opening amount		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion to total amount (%)		Amount	Proportion to total amount (%)	
1-3 months	565,714,443.60	85.15	---	767,862,008.05	88.73	---
4-12 months	80,901,678.37	12.18	4,045,083.90	54,181,564.96	6.26	2,551,314.04
Subtotal (within 1 year)	646,616,121.97	97.33	4,045,083.90	822,043,573.01	94.99	2,551,314.04
1-2 years	7,228,558.58	1.09	722,855.86	26,878,815.55	3.11	2,687,881.55
2-3 years	5,578,123.73	0.84	1,115,624.75	6,941,510.12	0.80	1,408,984.70
Over 3 years	4,890,253.29	0.74	2,445,126.65	9,562,745.93	1.10	4,781,372.97
Total	664,313,057.57	100	8,328,691.16	865,426,644.61	100	11,429,553.26

(2) Explanation on accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination: Where there is any evidence indicating a possible impairment of accounts receivable, it should be separated from the relevant combination and be carried out the impairment test, then estimated impairment and made the provision for bad debts

2. The prvision for bad debts of accounts receivable with significant single amounts or which are not significant but individually carried the impairment test

Content	Book balance	Provision for bad debts	Proportion to total amount (%)	Remarkd
Guangdong Regall Group Co., Ltd.	10,047,398.58	10,047,398.58	100	Under the lawsuit
Dongguan Second Light Materials Supply Co., Ltd	4,516,409.08	4,516,409.08	100	Demanded for many times but didn't recover
Zhuhai East Zhengtai Power Equipment Co., Ltd.	2,925,825.54	2,633,242.98	90	Applied to the court for compulsory execution but with little possibility
Foshan Jiahe Paper Trading Co., Ltd.	4,902,239.70	2,451,119.85	50	Difficult to recover
Guangzhou Yixin Color Printing Machine Co., Ltd.	1,917,358.32	1,917,358.32	100	Demanded for many times but didn't recover
Others	24,604,956.97	22,195,330.28	90.21	
Total	48,914,188.19	43,760,859.09	89.46	

3. The accounts receivable that Company withdrew the provision for bad debt in previous period based on total or large proportion, but recover based on total or large proportion during the report period.

Name	Reason for reversal and recovery	Basis to recognize the original provision for bad debts	Accumulated amount of provision for bad debts before reversal or	Amount of reversal or recovery

			recovery	
Sichuan Five Oxen Printing Co., Ltd.	The dispute has been solved	The aging was long, so the possibility of recovery was little	1,049,293.57	1,096,425.45
Total			1,049,293.57	1,096,425.45

4. During the report period, there were no accounts receivable by reorganization or other ways or the accumulated withdrawing of provision for bad debts before reorganization.

5. The accounts receivable being written off actually during the report period

Name	Nature of account receivable	Amount of writing off	Reason for writing off	Whether caused by affiliated relationship
Huizhou Boluo Shiwan Jiahong Color Printing Factory	Loans	314,965.83	The company has closed down, filed a suit three years ago and be settled now, but without any compensation of assets	No
Zhuzhou Qianjin Pharmacy Co., Ltd.	Loans	103,800.00	Quality dispute, and gave up to recover	No
Yangchun New Lihua Color Printing Co., Ltd.	Loans	40,000.00	Quality dispute	No
Zhongshan Leshan Printing Co., Ltd.	Loans	28,000.00	Quality dispute	No
Others	Loans	54,232.24	Arrears for long time with small amount	No
Total		540,998.07		

6. There was no accounts receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

7. The top 5 arrearages in accounts receivable

Debtor rank	Relationship with the Company	Amount	Aging	Proportion to total accounts receivable (%)
No. 1	Irrelevant party	53,931,272.49	within 1 year	7.56
No. 2	Irrelevant party	35,606,560.00	within 1 year	4.99
No. 3	Irrelevant party	24,682,438.80	within 1 year	3.46
No. 4	Irrelevant party	19,934,323.05	within 1 year	2.79
No. 5	Irrelevant party	19,915,209.56	within 1 year	2.79
Total		154,069,803.90		21.59

8. There was no accounts receivable from relevant parties at the end of period

**(IV) Advances to the supplier**

1. Analysis for aging

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)

Within 1 year	383,562,835.43	98.68	54,602,898.85	89.63
1-2 years	4,118,909.84	1.06	4,762,742.64	7.82
2-3years	180,917.67	0.05	1,374,474.60	2.26
Over 3 years	826,838.73	0.21	177,805.85	0.29
Total	388,689,501.67	100	60,917,921.94	100

## The top five prepayment ranked by the amount

Name of supplier	Relationship with the Company	Amount	Period	Reason for unliquidated in time
No. 1	Irrelevant party	212,422,489.47	Within 1 year	Payment for materials advance to supplier according to contract, and has not received the materials
No. 2	Irrelevant party	103,783,250.12	Within 1 year	Payment for materials advance to supplier according to contract, and has not received the materials
No. 3	Irrelevant party	8,447,331.84	Within 1 year	Payment for materials advance to supplier according to contract, and has not received the materials
No. 4	Irrelevant party	8,245,741.73	Within 1 year	Payment for materials advance to supplier according to contract, and has not received the materials
No. 5	Irrelevant party	3,367,397.82	Within 1 year	Payment for materials advance to supplier according to contract, and has not received the materials
Total		336,266,210.98		

2. At the end of period, there was no advance to the supplier due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

**(V) Other accounts receivable**

## 1. Breakdown

Category	Closing balance				Opening balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)	Amount	Proportion to total amount (%)
Other accounts receivable which are individually significant and withdrawn the provision for bad debts individually	6,000,000.00	16.54	6,000,000.00	100	6,000,000.00	14.98	6,000,000.00	100
Other accounts	3,965,296.26	10.92	3,854,731.26	97.21	3,965,296.26	9.90	3,854,731.26	97.21

receivable which are not individually significant, but withdrawn the provision for bad debts								
Other accounts receivable withdrawn the provision for bad debts according the combination								
Combination—Aging analysis method	26,320,936.40	72.54	2,263,938.36	8.60	30,092,023.18	75.12	1,300,581.58	4.32
Subtotal of combination	26,320,936.40	72.54	2,263,938.36	8.60	30,092,023.18	75.12	1,300,581.58	4.32
Total	36,286,232.66	100	12,118,669.62	33.40	40,057,319.44	100	11,155,312.84	27.85

(1) Among the combination, other accounts receivable withdrawn the provision for bad debts by aging analysis method

Aging	Closing balance			Opening balance		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion to total amount (%)		Amount	Proportion to total amount (%)	
1-3 months	14,329,669.86	54.44	---	17,241,801.03	57.30	---
4-12 months	4,773,573.52	18.14	238,678.68	4,492,636.73	14.93	157,778.58
Within 1 year	19,103,243.38	72.58	238,678.68	21,734,437.76	72.23	157,778.58
1-2 years	2,789,765.63	10.60	278,976.56	3,410,995.43	11.34	291,996.15
2-3 years	1,558,935.23	5.92	311,787.05	1,501,819.35	4.98	300,808.67
Over 3 years	2,868,992.16	10.90	1,434,496.07	3,444,770.64	11.45	549,998.18
Total	26,320,936.40	100	2,263,938.36	30,092,023.18	100	1,300,581.58

(2) Explanation on other accounts receivable which are not individually significant, but are assessed at high risk level through credit risk combination: Where there is any evidence indicating a possible impairment of other accounts receivable, it should be separated from the combination and carried out individual impairment test, then estimate the impairment and withdraw the provision for bad debts.

2. Impairment provision for accounts receivable with significant single amounts or which are not significant but impairment test is individually carried out.

Content	Book balance	Provision for bad debts	Proportion to total amount (%)	Reason
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Zhuhai Yidecheng Industrial Co., Ltd	6,000,000.00	6,000,000.00	100	Loans in 2003, difficult to recover
Zhuhai Municipal Construction Commission	2,000,000.00	2,000,000.00	100	Advances for road construction before 2001, and difficult to recover
Jiangmen Pengjiang Jinghua Sieve Plate Manufacturing Co., Ltd.	1,105,650.00	995,085.00	90	90% of the payment for brush-ray machine used in experiment, while the machines can't be used for unsuccessful experiment, so make the impairment provision after estimating the salvage value
Shenchi Industrial Co., Ltd.	500,000.00	500,000.00	100	Loans before 1993, difficult to recover
Other	359,646.26	359,646.26	100	
Total	9,965,296.26	9,854,731.26	98.89	

3. There was no other accounts receivable that Company withdrew the provision for bad debts in previous period based on total or large proportion, but recover based on total or large proportion or by reorganizations or other ways during the report period.

4. Other accounts receivable being actually written off in the report period.

5. At the end of period, there was no other accounts receivable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

6. For the detailed nature and content of other accounts receivable with significant amount, please refer to the Notes VII.

7. The top 5 arrearages in other accounts receivable at the year-end

Debtor rank	Relationship with the Company	Amount	Aging	Proportion to total other receivables (%)	Nature and content
No. 1	Irrelevant party	7,039,241.97	1-3 months	19.40	Current account
No. 2	Irrelevant party	6,000,000.00	Over 3 years	16.54	Loan
No. 3	Irrelevant party	2,532,816.23	Within 3 years	6.98	Court fees without final settlement, etc.
No. 4	Irrelevant party	2,000,000.00	Over 3 years	5.51	Advance for road construction
No. 5	Irrelevant party	1,900,000.00	4-12months	5.23	Guaranteed deposit
Total		19,472,058.20			

8. There was no other accounts receivable due from affiliated parties at the end of the period.

## (6) Inventory

### 1. Category

Item	Closing balance			Opening balance		
	Book balance	Provision for falling price	Book value	Book balance	Provision for falling price	Book value

Materials in transit	---	---	---	6,366,112.19	---	6,366,112.19
Raw materials	342,792,185.41	11,141,798.74	331,650,386.67	434,825,080.75	30,029.46	434,795,051.29
Low-value consumption goods and packing	29,232,226.68	---	29,232,226.68	35,231,462.24	---	35,231,462.24
Materials in transit	42,185,579.26	---	42,185,579.26	26,219,366.91	---	26,219,366.91
Merchandise inventory	499,053,862.18	18,161,743.79	480,892,118.39	222,225,379.23	1,245,724.64	220,979,654.59
Total	913,263,853.53	29,303,542.53	883,960,311.00	724,867,401.32	1,275,754.10	723,591,647.22

As at the end of year, no inventory was used for guarantee.

## 2. Provision for falling price of inventory

Category	Book balance at the year-begin	Increase this year	Withdrawal this year		Book balance at the year-end
			Written back	Written off	
Raw materials	30,029.46	11,111,769.28	---	---	11,141,798.74
Merchandise inventory	1,245,724.64	16,916,019.15	---	---	18,161,743.79
Total	1,275,754.10	28,027,788.43	---	---	29,303,542.53

## 3. Provision for falling price of inventory

Category	Basis of withdrawing provision for failing price of inventory	Cause for recovering inventory of falling price of inventory during this period	Percentage of recovery amount of inventory falling price of inventory to the ending balance of this inventory
Raw materials	Net realizable value	---	---
Merchandise inventory	Net realizable value	---	---

As the provision for falling price of inventory at period-end was measured on the differences of cost over net realizable value, the determination of net realizable value follows: under normal producing process, to the amount after deducting the estimated sale expense and relevant taxes from the estimated sell price of the inventory, the net realizable value has been recognized.

### (7) Other current assets

Category	Closing balance	Opening balance
Insurance premium	---	210,122.54
Other	---	112,802.03
Total	---	322,924.57

### (8) Available-for-sale financial assets

Items	Closing fair value	Opening fair value
(1) Equity instrument available for sale	4,869,332.31	3,647,180.02
Total	4,869,332.31	3,647,180.02

Note: Equity instrument available for sale is shares subject to trading moratorium amounting to 385,537 shares of Zhuhai Port Co., Ltd. held by Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd. after completing share merger reform. Since the end of 2007, the said shares had been transferred to circulating shares.

**(9) Investment on associated enterprises and affiliated enterprises**

(Unit: RMB'0000)

Invested enterprise	Shareholding proportion (%)	Proportion of voting right in invested enterprise (%)	Total assets at the year-end	Total liabilities at the year-end	Total net assets at the year-end	Total operating revenue this year	Net profit this year
I. Affiliated enterprise							
Tetra Huaxin (Foshan) Packaging Co., Ltd.	25	25	116,257.50	33,851.67	82,405.83	107,333.67	23,858.63
Guangdong Chengtong Logistics Co., Ltd.	24	24	2,881.87	50.18	2,831.69	3,338.19	8.67

**(10) Long-term equity investment**

List of long-term equity investment

Invested enterprise	Accounting method	Investment cost	Opening balance	Increase/decrease	Closing balance	Shareholding proportion (%)	Proportion of voting right in invested enterprise (%)	Interpretations of difference between the equity percentage and vote right percentage in the invested company	Impairment reserves	Impairment provision of this period	Cash dividends of this period
Tetra Huaxin (Foshan) Packaging Co., Ltd.	Equity method	145,945,947.55	209,901,041.18	-3,886,474.46	206,014,566.72	25	25	---	---	---	63,533,038.22
Guangdong Chengtong Logistics Co., Ltd.	Equity method	---	---	6,796,045.88	6,796,045.88	24	24	---	---	---	---
Tetra Huaxin (Foshan) Packaging		145,945,947.55	209,901,041.18	2,909,571.42	212,810,612.60	---	---	---	---	---	---

Co., Ltd.											
Guangdong Development Bank Stock Ltd., Corp.	Cost method	113,558.00	113,558.00	---	113,558.00	0.000428	0.000428	---	---	---	---
Subtotal of cost method		113,558.00	113,558.00	---	113,558.00	---	---	---	---	---	---
Total		146,059,505.55	210,014,599.18	2,909,571.42	212,924,170.60	---	---	---	---	---	---

**(11) Investment real estate**

Items	Opening balance	Increase this period	Decrease this period	Closing balance
1. Original book value	6,098,064.52	13,208,051.00	---	19,306,115.52
(1) House and building	6,098,064.52	13,208,051.00	---	19,306,115.52
2. Accumulative depreciation and amortization	2,140,460.69	1,663,436.23	---	3,803,896.92
(1) House and building	2,140,460.69	1,663,436.23	---	3,803,896.92
3. Total net value of investment real estate	3,957,603.83	11,544,614.77	---	15,502,218.60
(1) House and building	3,957,603.83	11,544,614.77	---	15,502,218.60
4. Total provision for impairment	---	---	---	---
(1) House and building	---	---	---	---
5. Total book value	3,957,603.83	11,544,614.77	---	15,502,218.60
(1) House and building	3,957,603.83	11,544,614.77	---	15,502,218.60

Depreciation and amortization amounted to RMB 560,428.74 in this period.

Subsidiary Zhuhai SEC Hongta Renheng Paper Co., Ltd. was lent to subsidiary Guangdong Chengtong Logistics Co., Ltd which including in the original consolidation scope. Due to changes in consolidation scope, it was changed from equity method to cost method for the accounting of Guangdong Chengtong Logistics Co., Ltd. in this year that original price of original consolidated and offset house and building amounted to RMB 13,208,051.00 and the accumulative depreciation amounted to 1,103,007.49 transferred to accounting of increase this period. The change was written into the increase of investment real estate increase this period.

**(12) Fixed assets-original value and accumulative depreciation****1. Fixed assets**

Item	Opening book balance	Increase this period	Decrease this period	Closing book balance
1. Total original value	4,438,544,989.76	60,548,802.39	22,088,296.97	4,477,005,495.18
Including: House and building	1,122,295,051.90	8,130,378.70	13,208,051.00	1,117,217,379.60
Machinery equipment	3,152,649,381.83	37,015,752.37	1,824,657.60	3,187,840,476.60
Transportation vehicle	53,663,907.20	6,254,698.99	6,593,875.61	53,324,730.58
Other	109,936,648.83	9,147,972.33	461,712.76	118,622,908.40
2. Total accumulative depreciation		Increase this period	Provision this period	
	1,111,346,372.19	---	137,157,495.29	7,039,725.03
Including: House and building	215,077,168.90	---	29,322,064.18	1,103,007.49
				243,296,225.59

Item	Opening book balance	Increase this period		Decrease this period	Closing book balance
Machinery equipment	812,789,555.53	---	95,409,306.56	1,581,905.60	906,616,956.49
Transportation vehicle	35,914,771.09	---	3,523,664.66	4,055,786.86	35,382,648.89
Other	47,564,876.67	---	8,902,459.89	299,025.08	56,168,311.48
3. Total fixed assets-net book value	3,327,198,617.57		---	---	3,235,541,352.73
Including: House and building	907,217,883.00		---	---	873,921,154.01
Machinery equipment	2,339,859,826.30		---	---	2,281,223,520.11
Transportation vehicle	17,749,136.11		---	---	17,942,081.69
Other	62,371,772.16		---	---	62,454,596.92
4. Total impairment reserves	75,885,983.34		2,200,504.64	---	78,086,487.98
Including: House and building	---		---	---	---
Machinery equipment	75,885,983.34		2,200,504.64		78,086,487.98
Transportation vehicle	---		---	---	---
Other	---		---	---	---
V. Total fixed assets-book value	3,251,312,634.23		---	---	3,157,454,864.75
Including: House and building	907,217,883.00		---	---	873,921,154.01
Machinery equipment	2,263,973,842.96		---	---	2,203,137,032.13
Transportation vehicle	17,749,136.11		---	---	17,942,081.69
Other	62,371,772.16		---	---	62,454,596.92
Total	3,251,312,634.23		---	---	3,157,454,864.75

Depreciation this period amounted to 137,157,495.29.

During this period, fixed assets-original value transferred from construction in progress amounted to RMB 27,880,620.71.

## 2. As at the end of year, fixed assets that the Company failed to complete property right certificate

Items	Book value	Reason that the failed to complete property right certificate	Expected date for completion 预计办结产权证书时间
House and building	509,490,130.00	On the process of gathering materials or failed to complete the transfer procedure	2011 年
Total	509,490,130.00		

Subsidiary Foshan Chengtong Paper Co., Ltd. took on the local assets of Foshan Huafeng had been sold out and corresponding liabilities for production and business, up until the report date relevant real estate failed to complete property right certificate.

3. There were no temporary idle fixed assets at the period-end.

4. There were no fixed assets for mortgage at the period-end.

**(13) Construction in progress**

## 1. Construction in progress

Items	Balance at period-end			Balance at year-begin		
	Book balance	Impairment reserves	Book value	Book balance	Impairment reserves	Book value
Renovation project of white cardboard	---	---	---	2,467,290.20	---	2,467,290.20
Color printing equipment	---	---	---	608,365.40	---	608,365.40
Renovation project of color printing plant	---	---	---	372,388.45	---	372,388.45
Project of production line of Chengtong Plant	328,146.70	---	328,146.70	807,494.64	---	807,494.64
Software	113,914.53	---	113,914.53	---	---	---
7+1 Speedmaster Press	17,148,564.12	---	17,148,564.12	---	---	---
Close Circuit Cooling Tower (FB-07N)	87,179.49	---	87,179.49	---	---	---
Settlement of UV dryer in FBZ 420 Flexo Print Zone I and II	192,307.60	---	192,307.60	---	---	---
Gravure Still Picture Control System	30,769.23	---	30,769.23	---	---	---
Total	17,900,881.67	---	17,900,881.67	4,255,538.69	---	4,255,538.69

## 2. Of which: change in significant construction in progress

Name of project	Budget	Opening balance	Increase this year	Transfer into fixed assets	其他减少	Proportion of input to budget (%)	Progress	Accumulated interest capitalization amount	Including: interest capitalization amount this period	Interest capitalization rate this period (%)	Fund source	Balance at the period-end
Renovation project of white cardboard		2,467,290.20	14,172,441.27	16,639,731.47	---		Completed	---	---	---	Other	---
Renovation project of production line		---	7,022,599.04	6,663,553.64	359,045.40		Completed	---	---	---	Other	---
Decoration of office building		---	3,419,565.32	3,419,565.32	---		Completed	---	---	---	Other	---
7+1 Speedmaster Press	EUR1.8 million	---	17,148,564.12	---	---		Under testing and commissioning	---	---	---	Other	17,148,564.12
Total		2,467,290.20	41,763,169.75	26,722,850.43	359,045.40			---	---	---		17,148,564.12



3. There were no impairment reserves for construction in progress at the period-end.

4. Process of significant construction in progress

Items	Process	Note
7+1 Speedmaster Press	Under testing and commissioning	

#### (14) Intangible assets

Items	Book balance this year	Increase this period	Decrease this period	Book balance at the period-end
I. Total original book value	136,517,343.86	213,461.54	885,589.86	135,845,215.54
(1) Land use right	124,271,168.70	---	272,589.86	123,998,578.84
(2) Development of coated cow card paper	7,871,956.77	---	---	7,871,956.77
(3) Research of new process for papermaking	2,524,768.29	---	---	2,524,768.29
(4) Other	1,849,450.10	213,461.54	613,000.00	1,449,911.64
II. Total accumulative amortization	25,676,009.11	13,407,146.77	149,448.21	38,933,707.67
(1) Land use right	24,080,027.82	6,837,470.98	6,848.21	30,910,650.59
(2) Development of coated cow card paper	701,963.83	4,357,341.93	---	5,059,305.76
(3) Research of new process for papermaking	504,953.66	2,019,814.63	---	2,524,768.29
(4) Other	389,063.80	192,519.23	142,600.00	438,983.03
III. Total net book value of intangible assets	110,841,334.75	---	---	96,911,507.87
(1) Land use right	100,191,140.88	---	---	93,087,928.25
(2) Development of coated cow card paper	7,169,992.94	---	---	2,812,651.01
(3) Research of new process for papermaking	2,019,814.63	---	---	---
(4) Other	1,460,386.30	---	---	1,010,928.61
IV. Total intangible assets impairment reserves	---	---	---	---
(1) Land use right	---	---	---	---
(2) Development of coated cow card paper	---	---	---	---
(3) Research of new process for papermaking	---	---	---	---
(4) Other	---	---	---	---
V. Total book value of intangible assets	110,841,334.75	---	---	96,911,507.87
(1) Land use right	100,191,140.88	---	---	93,087,928.25
(2) Development of coated cow card paper	7,169,992.94	---	---	2,812,651.01
(3) Research of new process for papermaking	2,019,814.63	---	---	---

process for papermaking				
(4) Other	1,460,386.30	---	---	1,010,928.61

Amortization amount of this period amounted to 13,407,146.77.

There were no intangible assets for mortgage or guarantee at the period-end.

### (15) Goodwill

Name of invested enterprises	Opening balance	Increase this period	Decrease this period	Balance at the period-end	Impairment reserves at the period-end
	9,129,025.01	---	---	9,129,025.01	---
Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd.	9,129,025.01	---	---	9,129,025.01	---

Note: The Company acquired the control of Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. through business combination no under the same control with a combination cost of RMB 80,844,870,000 and acquired recognized fair value of the company amounted to RMB 79,931,970,000. Goodwill of 9,129,025.01 was formed at the positive balance between combination cost and identifiable net assets of the invested party. At the period-end, combining analysis on estimated recoverable amount of portfolio of assets group to this company's two production lines equipment and present value of expected future cash flow of assets, the Company did not find a impairment sign of goodwill, therefore, the Company had not need to withdrawn the provision for impairment.

### (16) Long-term amortization expenses

Items	Opening balance	Increase this year	Amortization this year	Other decrease	Closing balance	Reasons for other decrease
Compensation for repairing the roads	141,066.79	---	---	141,066.79	---	Carried forward of Hengshun assets
Charges for disposing pollutants	1,555,020.73	---	1,555,020.73	---	---	
Improve expenditure by leasing fixed assets	4,618,369.03	---	3,695,011.25	923,357.78	---	The cease of capitalization for the changed situation
Total	6,314,456.55	---	5,250,031.98	1,064,424.57	---	

### (17) Deferred income tax assets and deferred income tax liabilities

#### 1. Deferred income tax assets recognized

Items	Closing balance	Opening balance
Deferred income tax assets:		
Assets impairment reserves	28,289,660.26	9,342,811.32
Withholding unpaid wages	5,152,095.51	2,250,000.00

Items	Closing balance	Opening balance
Withholding sales agent fee	---	508,915.36
Projected liabilities/estimated losses on product quality assurance	1,294,800.00	---
Deductible unrecovered loss	---	12,756,407.48
Subtotal	34,736,555.77	24,858,134.16
Deferred income tax liabilities:		
Estimated value of transactional financial instruments and derivative financial instruments	---	---
Fair value changes of tradable financial assets recorded into capital reserves	452,209.84	268,887.00
Subtotal	452,209.84	268,887.00

## 2. List of unrecognized deferred income tax assets

Item	Closing balance	Opening balance
(1) Deductible temporary differences	---	106,539,761.81
(2) Deductible losses	---	---
Total	---	106,539,761.81

## 3. There were no deductible losses of unrecognized deferred income tax assets

## 4. Assets caused for temporary differences or temporary differences in related to liability items

Items	Temporary difference amount
Taxable temporary difference items	
Fair value changes	3,014,732.27
Subtotal	3,014,732.27
Deductible differences items	
Assets impairment reserves	170,299,929.94
Depreciation difference between fixed assets accounting and taxation	-1,298,320.44
Withholding unpaid wages	26,806,821.82
Withholding sales agent fee	---
Projected liabilities/estimated losses on product quality assurance	8,632,000.00
Subtotal	205,738,751.76

**(18) Provision for assets impairment**

Items	Opening balance	Increase this period	Decrease this period		Closing balance
			Written back	Written off	
Bad debt reserve	51,186,747.48	14,709,198.81	1,146,728.35	540,998.07	64,208,219.87
Provision for falling price of inventory	1,275,754.10	28,027,788.43	---	---	29,303,542.53
Provision for fixed	75,885,983.34	2,200,504.64	---	---	78,086,487.98

assets impairment					
Total	128,348,484.92	44,937,491.88	1,146,728.35	540,998.07	171,598,250.38

**(19) Short-term loan**

## 1. Category of Short-term loan

Items	Closing balance	Opening balance
Credit loan	136,227,000.00	140,000,000.00
Guaranteed loan	855,000,000.00	1,023,000,000.00
Mortgage loan	---	350,000,000.00
Trade financing	91,001,627.46	271,893,906.80
Total	1,082,228,627.46	1,784,893,906.80

2. There were no expired outstanding short-term loans.

3. Among closing balance of guaranteed loan, loan of RMB 0.318 billion borrowed by the Company, RMB 30 million borrowed by subsidiary Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd., RMB 90 million borrowed by Zhuhai Huafeng Paper Co., Ltd. as well as RMB 10 million borrowed by Huaxin (Foshan) Color Printing Co., Ltd were provided the suretyship of joint liabilities by China National Paper-industry Investment Corporation. The loan of RMB 0.23 billion borrowed by Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd, RMB 0.152 billion borrowed by Zhuhai Huafeng Paper Co., Ltd. as well as RMB 25 million borrowed by Huaxin (Foshan) Color Printing Co., Ltd. were provided the suretyship of joint liabilities by the Company.

4. Trade financing loan of RMB 46,839,123.30 of subsidiary Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd., RMB 5,478,895.77 of Foshan Chengtong Paper Co., Ltd. were provided the suretyship of joint liabilities by China National Paper-industry Investment Corporation. And loan of RMB 7,767,786.02 of Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd., RMB 6,294,739.59 of Foshan Chengtong Paper Co., Ltd. were provided the suretyship of joint liabilities by the Company. While remains loan of Foshan Chengtong Paper Co., Ltd. were provided the suretyship of joint liabilities by itself.

**(20) Notes payable**

Category	Closing balance	Opening balance
Bank acceptance bill	213,272,240.32	5,540,630.87
Total	213,272,240.32	5,540,630.87

An amount of RMB 213,272,240.32 would be due within the next accounting period.

Note: Relevant guarantee money of RMB 117,530,459.62 was written into notes payable.

**(21) Accounts payable**

## 1. Account age analysis

Items	Closing balance	Opening balance
Within 1 year	594,366,229.66	470,643,861.00
1-2 years	10,947,412.15	8,922,095.40
2-3 years	17,467.00	653,029.24
Over 3 years	1,651,598.31	1,885,020.12
Total	606,982,707.12	482,104,005.76

2. There was no accounts payable due from shareholders with more than 5% (including 5%) of the

voting shares of the Company.

### 3. List of related parties in closing balance

Name of entity	Closing balance	Opening balance
Foshan Huaxin Import and Export Co., Ltd	4,310,637.91	1,150,581.70
China National Paper-industry Investment Corporation	---	21,203,333.87
Qindao Chengtong Fuel Co., Ltd.	---	0.12
Total	4,310,637.91	22,353,915.69

### 4. Wholesale other payable with aging over 1 year

Name of entity	Amount	Reason for nonpayment	Remark (Note if the amount was paid back on the report date)
Anhui Jiangwei Cable Group Co., Ltd.	2,825,312.65	Margin	
Zhuhai Changsh Construction Engineering Co., Ltd.	2,581,200.00	Margin	
METSOPaperINC	1,124,814.90	Margin	
Zhuhai Gas Company	819,425.16	Margin	
ADIsysteminc	502,820.00	Margin	
Total	7,853,572.71		

## (22) Amount received in advance

### 1. Account age analysis

Items	Closing balance	Opening balance
Within 1 year	15,094,083.22	18,166,798.32
1-2 years	3,160.00	366.23
2-3 years	29,990.40	73,003.62
Over 3 years	22,488.85	---
Total	15,149,722.47	18,240,168.17

2. There was no accounts payable due from shareholders with more than 5% (including 5%) of the voting shares of the Company.

### 3. List of related parties in closing balance

Name of entity	Closing balance	Opening balance
Foshan Huaxin Import and Export Co., Ltd	47,698.56	---
Total	47,698.56	---

## (23) Payroll payable

Items	Opening balance	Increase in 2009	Decrease in 2009	Closing balance
(1) Wage, bonus, allowance and subsidies	21,462,276.23	161,688,975.59	150,287,793.14	32,863,458.68
(2) Employee welfare	877,319.11	6,463,406.91	6,694,793.55	645,932.47

(3) Social insurance	---	15,218,699.15	15,218,699.15	---
(4) Housing fund	---	2,457,885.15	2,457,885.15	---
(5) Dismissal welfare	---	909,317.61	909,317.61	---
(6) Other	4,175,086.41	4,264,790.26	4,283,881.57	4,155,995.10
Total	26,514,681.75	191,003,074.67	179,852,370.17	37,665,386.25

Among payroll payable, there were RMB 0 due to default.

RMB 4,155,995.10 was paid for labor unions and education of employees.

Arrangement for deliver time and amount of payroll payable: 2011

“Closing balance” of employee welfare was from the provision for bonus funds and welfare funds of subsidiary Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd. during the reporting period.

#### (24) Tax payable

Items	Closing balance	Opening balance
VAT	-12,992,406.79	-18,362,600.36
Business tax	211,137.07	2,798,497.20
Urban maintenance and construction tax	1,335,798.53	121,652.91
Extra charges of education funds	572,485.08	52,136.97
Enterprise income tax	19,636,174.00	2,874,850.33
Individual income tax	209,804.77	288,816.18
Housing property tax	111,538.28	1,158,274.72
Stamp tax	1,968,399.00	1,612,327.94
Increment tax on land value	---	243,379.00
Use tax of land	---	1,594,959.34
Embankment protection expense	120,123.22	100,574.77
Other	9,088.26	9,088.26
Total	11,182,141.42	-7,508,042.74

#### (25) Interest payable

Items	Closing balance	Opening balance
Straight long-term loan interest	19,838,816.68	---
Short-term interest payable	2,970,729.02	1,577,529.58
Total	22,809,545.70	1,577,529.58

#### (26) Dividend payable

Items	Closing balance	Opening balance	Reason for unpayment within 1 year
Foshan Xinhui Industrial Development Co., Ltd.	54,494.00	54,494.00	
Foshan Light Industry Company	79,264.00	79,264.00	
Total	133,758.00	133,758.00	

#### (27) Other payables

##### 1. Account age analysis

Account age	Closing balance	Opening balance
Within 1 year	84,037,749.04	201,486,460.64

1-2 years	6,206,542.17	1,927,288.65
2-3 years	584,447.89	416,064.35
Over 3 years	323,488.41	391,532.53
Total	91,152,227.51	204,221,346.17

2. Among the closing balance, other payables due from shareholders with more than 5% (including 5%) of the voting shares of the Company are as follows:

Name of entity	Closing balance	Opening balance
Foshan Huaxin Development Co., Ltd.	53,029,894.51	153,549,676.19
Total	53,029,894.51	153,549,676.19

3. Analysis of closing balance due from related parties

Name of entity	Closing balance	Opening balance
Foshan Huaxin Development Co., Ltd.	53,029,894.51	153,549,676.19
Guangdong Chengtong Logistics Co., Ltd.	12,791,826.29	---
Total	65,821,720.80	153,549,676.19

4. Analysis of other Wholesale accounts payable with aging over 1 year

Name of entity	Amount	Reason for nonpayment	Remark (Note if the amount was paid back on the report date)
Yunan Yuxi Tengyin Logistics Co., Ltd.	1,050,000.00	Deduct for logistics guarantee money of 2009	
Guangdong Xinliang Container Transportation Co., Ltd.	750,000.00	Deduct for paper transportation and logistics guarantee money of 2009	
Total	1,800,000.00		

5. Other wholesale accounts payable

Name of entity	Amount	Nature or content	Remark
Foshan Huaxin Development Co., Ltd.	53,029,894.51	Loan	
Guangdong Chengtong Logistics Co., Ltd.	12,791,826.29	Freight charges	
Foshan Huian Human Resources Co., Ltd.	1,473,785.28	Fee for sorting waste paper	
Total	67,295,506.08		

## (28) Non-current liabilities due within 1 year

Items	Closing balance	Opening balance
Long-term borrowings due within 1 year	360,000,000.00	140,000,000.00
Total	360,000,000.00	140,000,000.00

1. Long-term borrowings due within 1 year

Borrowing category	Closing balance	Opening balance
Guaranteed borrowing	360,000,000.00	140,000,000.00

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Total	360,000,000.00	140,000,000.00
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There were no borrowings gained from extension of overdue loan within long-term borrowings.



## 2. List of long-term borrowings due within 1 year

Entity	Beginning date	Ending date	Currency	Rate (%)	Closing balance		Opening balance	
					Foreign currency amount	Domestic currency amount	Foreign currency amount	Domestic currency amount
Agricultural Bank of China Limited Foshan Huada Sub	10 Dec. 2009	9 Dec. 2011	RMB	USD Libor	---	60,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	22 Jan. 2008	21 Jan. 2011	RMB	USD Libor	---	40,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	28 Feb. 2008	27 Feb. 2011	RMB	USD Libor	---	40,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	3 Apr. 2008	2 Apr. 2011	RMB	USD Libor	---	40,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	14 Apr. 2008	10 Apr. 2011	RMB	USD Libor	---	30,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	5 May 2008	4 May 2011	RMB	USD Libor	---	30,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	30 May 2008	29 May 2011	RMB	USD Libor	---	30,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	5 Jun. 2008	4 Jun. 2011	RMB	USD Libor	---	30,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	10 Sep. 2008	9 Sep. 2011	RMB	USD Libor	---	30,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	25 Sep. 2008	23 Sep. 20	RMB	USD Libor	---	30,000,000.00	---	---
Total					---	360,000,000.00	---	---

3. Note: Long-term borrowings of RMB 0.36 million of the Company was provided suretyship of joint liabilities by China National Paper-industry Investment

Corporation.

**(29) Long-term borrowings**

## 1. Category

Item	Closing balance	Opening balance
Guaranteed borrowing	255,000,000.00	360,000,000.00
Of which: Agricultural Bank of China Limited Foshan Huada Sub-branch	130,000,000.00	360,000,000.00
China Construction Bank Foshan Branch	25,000,000.00	---
China Merchants Bank Shenzhen Chegongmiao Branch	100,000,000.00	---
Total	255,000,000.00	360,000,000.00

## 2. Long-term borrowings

Entity	Beginning date	Ending date	Currency	Rate (%)	Closing balance		Opening balance	
					Foreign currency amount	Domestic currency amount	Foreign currency amount	Domestic currency amount
China Merchants Bank Shenzhen Chegongmiao Branch	15 Jul. 2010	15 Jul 20125	RMB	Benchmark interest rate decrease 5%	---	100,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	20 Jan. 2010	19 Jan. 2012	RMB	Benchmark interest rate decrease 5%	---	60,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	17 Jun. 2010	16 Jun. 2012	RMB	Benchmark interest rate decrease 5%	---	40,000,000.00	---	---
Agricultural Bank of China Limited Foshan Huada Sub	27 Apr. 2010	26 Apr. 2012	RMB	Benchmark interest rate decrease 5%	---	30,000,000.00	---	---
China Construction Bank Foshan Branch	11 Aug. 2010	10 Aug. 2013	RMB	Benchmark interest rate decrease 5%	---	25,000,000.00	---	---
Total					---	255,000,000.00	---	---

3. Note: Within the Long-term borrowings, RMB 0.13 billion of the Company was provided suretyship of joint liabilities by China National Paper-industry Investment Corporation, RMB 25 million of subsidiary Huaxin (Foshan) Color Printing Co., Ltd was provided suretyship of joint liabilities by the Company.

**(30) Long-term payables**

## 1. Long-term payables

Entity	Term	Initial balance	Rate (%)	Accrued interest	Closing balance	Conditions for loan
Yunnan Hongta Group Co., Ltd	Perpetual	72,277,325.43		---	---	
Yanlord Industries PTE. LTD.	Perpetual	11,205,432.43		---	---	
Chian Chengtong Holding Group Co., Ltd.		500,000,000.00	4.8	---	500,000,000.00	
Total		583,482,757.86	---	---	500,000,000.00	

2. Note: RMB 0.5 billion of China Chengtong Holding Group CO., Ltd. issued medium-term note and financed for the Company recorded as closing balance with a term of service of 5 years and comes to expire at 24 Mar. 2015. If investors failed to exercise repurchase option, then medium-term note on the aspect of repurchase in this term expires at 24 Mar. 2013 and adopt simple annual interest method to account at the coupon rate of 4.8%.

**(31) Accrued liabilities**

Items	Opening balance	Increase this period	Decrease this period	Closing balance
Claim and compensation for selling products	20,496,692.50	---	11,864,692.50	8,632,000.00
Total;	20,496,692.50	---	11,864,692.50	8,632,000.00

**(32) Other non-current liabilities**

Items	Closing balance	Opening balance
Desulfurization project of finance bureau	1,188,000.00	1,320,000.00
Funds on energy-saving and emission-reduction	2,700,000.00	---
Total	3,888,000.00	1,320,000.00

Note: 1. In 2007, Foshan Finance Bureau provided RMB 1,320,000.00 to subsidiary Foshan Chengtong Paper Co., Ltd., the above mentioned amount was recorded as special financial allocation for desulfurization project of finance bureau at the period-end. In this period, relevant assets were already put into operation. Since this period, writing-off of assets was measured at estimated depreciation term and RMB 1,320,000.00 was recorded into non-operational income this period.

2. According to the Notice of the Finance Ministry on 2009 Central Government Specific Appropriations for State-owned Capital Operating Budgets to China Chengtong Holding Group Co., Ltd. (CQ[2009]No.411), in the report period, the subsidiary Zhuhai Huafeng Paper Co., Ltd. received from China National Materials Development & Investment Corp. (now known as China National Paper-industry Investment Corp.) RMB 1.6 million for the technical innovation project to use boiler off-gas to substitute coal for drying 180 tons of sludge per day and the motor system frequency-conversion project, as well as RMB 0.5 million as a subsidy for the Grade III wasted water treatment equipments; and the subsidiary Foshan Chengtong Paper Co., Ltd. received RMB 0.6 million as a subsidy for renewing the wasted water fiber ball filtering system. The above-mentioned appropriations totaled RMB 2.7 million. Considering that the said projects have not yet started, the appropriations are recorded into deferred incomes and not written off for the current period.

**(33) Share capital**

Items	Opening balance	Increase/decrease in changes this period (+/-)					Closing balance
		Issuance of new shares	Bonus shares	Capitalization of public reserve fund	Other	Subtotal	
I. Unlisted tradable shares							
1. Sponsor's share	333,500,000.00	---	---	---	---	---	333,500,000.00
Including:	---	---	---	---	---	---	---
State-owned shares	---	---	---	---	---	---	---
Shares held by domestic corporation	333,500,000.00	---	---	---	---	---	333,500,000.00
Shares held by foreign corporation	---	---	---	---	---	---	---
Others	---	---	---	---	---	---	---
2. Raised corporation shares	---	---	---	---	---	---	---
3. Employee shares	---	---	---	---	---	---	---
4. Preference shares or others	---	---	---	---	---	---	---
Total of unlisted tradable shares	333,500,000.00	---	---	---	---	---	333,500,000.00
II. Listed tradable shares							
1. RMB ordinary shares	---	---	---	---	---	---	---
2. Domestically listed foreign shares	171,925,000.00	---	---	---	---	---	171,925,000.00
3. Overseas listed foreign shares	---	---	---	---	---	---	---
4. Others	---	---	---	---	---	---	---
Total listed tradable shares	171,925,000.00	---	---	---	---	---	171,925,000.00
Total	505,425,000.00	---	---	---	---	---	505,425,000.00

**(34) Capital reserves**

Items	Opening balance	Increase this period	Decrease this period	Closing balance
1. Capital premium (or share capital premium)				
(1) Capital from investors	250,531,482.00	---	---	250,531,482.00
(2) Others	---	11,399,820.59	---	11,399,820.59
Subtotal	250,531,482.00	11,399,820.59	---	11,399,820.59
2. Other capital reserves				
(1) Other changes in owners' equity of invested units excluding net gains and losses				
(2) Gains or losses from changes in fair value of financial assets available for sales	247,903.44	435,947.90	---	683,851.34
Subtotal	247,903.44	435,947.90	---	683,851.34
Total	250,779,385.44	11,835,768.49	---	262,615,153.93

Note: On the aspect of capital premium (or capital stock premium), other increases this period included capital increase of subsidiary Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.. As Yanlord Industries Pte. Ltd., one shareholder of Zhuhai S.E.Z. Hongta Renheng Paper Co. abandoned opportunity of capital increase this period then the Company took up its capital increase lot so as to enjoy net assets share before Yanlord Industries Pte. Ltd. abandoned capital increase. Income arising from capital increase this period was written into this item due to Yanlord Industries Pte. Ltd. was under the control of ultimate controller of the Company.

**(35) Surplus reserves**

Items	Opening balance	Increase this period	Decrease this period	Closing balance
Statutory surplus reserves	125,274,475.42	3,961,997.55	---	129,236,472.97
Total	125,274,475.42	3,961,997.55	---	129,236,472.97

**(36) Retained profit**

Items	Balance	Withdrawal or distributable proportion
Before adjustment: Closing retained profit	413,628,149.08	
Adjustment: Total opening retained profit (+/-)	---	
After adjustment: Opening retained profit	413,628,149.08	
Add: net profit attributable to parent company in this year	120,311,877.76	
Less: Withdrawal of statutory surplus reserves	3,961,997.55	10%
Withdrawal of free surplus reserves	---	
Withdrawal of reserve fund	---	
Withdrawal of corporate development fund	---	
Withdrawal of bonus funds for employees	---	

Withdrawal of provision for general risk	---	
Dividend payable for common shares	---	
Capitalization of dividend of common shares	---	
Closing retained profit this period	529,978,029.29	

Note: According to RMB 39,619,975.50 of net profit of parent company, provision for legal surplus reserves was measured at 10%.

### (37) Operating income and operating cost

#### 1. Operating income and operating cost

Items	Occurred amount in current period	Occurred amount in last period
Main business	3,806,314,877.66	2,231,435,087.24
Other business	92,223,821.22	141,205,348.60
Main business	3,146,371,114.16	1,964,406,767.59
Other business	89,287,244.89	102,069,391.87

#### 2. Main business listed according to industry

Name of industry	Occurred amount in current period		Occurred amount in last period	
	Operating income	Operating cost	Operating income	Operating cost
(1) Industries	3,801,654,630.10	3,142,685,324.36	2,226,067,320.04	1,961,988,888.97
(2) Tourism and catering and service trades	4,660,247.56	3,685,789.80	5,367,767.20	2,417,878.62
合计	3,806,314,877.66	3,146,371,114.16	2,231,435,087.24	1,964,406,767.59

#### 3. Main business listed according to products

Name of product	Occurred amount in current period		Occurred amount in last period	
	Operating income	Operating cost	Operating income	Operating cost
White paper board	1,296,481,194.55	1,132,099,809.86	1,170,007,541.07	1,114,712,025.17
White card paper	2,340,602,084.26	1,880,364,322.39	920,431,223.16	742,518,011.09
Printing products	164,571,351.29	130,221,192.11	135,628,555.81	104,758,852.71
Logistics	4,660,247.56	3,685,789.80	5,367,767.20	2,417,878.62
Total	3,806,314,877.66	3,146,371,114.16	2,231,435,087.24	1,964,406,767.59

#### 4. Main business listed according to regions

Name of region	Occurred amount in current period		Occurred amount in last period	
	Operating income	Operating cost	Operating income	Operating cost
Domestic sales	3,401,128,861.39	2,774,167,006.02	1,974,332,424.62	1,732,034,407.33
Export	405,186,016.27	372,204,108.14	257,102,662.62	232,372,360.26
Total	3,806,314,877.66	3,146,371,114.16	2,231,435,087.24	1,964,406,767.59

#### 5. Income from main business of the top five clients of the Company

Name or listing No. of clients	Total income from main	Proportion in all operating
--------------------------------	------------------------	-----------------------------



	business	income from the main business of the Company
The first place	330,140,401.88	8.47
The second place	192,584,210.41	4.94
The third place	101,507,429.37	2.60
The forth place	97,277,976.07	2.50
The fifth place	61,867,218.65	1.59
Total	783,377,236.38	20.10

**(38) Business tax and surcharges**

Items	Occurred amount in current period	Occurred amount in last period	Accounting standard
Business tax	563,701.58	421,095.58	
urban maintenance and construction tax	2,191,076.68	1,460,356.74	
Educational surtax	939,032.85	1,004,194.58	
embankment protection cost	1,603,339.91	1,026,730.09	
Total	5,297,151.02	3,912,376.99	

**(39) Sales expenses, administrative expenses and financial expenses****1. Sales expense**

Items	Occurred amount in current period	Occurred amount in last period
Total sales expenses	153,626,589.04	105,276,564.17
Including: Paid for employees	17,816,995.20	8,356,681.53
Transportation charges	104,180,738.58	65,258,650.97
Sales agent charges	9,093,270.35	2,745,278.43
Estimated losses on product quality assurance	-11,864,692.50	11,139,452.50
Acceptation expenses	6,568,183.72	4,238,827.71
Warehousing charges/rental charges	6,505,332.35	824,759.50
Compensation for claim of retained product	4,500,678.86	1,676,099.10

**2. Administrative expenses**

Items	Occurred amount in current period	Occurred amount in last period
Total administrative expenses	150,526,901.14	112,372,078.31
Including: Paid for employees	50,055,198.03	35,635,676.75
Pension Insurance Expense	8,803,210.15	6,596,239.31
Tax	11,495,589.37	7,721,535.42
Office allowance	11,740,536.27	9,065,087.63
Repair and maintenance cost and material consuming expenses	6,298,758.87	3,058,996.23
Depreciation charges	6,383,621.49	7,691,316.61

**3. Financial expenses**

Items	Occurred amount in current period	Occurred amount in last period
Interest expenses	125,124,103.04	103,884,164.75
Less: interest income	2,369,268.96	3,811,863.60
Loss from exchange	1,149,419.91	1,156,962.43
Less: exchange income	3,643,403.50	1,811,758.85
Other	6,712,251.11	5,448,794.47
Total	126,973,101.60	104,866,299.20

**(40) Losses of assets impairment**

Item	Occurred amount in current period	Occurred amount in last period
Losses of bad debts	13,562,470.46	4,217,019.25
Losses of falling price of inventories	28,027,788.43	745,724.54
Losses of fixed assets impairment	2,200,504.64	---
Total	43,790,763.53	4,962,743.79

**(XLI) Investment income**

## 1. Breakdown of investment income

Item or invested equity	Occurred amount in current year	Occurred amount in last year
Long-term investment income accounted by equity method	59,667,374.75	63,533,038.22
Investment income from disposal of long-term equity investment	-67,770.78	---
Others	-37,500.00	---
Total	59,562,103.97	63,533,038.22

## 2. Long-term investment income accounted by equity method

Invested equity	Occurred amount in current year	Occurred amount in last year	Reason for change
Of which: Tetra Pak (Foshan) Packaging Co Ltd.	59,646,563.76	63,533,038.22	Decline of business performance
Total	59,646,563.76	63,533,038.22	

3. Explanation of investment income: There was no significant restrict in remitting of investment income of the Company.

**(XLII) Non-operating income**

Item	Occurred amount in current year	Occurred amount in last year	Amount recorded in
------	---------------------------------	------------------------------	--------------------

			non-recurring gains and losses of current year
Total gains from disposal of non-current assets	886,755.95	31,085,824.21	886,755.95
Of which: gains from disposal of fixed assets	535,737.20	31,085,824.21	535,737.20
Gains from disposal of intangible assets	351,018.75	---	351,018.75
Government subsidy	2,701,099.37	3,484,826.00	2,701,099.37
Relocation compensation	---	130,585.00	---
Others	2,035,427.30	630,543.49	2,035,427.30
Total	5,623,282.62	35,331,778.70	5,623,282.62

## 2. Breakdown of government subsidy

Item	Occurred amount in current year	Occurred amount in last year	Explanation
Government subsidiaries received relating to income			
(1) Zhuhai Huafeng Paper Co., Ltd.	600,000.00	2,470,326.00	
(2) Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	1,104,348.00	260,000.00	
(3) Foshan Chengtong Paper Co., Ltd.	132,000.00	754,500.00	
(4) Huaxin (Foshan) Color Paper Co., Ltd.	864,751.37	---	
Subtotal	2,701,099.37	3,484,826.00	
Total	2,701,099.37	3,484,826.00	

## (VLIII) Non-operating income

Items	Occurred amount in current year	Occurred amount in last year	Amount recorded in non-recurring gains and losses of current year
Total losses from disposal of non-current assets	7,283,000.86	1,324,859.78	7,283,000.86

Of which: losses from disposal of fixed assets	7,283,000.86	1,324,859.78	7,283,000.86
Penalty, compensation and late fee	799,102.39	1,470,105.46	799,102.39
Donation expenses	---	3,000.00	---
Others	216,632.37	65,805.22	216,632.37
Total	8,298,735.62	2,863,770.46	8,298,735.62

**(XLIV) Income tax expense**

Item	Occurred amount in current year	Occurred amount in last year
Income tax in current year accounted in accordance with tax law and relevant regulations	28,797,514.23	4,380,724.72
Adjustment of deferred income tax	-9,878,421.61	-12,389,450.65
Total	18,919,092.62	-8,008,725.93

**(XLV) Calculation process of basic EPS and diluted EPS**

Item	Closing balance	Opening balance
Basic EPS	0.24	0.06
Diluted EPS	0.24	0.06

Calculation formula for data above:

## 1. Basic EPS

Basic EPS= P÷S

$S=S_0+S_1+S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

Of which: P refers to net profit attributable to shareholders holding ordinary shares or net profit attributable to shareholders holding ordinary shares after deducting non-recurring gains and losses; S refers to weighted average number of ordinary shares issued out; S<sub>0</sub> refers to total number of shares at the period-begin; S<sub>1</sub> refers to the number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares during the report period; S<sub>i</sub> refers to the number of shares increased due to issuance of new shares or debt for equity swap during the report period; S<sub>j</sub> refers to the number of shares decreased due to stock repurchase during the report period; S<sub>k</sub> refers to the number of split-share during the report period; M<sub>0</sub> refers to the number of months during the report period; M<sub>i</sub> refers to the number of months from the next month to the end of the report period for increase of shares; M<sub>j</sub> refers to the number of months from the next month to the end of the report period for decrease of shares

## 2. Diluted EPS

Diluted EPS = [P+ (potential diluted interests of ordinary shares recognized as expense—transfer fee) × (1- income tax rate)] / (S<sub>0</sub>+S<sub>1</sub>+S<sub>i</sub>×M<sub>i</sub>÷M<sub>0</sub>—S<sub>j</sub>×M<sub>j</sub>÷M<sub>0</sub>—S<sub>k</sub>+ weighted average amount of ordinary shares increased due to warrant, share options, convertible bonds, etc.)

Of which, P refers to net profit attributable to shareholders holding ordinary shares or net profit

attributable to shareholders holding ordinary shares after deducting non-recurring gains and losses. The Company shall consider all influence on potential diluted interests of ordinary shares when the Company calculated diluted earnings per share, till to minimum diluted EPS.

Due to that the Company has not issued any convertible bonds, share options, warrants and other diluted potential ordinary shares, the measurement of diluted EPS is as the same as that of basic EPS.

**(VLVI) Other consolidated income**

Item	Occurred amount in current year	Occurred amount in last year
1. Gains/losses from financial assets available for sales	1,222,152.29	725,933.67
Less: income tax influence arising from financial assets available for sale	183,322.84	108,890.05
Net amount recorded into other consolidated income and transferred to gains and losses of current year in prior period		
Subtotal	1,038,829.45	617,043.62
2.Amount undertook in other consolidated income of the invested entity and accounted by equity method	---	---
Less: influence of income tax arising from amount under took in other consolidated income of the invested equity and accounted by equity method	---	---
Net amount recorded into other consolidated income and transferred to gains and losses of current year in prior period	---	---
Subtotal	---	---
3. Amount of gains or losses arising from cash flow hedging instrument	---	---
Less: income tax influence arising from cash flow hedging instrument	---	---
Net amount recorded into other consolidated income and transferred to gains and losses of current year in prior period	---	---
Adjustment of initial recognition amount transferred to the hedged item	---	---
Subtotal	---	---
4. Translation difference of foreign currency financial statement	---	---
Less: Net amount from disposal of oversea operation and transferred to gains and losses of current year	---	---
Subtotal	---	---
5.Others	---	---
Less: income tax arising from accounts recorded in other consolidated income	---	---

Net amount recorded into other consolidated income and transferred to gains and losses of current year in prior period	---	---
Subtotal	---	---
Total	1,038,829.45	617,043.62

**(VLVII) Notes to cash flow statement**

## 1. Cash received from other operating activities

Items	Occurred amount in current year
Total	70,359,489.95
Of which: Interest income of bank deposits	2,369,268.96
Income of government subsidy	5,269,099.37
Current account received from Foshan Huaxin Development Co., Ltd.	44,688,696.67
Insurance claim	3,992,637.13
Current account received from Zhuhai Chengcheng Printing Co., Ltd.	3,146,193.50
Income from collecting wastes	1,065,653.10

## 2. Other paid cash relevant to operation activities

Item	Occurred amount in current year
Total	138,519,828.81
Of which: product transport expense	80,555,542.75
Business entertainment expense	11,086,580.81
Lease expense	10,353,497.28
Business trip expense	5,128,866.94
Car expense	5,678,315.22
Office expense	5,146,819.67
Agency fee	5,159,134.29

## 3. Other paid cash relevant to financing activities

Item	Occurred amount in current year
Total	102,715,069.17
O which: Changes in monetary capital restricted in this year	102,715,069.17

**(XLVIII) Supplementary information to cash flow statement**

## 1. Supplementary information to cash flow statement

Item	Amount in 2010	Amount in 2009
1. Transferring net profit into cash flows of operating activities		
Net profit	220,633,391.85	78,783,986.31
Add: Reserve for impairment of assets	43,790,763.53	4,962,743.79
Depreciation of fixed assets, oil and gas assets and productive biological assets	137,717,924.03	126,607,319.30
Amortization of intangible assets	13,407,146.77	3,424,447.28
Amortization of long-term deferred expenses	5,250,031.98	4,686,195.19
Loss for disposal of fixed assets, intangible assets and other long-term assets (income is listed as "-")	6,396,244.91	-29,760,964.43
Abandonment loss from fixed assets (income is listed as "-")	---	---
Losses on change in fair value (income is listed as "-")	---	---
Financial expense (income is listed as "-")	126,526,434.92	103,884,164.75
Losses arising from investment (income is listed as "-")	-59,562,103.97	-63,533,038.22
Decrease of deferred income tax assets (increase is listed as "-")	-9,878,421.61	-12,389,450.65
Increase of deferred income tax liabilities (decrease is listed as "-")	---	---
Decrease of inventories (increase is listed as "-")	-188,396,452.21	-377,438,196.62
Decrease in operating receivables (increase is listed as "-")	-285,076,203.23	-454,977,791.65
Increase in operating payables (decrease is listed as "-")	184,406,116.55	494,769,889.12
Other	---	---
Net cash flows arising from operating activities	195,214,873.52	-120,980,695.83
2. Significant investing and financing activities which do not involve cash receipts and payments		
Conversion of debt into capital	---	---

Convertible corporate bonds due within 1 year	---	---
Fixed assets brought in by financing lease	---	---
3. Net change in cash and cash equivalents		
Closing balance of cash	273,854,613.40	329,035,163.08
Less: Opening balance of cash	329,035,163.08	208,091,895.59
Add: Closing balance of cash equivalents	---	---
Less: Opening balance of cash equivalents	---	---
Net increase in cash and cash equivalents	-55,180,549.68	120,943,267.49

## 2. Information relating to acquisition or disposal of subsidiaries and other business entities of Y2010

Items	Incurred amount in 2010	Incurred amount in 2009
I. Information relating to acquisition of subsidiaries and other business entities		
1. Acquired price	---	---
2. Cash and cash equivalents paid for acquisition	---	10,517,143.31
Less: cash and cash equivalents paid for acquisition held by subsidiaries and other business entities	---	204,340,906.88
3. Net cash paid for acquisition	---	-193,823,763.57
4. Net assets of subsidiaries	---	2,009,074,982.06
Current assets	---	1,392,431,662.26
Non-current assets	---	2,275,156,424.78
Current liabilities	---	1,565,446,444.77
Non-current liabilities	---	93,066,660.21
II. Information relating to disposal of subsidiaries and other business entities		
1. Disposed price	14,531,022.00	---
2. Cash and cash equivalents received from disposal of subsidiaries and business entities	14,531,022.00	---
Less: cash and cash equivalents held by subsidiaries and other business entities	4,623,810.72	---
3. Net cash received from disposal of subsidiaries and business entities	9,907,211.28	---
4. Net assets of disposed subsidiaries	28,584,802.73	---
Current assets	26,429,903.23	---
Non-current assets	2,567,623.00	---
Current liabilities	412,723.50	---
Non-current liabilities	---	---

## 3. Composing of cash and cash equivalents

Items	Closing balance	Opening balance
I. Cash	273,854,613.40	329,035,163.08
Of which: cash on hand	419,084.37	486,492.76
Bank deposit for payment at any moment	272,558,973.20	328,081,255.00



Other monetary capital for payment at any moment	876,555.83	467,415.32
Deposit in Central Bank available for payment	---	---
Due from banks	---	---
Call loans to banks	---	---
II. Cash equivalents	---	---
Of which: bond investment due within 3 months	---	---
III. Closing balance of cash and cash equivalents	273,854,613.40	329,035,163.08

**VI. Related parties and related transactions****(I) Particulars about parent company of the Company (Unit: RMB'0000)**

Name of parent company	Relationship	Type	Registered place	Legal representative	Business nature	Registered capital	Proportion of shareholding of the Company	Proportion of voting rights	Ultimate controlling party	Organization code
Foshan Huaxin Development Co., Ltd	Parent company	Limited company	Foshan	Tong Laiming	Manufacturing	45,793	65.2	65.2	China National Materials Development& Investment Corporation	19353992-5
China National Paper-industry Investment Corporation, which was originally named as China National Materials Development& Investment Corporation)	Actual controller	State-owned	Beijing	Tong Laiming	Integrated industry	131,729	65.31	65.31	China National Materials Development& Investment Corporation	10000890-7
China Chengtong Holding Group Co., Ltd.	Ultimate controller	Limited company (solely state-owned )	Beijing	Ma Zhengwu	Integrated industry	256,016	65.42	65.42	China National Materials Development& Investment Corporation	71092254-4

**Statement of particulars about parent company of the Company**

On 28 Jun. 2005, Foshan Gongying Investment Holding Co., Ltd transferred 62.1142% shares (capital contribution was RMB 284,440,000) of Foshan Huaxin Development Co., Ltd to China National Materials Development & Investment Corporation, which has changed its name to China National Paper-industry Investment Corporation. Foshan Huaxin Development Co., Ltd is parent company and holds 65.2% shares of the Company, China National Paper-industry Investment Corporation originally holds 0.11% shares of the Company, so that China National Paper-industry Investment Corporation held 65.31% shares of the Company directly and indirectly and becomes actual controller of the Company. China Chengtong Holding Group Co., Ltd holds 100% shares of China National Paper-industry Investment Corporation and has become the ultimate controller of the Company through holding 0.11% shares of the Company by its subsidiary, China Packaging Corporation.

**(II) Subsidiaries of the Company**

Unit: RMB'0000

Full-name of subsidiaries	Relationship	Type	Registered place	Legal representative	Business nature	Registered capital	Proportion of shares held	Proportion of voting right (%)	Organization code
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							(%)		
Foshan Chengtong Paper Co., Ltd	Shareholding subsidiary	Limited company	Foshan	Yan Su	Manufacturing	30,000	75	75	68641217-2
Huaxin (Foshan) Color Printing Co., Ltd	Shareholding subsidiary	Limited company	Foshan	Chen Jiali	Manufacturing	USD1,280	75	75	72111733-X
Zhuhai Huafeng Paper Co., Ltd	Subordinated company of Shareholding subsidiary	Limited company	Zhuhai	Yan Su	Manufacturing	98,456	100(Indirect)	100 (Indirect)	61762142-1
Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	Shareholding subsidiary	Limited company	Zhuhai	Tong Laiming	Manufacturing	USD24,360.9909	41.9653	41.9653	61750210-7
Foshan Huazhi Waste Paper Recycling Co., Ltd.	Subordinated company of Shareholding subsidiary	Limited company	Foshan	Chen Haiyan	Service industry	500	100((Indirect))	100 ((Indirect))	77620148-3
Pearl River Color Printing Co., Ltd. of Chancheng District, Foshan	Subordinated company of Shareholding subsidiary	Limited company	Foshan	Chen Jiali	Manufacturing	150	100((Indirect))	100 ((Indirect))	70817367-9
Foshan Huaxin Jinfeng Industrial Co., Ltd	Wholly-owned subsidiary	Limited company	Foshan	Chen Haiyan	Manufacturing	300	100	100	67889495-X
Kunshan Focai Packaging and Printing CO., Ltd.	Wholly-owned subsidiary	Limited company	Suzhou	Chen Zhenran	Manufacturing	500	100	100	56030722-X

## (III) Joint ventures and affiliated companies of the Company

Unit: RMB'0000

Invested enterprise	Type	Registration place	Legal representative	Business Nature	Registered capital	Shareholding proportion of the enterprise (%)	Proportion of voting right of the enterprise in invested entities (%)
Tetra Huaxin (Foshan) Packaging Co., Ltd.	Sino-foreign joint venture	Foshan	Li Hexun	Manufacturing	USD6,700	25	25
Guangdong Chengtong Logistics Co., Ltd.	Limited company	Zhuhai	Li Xiangyang	Service industry	3,000	24	24

## (IV) Other related parties of the Company

Name	Relationship between the Company and other related parties	Organization code
Foshan Huaxin Import & Export Co., Ltd.	Under the control of actual controller	19354411-8
Zhanjiang Guanlong Paper Industry Co., Ltd.	Under the control of actual controller	61827072-3
Guangdong Guanbao High-tech Co., Ltd.	Under the control of actual controller	61780353-2

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Qingdao Chengtong Fuel Co., Ltd.	Under the control of ultimate controller	73728500-4
Dragon State International Co., Ltd	Under the control of ultimate controller	

## (V) Related transaction

1. Transaction between subsidiaries, which existed control relationship and brought into scope of consolidated financial statements, and between subsidiaries and parent company has been offset.

2. Related transactions on purchasing goods and receiving labor service

Unit: RMB'0000

Name of related party	Content of related transaction	Pricing way and decision-making process of related transaction	Incurred amount of Y2010		Incurred amount of Y2009	
			Amount	Proportion of the same kind transaction (%)	Amount	Proportion of the same kind transaction (%)
Qingdao Chengtong Fuel Co., Ltd.	Raw material	Negotiating to price according to market value	---	---	1,210.38	8.35
Foshan Huaxin Import & Export Co., Ltd.	Raw material	Negotiating to price according to market value	5,500.09	27.66	5,101.60	4.69
Foshan Huaxin Import & Export Co., Ltd.	Paper	Negotiating to price according to market value	297.89	3.28	---	---
China National Paper-industry Investment Corporation	Raw material	Negotiating to price according to market value	28,160.76	16.21	6,268.77	6.92
Guangdong Chengtong Logistics Co., Ltd.	Raw material	Negotiating to price according to market value	306.66	0.16	---	---
Total			34,265.40		12,580.75	

3. Related transaction on sales of goods and providing labor service

Unit: RMB'0000

Name of related party	Content of related transaction	Pricing way and decision-making process of related transaction	Incurred amount of Y2010		Incurred amount of Y2009	
			Amount	Proportion of the same kind transaction (%)	Amount	Proportion of the same kind transaction (%)
Foshan Huaxin Import & Export Co., Ltd.	White Board	Negotiating to price according to market value	15.79	0.01	4,426.08	3.75
Foshan Huaxin Import & Export Co., Ltd.	Material	Negotiating to price according to market value	505.21	5.48	---	---
Zhanjiang Guanlong Paper Industry Co., Ltd.	White Board	Negotiating to price according to market value	---	---	382.94	0.32
Zhanjiang Guanlong Paper Industry Co., Ltd.	Material	Negotiating to price according to market value	1,179.47	12.79	---	---
Tetra (Foshan) Packaging Co., Ltd	Disposal of waste water	Negotiating to price according to market value	42.74	---	32.14	---
Total			1,743.21		4,841.16	

## 4. Related tenancy

(1) Rental situation of the Company

Name of lessee	Name of leaser	es of assets nted	ing date	g date	basis for income	income recognized in 2010
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E.Z. Hongta Renheng Paper	gdong Chengtong Logistics Co., Ltd.	nd buildings			ment price	ed as RMB 261,828.00 bv. 2010 to Dec.2010
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(2) Chartering situation of the Company

Name of lessee	Name of leaser	Types of assets rented	Leasing date	Renewal date	Basis for lease expense	Expense recognized in 2010
Huaxin Development Co.	The Company	office room located in Jihua Building, Jihua Foshan is 907 square meters	Jan. 2006	2011 on renewal	Market price	Registration fee amounted to 26,520.00 for the use of the place, and carport registration fee amounted to 25,200.00 each year.

5. Related guarantees

Guaranteed party	Secured party	Amount of guarantee	Beginning date	Maturity date	Executed or not
The Company	Foshan Chengtong Paper Co., Ltd.	60,000,000	2010.06.28	2011.06.28	Not
The Company	Foshan Chengtong Paper Co., Ltd.	140,000,000	2010.07.27	2011.07.26	Not
The Company	Foshan Chengtong Paper Co., Ltd.	40,000,000	2010.01.01	2013.12.31	Not
The Company	Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	230,000,000	2010.09.29	2012.03.29	Not
The Company	Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	100,000,000	2010.05.17	2010.12.29	Not
The Company	Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	100,000,000	2010.08.02	2011.08.02	Not
The Company	Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	200,000,000	2010.07.15	2012.07.15	Not
The Company	Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	150,000,000	2010.08.25	2011.12.31	Not
The Company	Huaxin (Foshan) Color Printing Co., Ltd.	60,000,000	2010.01.01	2013.12.31	Not
The Company	Zhuhai Huafeng Paper Co., Ltd.	420,000,000	2010.07.30	2011.07.30	Not
China Paper-industry Investment Corporation	National The Company, Huaxin (Foshan) Color Printing Co., Ltd., Foshan Chengtong Paper Co., Ltd., Zhuhai Huafeng Paper Co., Ltd., as well as Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	220,000,000	2010.05.27	2011.05.27	Not
China Paper-industry Investment Corporation	National The Company	615,000,000	2010.04.16	2013.04.16	Not
China Paper-industry Investment Corporation	National Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	206,000,000	2010.04.26	2013.04.26	Not
China Paper-industry Investment Corporation	National Zhuhai Huafeng Paper Co., Ltd.	306,000,000	2010.04.26	2013.04.26	Not
China Paper-industry Investment Corporation	National The Company	48,000,000	2010.08.17	2011.08.17	Not
China Paper-industry Investment Corporation	National The Company	100,000,000	2010.01.15	2011.01.14	Not

6. Other related transactions

(1) Capital loans and borrowings

According to Borrowing Contract signed by Foshan Huaxin Development Co., Ltd and the Company, balance of borrowings from Foshan Huaxin Development Co., Ltd was RMB 53,029,894.51 up to the year-end. Interest rate was recognized according to capital cost of lenders, and interest for borrowing paid up by the Company totaled RMB 2,655,765.71 in this year and RMB 4,323,310.21 in the last year.

(2) Capital of medium term notes raised by related parties

With service term of about 5 years, maturity date as 24 Mar. 2015, issuance interest rate of 4.23%, as well as yearly issuance underwriting rate as 3%, medium term notes of RMB 500,000,000 were raised by the ultimate controller of

the Company, China Chengtong Holding Group Co., Ltd., and were provided to the Company to pay back bank loans and supplement current capital. In addition, the Company was asked to share part of issuance charges, for instance, legal fee, in compliance with the proportion of capital amount it used to capital raised in the issuance of medium term notes of Y2010. On 9 Mar. 2010, the two parties signed the Agreement on the Usage of Internal Entrusted Loans of Capital of Medium Term Notes, with stipulated service term of about 5 years and maturity date as 24 Mar. 2015. If an investor chooses to execute home-sales option, the maturity date of medium term notes of Y2010 in home-sales part would be 24 Mar. 2013, with coupon rate of 4.8%. With the adoption of annually calculated simple interest, interest per year would be paid once a year to China Chengtong Holding Group Co., Ltd., which would uniformly fulfill external payments for interest. Up to Mar. 2010, the Company had received accounts of medium terms notes of RMB 500,000,000, and counted interest of RMB 18,533,333.34 for the reporting period.

#### 7. Receivables from and payables to related parties

##### (1) Accounts receivable from related parties of the Company

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable					
	Tetra Huaxin (Foshan) Packaging Co., Ltd.	---	---	80,000.00	---
	Foshan Huaxin Import&Export Co., Ltd.	---	---	1,661,709.64	---
Other receivables					

##### (2) Accounts payable to related parties of the Company

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts payable					
	Foshan Huaxin Import&Export Co., Ltd.	4,310,637.91	---	1,150,581.70	---
	China National Paper-industry Investment Corporation	---	---	21,203,333.87	---
	Qingdao Chengtong Fuel Co., Ltd.	---	---	0.12	---
Other payables					
	Foshan Huaxin Development Co., Ltd.	53,029,894.51	---	153,549,676.19	---
	Guangdong Chengtong Logistics Co., Ltd.	12,791,826.29		---	
Accounts received in advance					
	Foshan Huaxin Import&Export Co., Ltd.	47,698.56	---	---	---
Long-term payables					
	China Chengtong Holding Group Co., Ltd.	500,000,000.00	---	---	---
Interests payable					
	China Chengtong Holding Group Co., Ltd.	18,533,333.34	---	---	---

#### VII. Contingent events

##### (I) Contingent liabilities due to pending lawsuits and arbitrations, as well as financial influence thereof

1. As at the year-end, Guangdong Regall Group Co., Ltd. (hereinafter referred to as "Regall Group") owed a goods payment of RMB 10,047,398.58 to the Company's subsidiary Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd. (hereinafter referred to as "Hongta Renheng") (with an account age over three years). On 28 Mar. 2008, the said two parties signed an agreement on repayment with wood pulp.

According to the said agreement, Regall Group should repay with wood pulp as the consideration, which should be executed before 15 May 2008. However, Regall Group has not accomplished the execution according to the said agreement. Up until 31 Oct. 2008, only RMB 3,099,200.00 had been executed as consideration for the debt. On 29 Oct. 2008, Hongta Renheng sent a Notice on Terminating Agreement to Regall Group, but Regall Group asked to continue the execution of the Agreement. On 6 Dec. 2008, Hongta Renheng submitted a bill of complaint on the goods payment dispute to Guangzhou Huangfu People's Court, requesting the Court to terminate the agreement on repayment with wood pulp and asking Regall Group to repay the goods payment of RMB 10,047,398.58 and take the responsibilities thus caused. On 28 Jun. 2009, the Court issued the Civil Judgment Letter (2009) HMEC Zi No.72, deciding to declare the Company's Notice on Terminating Agreement legally null. Hongta Renheng appealed to Guangzhou Intermediate People's Court against the decision and Guangzhou Intermediate People's Court ruled that the case should be remanded for retrial in the Court of the first instance. On 12 Jun. 2010, the Court issued the Civil Judgment Letter (2010) HMEC Zi No.1, deciding to declare the Agreement on Set Debt off with Pulp Payment legal and effective. However, as Regall Group wasn't able to fulfill liability of supplying pulp, it should pay RMB 9,786, 596.96 back to Hongta Renheng. Regall Group appealed to Guangzhou Intermediate People's Court against the decision and the second trial was taken by the court in Oct. 2010. Up until the date of this Report, the case has been ongoing. Hongta Renheng has withdrawn 100% bad debt provision for the said account receivable at full amount.

2. As at the year-end, Zhuhai East Zhengtai Power Equipment Co., Ltd. owed a goods payment of RMB 2,925,825.54 to Hongta Renheng. In line with Civil Judgment (2009) XMEC Zi No.641, Hongta Renheng won the appeal and Zhuhai East Zhengtai Power Equipment Co., Ltd. should pay loans of RMB 2,405,789.44 and its penalty back to Hongta Renheng as a result. Zhuhai East Zhengtai Power Equipment Co., Ltd. filed an appeal against the sentence. The court dismissed the appeal in the second trial and the decision was upheld on 12 Oct. 2010. As Zhuhai East Zhengtai Power Equipment Co., Ltd. hasn't executed the verdict yet, Hongta Renheng has applied to the court for enforcement. Hongta Renheng withdrew 90% bad debt provision for the said account receivable in 2009, yet didn't change the ratio of bad debt provision due to uncertainty of receiving goods payment.

3. As at the year-end, Shenzhen Xieji Industry Co., Ltd. owed a goods payment of RMB 3,760,350.10 to Hongta Renheng. Hongta Renheng submitted a bill of complaint dispute to Shenzhen Futian District People's Court, and the case was in court of first instance on 24 Nov. 2010. Up to the closing date of the report, the case has been ongoing. Hongta Renheng has withdrawn 50% bad debt provision for the said account receivable.

**(II) Contingent liabilities formed due to the Company's provision of guarantees for other entities, as well as financial influence thereof**

The Company had no contingent liabilities due to the Company's provision of guarantees for other entities.

**(III) Other contingent liabilities**

As at the year-end, for the Company and its subsidiaries, undue banker's acceptance bills with endorsement valued RMB 582,313,185.67, with the mature dates between Jan.-Jun. 2011. And undue banker's acceptance bills which had been discounted valued RMB 8,958,024.00, with the mature dates between Jan.-Feb. 2011.

**VIII. Commitment events**

**(I) Significant commitment events**

Other significant financial commitment events

As at the year-end, margin of RMB 117,530,500 had been deposited into bank acceptance bills issued by the Company and its subsidiaries.

**(II) Previous fulfillment of commitments**

Previous part of land-use right and mortgage procedures of buildings and equipment of Zhuhai S.E.Z Hongta Renheng Paper Co., Ltd. and Foshan Huafeng Paper Co., Ltd., subsidiaries of the Company, had all been relieved by the year-end.



**IX. Events after balance sheet date**

## Profit distribution after balance sheet date

According to the resolution made at the 1<sup>st</sup> Session of the 4<sup>th</sup> Board of Directors in 2011 on 28 Feb. 2011, the profit distribution preplan for the year 2010 is as follows: Profit distributable to investors stands at RMB 414,064,636.90, but it will not be distributed or turned into share capital. The said preplan shall be implemented after it has been reviewed and approved by the Shareholders' General Meeting.

**X. Other important events**

## (I) Lease

## Operating lease

Assets leased by the Company are as follows:

Type of assets leased	Book value as at year-end	Book value as at year-begin
Houses and buildings	15,502,218.60	3,957,603.83
Total	15,502,218.60	3,957,603.83

## (II) Assets and liabilities measured at fair value

Unit: RMB yuan

Item	Opening balance	Gain/loss from fair value changes this year	Accumulative fair value changes recorded into equity	Impairment provision for this year	Closing balance
Financial assets					
1. Financial assets measured by fair value and of which the change was recorded in gains and losses of the period	---	---	---	---	
2. Derivative financial assets	---	---	---	---	
3. Financial assets available for sale	3,647,180.02	---	435,947.90	---	4,869,332.31
Subtotal of financial assets	3,647,180.02	---	435,947.90	---	4,869,332.31
Investing properties	---	---	---	---	---
Production biological assets	---	---	---	---	---
Others	---	---	---	---	---
Subtotal of items above	3,647,180.02	---	435,947.90	---	4,869,332.31
Financial liabilities	---	---	---	---	---

## (III) Financial assets and liabilities of foreign currency

Unit: RMB yuan

Item	Opening balance	Gain/loss from fair value changes this year	Accumulative fair value changes recorded into equity	Impairment provision for this year	Closing balance
Financial assets					
1. Financial assets measured at fair value and of which changes are recorded into gain/loss in current period (excluding derivative financial assets)	---	---	---	---	---
2. Derivative financial assets	---	---	---	---	---
3. Loans and accounts receivable	124,733,783.12	---	---	---	57,507,103.86

4. Financial assets available for sale	---	---	---	---	---
5. Held-to-maturity investments	---	---	---	---	---
Subtotal of financial assets	124,733,783.12	---	---	---	57,507,103.86
Financial liabilities	279,912,777.22	---	---	---	360,144,791.32

#### (IV) Other significant events that need to be disclosed

1. The Company entered into the Joint Venture Agreement with STORAENSO PACKAGING BOARDS ASIAOY (hereinafter referred to as "Stora Enso") on 28 October 2005, in which the both purchased the assets of Foshan Huafeng Paper Co., Ltd. Zhuhai Branch Company (Foshan Huafeng Paper Co., Ltd. is now renamed as Zhuhai Huafeng Paper Co., Ltd, and hereinafter referred to as Zhuhai Huafeng for short), the subsidiary company of the Company, at the price of RMB 710,265,723.03, and together set up a joint venture company, namely STORAENSO HUAXIN (ZHUHAI) PACKAGING PAPER LTD., through assets merger. The said joint venture company's total investment amount was USD 98 million with registered capital of USD 49 million as well as operating duration of 50 years. Of which, the Company invested in USD 9.8 million, STORAENSO PACKAGING BOARDS ASIAOY invested in USD 39.2 million.. As approved by Department of Foreign Trade and Economic Cooperation of Guangdong Province with YWJMZ Zi [2005] No. 673, the joint venture company has obtained certificate of approval for foreign-funded enterprise with SWZYHZZ Zi [2005] No. 0043. Owing to the said purchase, Foshan Huafeng Paper Co., Ltd. Zhuhai Branch Company's project on production expansion of 300,000-ton high-class coated white board at place out of Zhuhai under construction was changed into project on production of liquid package paper board with production scale of 300,000 tons. However, the Company had a notice from STORAENSO PACKAGING BOARDS ASIAOY on 29 November 2005, in which STORAENSO PACKAGING BOARDS ASIAOY decided to give up the said investment and refuse handle the procedure related with enterprise corporate business license of joint-venture company because rate of return on profit from project on liquid package paper board was no all idealization, as a result, the Assets Transfer Agreement failed to be continued to carry out, as well as significant economic losses to Zhuhai Huafeng. Unilateral statistics from Zhuhai Huafeng Paper Co., Ltd., such economic losses totaled to about RMB 58 million, including expense on rebuilding, claim on customer or vendor, engineering management expense during rebuilding, salary for staffs and project interests during the delay period. Due to unilateral termination of the cooperation from STORAENSO PACKAGING BOARDS ASIAOY, in accordance with the Clause 22.1 and 22.2 in the Agreement, "if any part in the Joint Venture Agreement fails to implement any obligation under the Agreement..., the said party shall be regard that it violate this agreement", STORAENSO PACKAGING BOARDS ASIAOY "shall undertake duties for direct and real loss (excluding indirect) for abiding party due to its breach of contract."

The Company considered that STORAENSO Huaxin (Zhuhai) Packaging Paper Ltd. failed to be established due to unilateral termination of the cooperation from STORAENSO PACKAGING BOARDS ASIAOY, resulting in a great of cost put into the project of coated white board in Zhuhai by the Company, for which the Company take proceedings against STORAENSO PACKAGING BOARDS ASIAOY for loss to the Company, in order to safeguard the legal rights of Zhuhai Huafeng Paper Co., Ltd.. The said dispute case on agreement transfer has been accepted by Zhuhai Intermediate Court on 20 Aug. 2007.

But STORAENSO PACKAGING BOARDS ASIAOY proposed an objection to right of jurisdiction in this case. On 20 November 2007, as judged by Zhuhai Intermediate People's Court with Civil Judgment (2007) ZZFMSC Zi No. 52, the Court rejected the said objection on right of jurisdiction in this case. STORAENSO PACKAGING BOARDS ASIAOY has appeal from the judgment of Zhuhai Intermediate People's Court to Guangdong Higher People Court. On 16 June 2008, Guangdong Higher People's Court made the final order with written civil ruling (2008) YGFLMZ Zi No. 65, overruling the appeal of STORAENSO PACKAGING BOARDS ASIAOY, maintaining the first trial as well.

On 25 Jun. 2010, the verdict in the Civil Ruling Paper (2007 ZZFMSC Zi No.52) from the Guangdong Zhuhai Intermediate People's Court was made and the content is mainly as follows:

(1) The defendant Stora Enso shall pay for increased cost due to project reconstruction and claims for compensation totaling RMB 1,711,000 to the accuser Foshan Huafeng Paper Co., Ltd within 10 days

since this verdict is legally effective; as for the amount that has not occurred in reality, the Court shall not decide for this case and the accuser may claim it by other legal means;

(2) The defendant Stora Enso shall pay for engineering management expense and wage for staff as well as other salary and engineering interest due to project reconstruction and claims for compensation totaling RMB 21,486,695.04 to the accuser Foshan Huafeng Paper Co., Ltd within 10 days since this verdict is legally effective;

(3) As for the court acceptance fee of RMB 331,291 and auditing expense of RMB 67,500, Foshan Huafeng Paper Co., Ltd shall pay RMB 206,743 and Stora Enso Packing Boards Asia Oy shall pay RMB 191,848.

Both the accuser Foshan Huafeng Paper Co., Ltd and the defendant Stora Enso Packing Boards Asia Oy appealed to the Guangdong Higher People's Court. In Dec. 2010, Zhuhai Huafeng received the Notice of Judging Appeal from the Guangdong Higher People's Court, informing that the Court would form a collegiate bench to try the case.

The above verdict has not been executed yet and judicial procedures of appeals from both parties are being proceeded. Therefore, there's great uncertainty about receiving back the claim. Zhuhai Huafeng has not declared a confirmation in accordance with the said verdict. Huhai Huafeng is now in normal way of production and operation. Final verdict of the case won't have any negative effect on production and operation of Zhuhai Huafeng.

## *XI. Notes to main items in financial statements of parent company*

### **(I) Other receivables**

#### 1. Other receivables disclosed by categories

Category	Closing balance				Beginning Balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables with single amount significant and single allotment of bad debt provision	---	---	---	---	---	---	---	---
Other receivables with single amount insignificant and single allotment of bad debt provision	---	---	---	---	26,448.47	0.01	26,448.47	100
Other receivables with combined allotment of bad debt provision								
Combination—Aging analysis method	---	---	---	---	7,397.38	---	106.00	1.43
Combination—Consolidated statement unit	1,227,005,774.13	100	---	---	985,483,057.69	99.99	70,880.31	0.01
Subtotal of combination	1,227,005,774.13	100	---	---	985,490,455.07	99.99	70,981.31	0.01
Total	1,227,005,774.13	100	---	---	985,516,903.54	100	97,434.78	0.01

Explanation for categories of other receivables:

Companies included in consolidated scope of the Company operate well and didn't withdraw bad debt provisions during funds intercourse between each other.

2. There were no other receivables without actual write-off in the reporting period.

3. There were no debts owed by shareholders holding over 5% (5% included) voting rights of other receivables at the year-end.

#### 4. Particulars about other receivables

Name of the entity	Relation with the Company	Nature or content	Amount	Aging	Proportion to total amount of other receivables (%)
Zhuhai Huafeng Paper Co., Ltd.	Subsidiary	Current account	436,350,556.87	With 2 years	35.56
Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	Subsidiary	Current account	451,544,172.05	With 1 year	36.80

Foshan Chengtong Paper Co., Ltd.	Subsidiary	Current account	334,111,045.21	With 2 years	27.23
Huaxin (Foshan) Color Printing Co., Ltd	Subsidiary	Current account	5,000,000.00	With 1 year	0.41
Total			1,227,005,774.13		100

## 5. Particulars about other accounts receivable from related parties

Name of the entity	Relation with the Company	Amount	Proportion to total amount of other receivables (%)
Zhuhai Huafeng Paper Co., Ltd.	Subsidiary	436,350,556.87	35.56
Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	Subsidiary	451,544,172.05	36.80
Foshan Chengtong Paper Co., Ltd.	Subsidiary	334,111,045.21	27.23
Huaxin (Foshan) Color Printing Co., Ltd	Subsidiary	5,000,000.00	0.41
Total		1,227,005,774.13	100

## (II) Long-term equity investment

Unit: RMB yuan

Invested equity	Accounting method	Investment cost	Opening balance	Increase / Decrease	Closing balance	Shareholding proportion in invested equity (%)	Proportion of voting right in invested entity (%)	Explanation for disaccord of shareholding proportion and proportion of voting right in invested entity	Impairment provision	Withdrawal of impairment provision of Y2010	Cash dividends of Y2010
Tetra Huaxin (Foshan) Packaging Co., Ltd.	Equity Method	145,945,947.55	209,901,041.18	-3,886,474.46	206,014,566.72	25	25	--	--	--	63,533,038.22
Subtotal		145,945,947.55	209,901,041.18	-3,886,474.46	206,014,566.72						63,533,038.22
Huaxin (Foshan) Color Printing Co., Ltd	Cost Method	72,674,145.03	72,674,145.03	--	72,674,145.03	75	75	--	--	--	--
Foshan Huaxin Jinfeng Industrial Co., Ltd	Cost Method	3,000,000.00	3,000,000.00	--	3,000,000.00	100	100	--	--	--	--
Foshan Chengtong Paper Co., Ltd.	Cost Method	225,000,000.00	225,000,000.00	--	225,000,000.00	75	75	--	--	--	--
Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd.	Cost Method	927,570,697.11	808,448,702.06	119,121,995.05	927,570,697.11	41.9653	41.9653	--	--	--	--
Kunshan Focai Packaging and Printing CO., Ltd.	Cost Method	5,000,000.00	--	5,000,000.00	5,000,000.00	100	100	--	--	--	--
Subtotal		1,233,244,842.14	1,109,122,847.09	124,121,995.05	1,233,244,842.14						
Total		1,379,190,789.69	1,319,023,888.27	120,235,520.59	1,439,259,408.86						

**(III) Investment incomes**

## 1. Breakdown of investment incomes

Item	Incurring amount in 2010	Incurring amount in 2009
Income from long-term equity investments accounted by equity method	59,646,563.76	63,533,038.22
Investment income from disposing long-term equity investments	---	-11,784,208.31
Total	59,646,563.76	51,748,829.91

## 2. Long-term equity investment incomes recognized by equity method

Invested equity	Incurring amount in 2010	Incurring amount in 2009	Reason of increase /decrease over last year
Of which: Tetra Huaxin (Foshan) Packaging Co., Ltd.	59,646,563.76	63,533,038.22	Decline of business performance
Total	59,646,563.76	63,533,038.22	

3. Explanation of invest incomes: there is no significant restriction to investment income transfer in the Company.

**(IV) Supplementary information to cash flow statement**

Item	Amount in 2010	Amount in 2009
1. Transferring net profit into cash flows of operating activities		
Net profit	39,619,975.50	-7,803,220.41
Add: Reserve for impairment of assets	-97,434.78	---
Depreciation of fixed assets, oil and gas assets and productive biological assets	307,815.88	252,676.66
Amortization of intangible assets	67,380.00	---
Amortization of long-term deferred expenses	---	---
Loss for disposal of fixed assets, intangible assets and other long-term assets (income is listed as "-")	-8,175.00	---
Abandonment loss from fixed assets (income is listed as "-")	---	---
Losses on change in fair value (income is listed as "-")	---	---
Financial expense (income is listed as "-")	8,107,195.93	71,033,199.46
Losses arising from investment (income is listed as "-")	-59,646,563.76	-51,748,829.91
Decrease of deferred income tax assets (increase is listed as "-")	---	---
Increase of deferred income tax liabilities (decrease is listed as "-")	---	---
Decrease of inventories (increase is listed as "-")	---	---
Decrease in operating receivables (increase is listed as "-")	94,014.18	195,148,117.37
Increase in operating payables (decrease is listed as "-")	3,037,160.60	148,845,403.00
Other	---	---
Net cash flows arising from operating activities	-8,518,631.45	355,727,346.17
2. Significant investing and financing activities which do not involve cash receipts and payments		

Item	Amount in 2010	Amount in 2009
Conversion of debt into capital	---	---
Convertible corporate bonds due within 1 year	---	---
Fixed assets brought in by financing lease	---	---
3. Net change in cash and cash equivalents		
Closing balance of cash	17,008,759.12	76,393,266.55
Less: Opening balance of cash	76,393,266.55	30,851,611.31
Add: Closing balance of cash equivalents	---	---
Less: Opening balance of cash equivalents	---	---
Net increase in cash and cash equivalents	-59,384,507.43	45,541,655.24

## XII. Supplementary information

### (I) Breakdown of non-recurring gains and losses of Y2010

Item	Amount	Explanation
Gain/loss from disposing non-current assets;	-6,396,244.91	
Tax refunds and reduction due to unauthorized approval or nonexistence of official approval documents;	---	
Government subsidies recorded in gain/loss in current period (excluding those closely related to the Company's business and enjoyed by the Company by certain amounts stipulated by the government);	2,701,099.37	
Capital occupation fees from non-financial enterprises recorded into gain/loss in current period;	---	
Income from investment cost of acquiring subsidiaries, joint ventures and affiliated enterprises less than recognizable net asset fair value of invested units that should be enjoyed by the Company when finishing the investment;	---	
Gain/loss from exchange of non-monetary assets;	---	
Gain/loss from entrusting others with investments or asset management;	---	
Various asset impairment provisions for inevitable factors such as natural disasters;	---	
Gain/loss from debt restructuring;	---	
Expenses on enterprise reorganization such as expense on staff arrangements and integration expense;	---	
Gain/loss from transactions with unfair transaction prices exceeding fair value;	---	
Net gain/loss for current period of subsidiaries from enterprise mergers under same control from period-begin to merger dates;	---	
Gain/loss from contingent events not related to the Company's normal business operation;	---	
Gain/loss from fair value changes of transactional financial assets and liabilities held by the Company and investment incomes from disposing transactional financial assets and liabilities and financial assets available for sale except for effective hedging business related to the Company's normal business operation;	---	
Transferring back impairment provisions for accounts receivable on which an impairment test is individually conducted	1,049,293.57	
Gain/loss from entrusted financing;	---	
Gain/loss from fair value changes in investing properties concerning which fair value mode is adopted for subsequent measurement;	---	
Effect on gain/loss for current period from one-off adjustment on gain/loss for current period according to requirements of taxation law, accounting law and other laws and regulations;	---	
Custodian fees from operation entrustment;	---	
Other non-operating incomes and expenses except for items above;	1,019,692.54	
Other gain/loss items that satisfy definition of non-recurring gain/loss	---	

Item	Amount	Explanation
Effect on income tax;	899,764.07	
Effect on minority interest income (after-tax)	1,722,856.25	
Total	996,460.89	

**(II) ROE and EPS**

Profit as of report period	Weighted average ROE	EPS	
		Basic EPS	Diluted EPS
Net profit attributable to common shareholders of the Company	8.81	0.24	0.24
Net profit attributable to common shareholders of the Company after deducting non-recurring gains and losses	8.74	0.24	0.24

Calculation formula for data above:

$$\text{Weighted average ROE} = P / (E0 + NP \div 2 + E_i \times M_i \div M0 - E_j \times M_j \div M0 \pm E_k \times M_k \div M0)$$

Of which: P refers to Net profit attributable to common shareholders of the Company or net profit attributable to common shareholders of the Company after deducting non-recurring gains and losses; NP refers net profit attributable to common shareholders of the Company; E0 refers to opening net assets attributable to common shareholders of the Company; E<sub>i</sub> refers to additional net assets attributable to common shareholders of the Company due to new share issuance or turning debts into shares in the report period; E<sub>j</sub> refers to reduced net assets attributable to common shareholders of the Company due to buy-back business or cash dividends in the report period; M0 refers to the number of months during the report period; M<sub>i</sub> refers to the number of months from the next month when net assets increased to the end of the report period; M<sub>j</sub> refers to the number of months from the next month when net assets decreased to the end of the report period; E<sub>k</sub> refers to change of increase/decrease of net assets due to other transaction events; M<sub>k</sub> refers to the number of months from the next month when other net assets changed the end of the report period.

**(III) Abnormalities of major financial statement items of the Company and reasons of abnormalities**

Financial statement items with abnormalities in amount or changes compared with last year

Financial statement item	Closing balance (or amount of Y2010)	Opening balance (or amount of Y2009)	Ratio of changes	Reason for changes
Prepayments	388,689,501.67	60,917,921.94	538.05%	Prepayments of bulk raw materials were prepaid.
Short-term borrowings	1,082,228,627.46	1,784,893,906.80	-39.37%	Short-term bank loans were reduced.
Non-current liabilities due within 1 year	360,000,000.00	140,000,000.00	157.14%	Long-term bank loans would be due within 1 year.
Long-term payables	500,000,000.00	83,482,757.86	498.93%	Capital of medium term notes was obtained.
Operating income	3,898,538,698.88	2,372,640,435.84	64.31%	merger not under the same control of Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. was finished. Only the income statement of the
Operating cost	3,235,658,359.05	2,066,476,159.46	56.58%	
Sales expenses	153,626,589.04	105,276,564.17	45.93%	



Administration expense	150,526,901.14	112,372,078.31	33.95%	second half year was included into consolidation at the same period of last year. Scale effect after consolidation brought increase of both operating income and cost.
Asset impairment losses	43,790,763.53	4,962,743.79	782.39%	Bad debt provisions increased, and Zhuhai S.E.Z. Hongta Renheng Paper Co., Ltd. withdrew inventory falling price reserves for product batches which had quality problems and idle raw materials which hadn't been use for a long time.

### *XIII. Approval of financial statements*

These financial statements have been approved by the Board of Directors of the Company on 28 Feb. 2011.

**Foshan Huaxin Packaging Co., Ltd. (official seal affixed)**

28 Feb. 2011